

Newsletter of the Official Committee of Investors of Mortgages Ltd.

April 13, 2009—Newsletter #23

1. **THE BALLOTS ARE OUT.** You should have received a large white envelop from Fennemore Craig this week which contained the CD of the documents, the Order and the 5 colored ballots. Of the 5 ballots you do not need to use the Pink or the Purple Ballots. Set them aside. The three Ballots you need to look at are Yellow, Blue and Green. If you only have MP Fund investments, use the Blue and Green Ballots. If you only have Pass-Through investments, use the Yellow and Green Ballots. If you have both MP Fund and Pass-Through investments then you use all three ballots. Use the full amount of your investment for the dollar amounts on all your ballots. If you have more than one account, you should have received a package for each account. Fill in the ballots for each account.

To say it another way:

Yellow---Pass-through Investors—Class 10A and Class 10B—use this ballot. Fill in the full amount of the investment.

Blue---MP Funds—Class 8--use this ballot. Identify the correct MP Fund or Funds. Fill in the full amount of the investment.

Green---Unsecured—Class 11C and 11E and 11F the unsecured claims of the Pass Through and MP Funds use this ballot too. Fill in the full amount of the investment.

If you have any questions or problems with the Ballot or instructions, come to the in-person meetings listed below and bring your Ballots and your recent account statement. Also if you have questions about the Ballot or Plan email us at [creece@fclaw.com](mailto:creece@fclaw.com) or [emcdonough@alvarezandmarsal.com](mailto:emcdonough@alvarezandmarsal.com) and include your phone number and we will have someone call you back.

Mail, hand deliver, overnight delivery or fax the ballots to Ed McDonough at the address or fax number on the Ballot. The Ballots must be received by 5 pm on May 5, 2009.

2. **QUESTIONS? ATTEND ONE OF THE IN-PERSON Q&A SESSIONS.** The Committee will be having several “in-person” question and answer sessions for investors. We will walk through the Plan and the key issues and answer questions. Also we will explain the Ballots and answer questions about the voting. **Bring your Ballots and your recent account statement.** There will be many meetings held during the first two weeks of the Solicitation Period so that you have plenty of time to read the materials, ask questions and give careful thought to your vote. If an additional meeting is needed due to the response, we will set it and let you know. The meetings currently scheduled are:

Thursday April 16 at 1:00 p.m.

Thursday April 16 at 6:00 p.m.

Friday April 17 at 2:30 p.m.

Tuesday April 21 at 10 a.m.

Tuesday April 21 at 1 p.m.

**Wednesday April 22 at 1:00 p.m.**

**Wednesday April 22 at 6 p.m.**

The meetings will all be held in the **Lower Level Auditorium at 3003 N. Central Avenue**, Phoenix, where the Fennemore Craig PC Law Offices are located. Send an email to Terri at [tvink@fclaw.com](mailto:tvink@fclaw.com) to let her know what session you will be attending. Space is limited to 150 seats per session so make a reservation.

**3. THE DEBTOR'S RECENT NEWSLETTER.** You may have received and read the Debtor's recent newsletter dated April 9, 2009. We are disappointed by the misleading and incorrect statements contained in it as well as the venomous and condescending tone and criticism. We are sure that did not go unnoticed by you. We will try and address some of the issues below and some at the In-Person Question and Answer Sessions mentioned in paragraph 2 above. But there are two things you can do yourself. One is to look at the Investors Committee's Approved Amended Disclosure Statement on the CD for answers to your questions. Don't rely on the Debtor's newsletter for any information. The Court approved the Investors Committee's Disclosure Statement and said it "contains adequate information" for you to make a decision on the Investors Committee's Plan and that it "adequately resolves the objections" of the Debtor. The second thing you can do yourself is to attend one of the question and answer sessions and ask questions.

**4. MANAGEMENT OF THE LOANS AND ASSET MANAGER.** Some of the misinformation and wrong statements in the Debtor's newsletter are about the administration of the loans and the asset management. As explained in the Committee's Approved Amended Disclosure Statement, the Loan side of the Plan is managed by a new entity called ML Manager LLC. This entity will be owned by the Loan LLCs and the ML Manager LLC will be the Manager for each of the Loan LLCs. Since the investors in the Loan LLCs will be asked to vote on all major decisions (which is defined in the Loan LLC operating agreement) there will be a good check and balance between the investors and the board of managers.

There will be a 5 person board of managers for the ML Manager LLC—4 are investors and one is Radical Bunny (because Radical Bunny will take over the Debtor's interests in the notes and deeds of trust). These 5 people have significant real estate and workout experience.

- Scott Summers is the Executive Vice President and Director of Corporate Lending at National Bank of Arizona. He has experience in managing credits and in working out troubled loans. As a lender, Scott's background and experience are invaluable.
- Bruce Buckley is retired after 35 years in title industry and has personal experience with real estate development. Since there are problems with broken priority on some of the construction properties, Bruce's title background will be very helpful, and in addition his real estate experience will be useful in the workouts.
- Elliott Pollack has extensive experience as an economist and expert on the Arizona real estate market. He also has significant real estate experience.

- Grant Lyon, the trustee of the Radical Bunny bankruptcy, is a CPA and has substantial experience in real estate workouts and troubled loans.
- The last person will be chosen by the Rev Op investors and there are some good candidates for this position who will be equally qualified. We should know in the next two weeks who that person is. When we know we will put that information in the Newsletter.

These 5 people all have money in the loans, can relate to each and every one of you and are motivated to realize maximum recovery for all investors. The Committee is confident we have selected the right people with the correct skills with your interest at heart.

The 5 person board of managers will analyze, coordinate and supervise the activities needed for all the Loan LLCs. Using their skills and experience they will do most of the workouts needed for the loans themselves. If they need to hire attorneys, advisors or asset managers they will be able to do so on a loan by loan basis.

The Committee considered hiring an asset manager and in fact interviewed several firms. Their fees ranged in the neighborhood of 1.5% to 2.25% of the gross amount of the notes and deeds of trust, without regard to the amount that will actually be collected. Annual fees for an asset manager could be as much as \$9 to \$11 million a year, plus outside consultants. Frankly, a fair amount of the portfolio is undeveloped land. Common sense tells you that we do not need to pay someone 1 to 2 % per year on the raw land loans. For the more complex loans, the board of managers may hire advisors, professionals or asset managers as needed to assist with negotiations, foreclosure, sales or even sales of the notes. The Plan has budgeted sufficient amounts to pay for operating expenses of the ML Manager LLC. The Committee after looking at the alternatives decided that it was not wise to enter into a multi-year, multi-million dollar contract with an asset manager for service that might not be needed.

**Of course, the Plan provides that the investors in the loans will vote on the major decisions. This will be a significant change for investors since the Debtor believes and has asserts in pleadings and at hearings that the Debtor has the sole and absolute discretion on all loans to make all the decisions, including if you withheld discretion.**

Finally, the SEC did require the Committee to restrict outside or public trading of the LLC interests in the Loan LLCs, however the interests will be tradeable between the approximate 1800 investors in the various loans and MP Funds. The SEC was concerned that outsiders will not have sufficient information about the interests and that this would result in unnecessary lawsuits and problems for the investors. The Committee carefully considered this issue and decided that the restriction was acceptable. The fractional minority interest of any investor in the Loan LLC will probably not be worth very much or be very marketable to outsiders, and the most likely buyers would be other investors who know a lot about the loans, the properties and the borrowers. Plus the ML Manager LLC will be looking to obtain bids for the full note and deed of trust where appropriate. It is anticipated that the note as a whole is worth more than individual fractional interests.

**5. EXIT FINANCING.** The Exit Financing is expensive and is complex. However the Committee continues to look for cheaper financing and has expressly

provided in the Plan that it can replace the Exit Financing with another lender on more favorable terms. What the Debtor neglects to say in its newsletter and what is described in the Approved Amended Disclosure Statement is that the Liquidating Trust will also be pledging all the REO (listed on the Debtor's books at \$36 million) and all of the proceeds of the Causes of Action as collateral for the Exit Financing. So as the REO is sold or refinanced and as the Causes of Action are recovered, the proceeds will be used to pay down the Exit Financing. The Approved Amended Disclosure Statement also states that there will be an inter-borrower agreement negotiated as a part of the Exit Financing loan documents to address the allocation of the expenses, the financing and the repayment between the Liquidating Trust and the ML Manager LLC to assure a fair allocation. We will address these issues and your questions at the In-Person Q&A Sessions listed in paragraph 2.

We look forward to seeing you at the In-Person Q&A Sessions this week and next week.