

Newsletter of the Official Committee of Investors of Mortgages Ltd.

April 27, 2009—Newsletter #25

As you know, the Bankruptcy Court approved the Committee's Amended Disclosure Statement and has let the Committee send out ballots and solicit votes for its Plan of Reorganization. In order to answer investor questions and to assist with the balloting, the Committee had held 7 in-person meetings with investors and 2 telephonic conference calls. There were hundreds of investors who attended. The response was enthusiastic and very positive. Many have commented that they found it informative and very helpful. We addressed the Exit Financing, the use of Loan LLCs, the voluntary transfer of fractional interests in Notes and Deeds of Trust by the Pass-Through Investors, and the liquidation analysis. All of these issues are already addressed in the Approved Amended Disclosure Statement but we went through the major points with the investors.

If you missed the meetings or cannot make the two remaining meetings or you want to talk with other investors about the Committee's Plan, feel free to call any of the following investors: Karen Epstein and Sheldon Epstein, M.D. at (480) 948-6777 or kme818@cox.net; Bruce Buckley at (480) 488-2672 or bbuckley@cox.net; or Joe Baldino at (480) 368-6125 or j.baldino@msn.com. You can also call Ed McDonough, the financial advisor for the Committee, with questions about the Exit Financing specifically, at (602) 459-7010 or email him at emcdonough@alvarezandmarsal.com.

A few investors have asked questions about the voting process. To clarify the issue, casting a ballot for the Committee Plan does not preclude you from voting for any other plan when its disclosure statement is approved by the Court. In other words, just because you vote for the Committee Plan does not mean that you cannot vote on another plan at a later time.

1. ONE MORE TELEPHONIC CONFERENCE CALL FOR INVESTORS. For those of you who are out of state or cannot attend the In-Person Investors meetings, we will have the opportunity to attend one of the remaining telephonic conference calls. The call currently scheduled is:

Friday May 1 at 10 a.m. Arizona time.

There are a limited number of lines available so email Terri at tvink@fclaw.com if you plan to attend by telephone. The dial in number for the call will be 1-866-740-1260 and the pass code is 9165343#.

2. ONE MORE IN-PERSON Q&A SESSION. Over the last week the Committee held 7 in-person question and answer sessions for investors and held 2 telephone conference calls. There were hundreds of investors who participated. We discussed in detail the Exit Financing the Loan LLCs and the Ballots. We walked through the Plan and the key issues and answer questions. Also we explained the Ballots and answered questions about the voting. There will be one more meeting held during this week so that you have time to read the materials, ask questions and give careful thought to your vote. The meeting currently scheduled is:

Wednesday April 29 at 4 p.m. Arizona time.

The meeting 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 to let her know you will be attending. Space is limited to 150 seats per session so make a reservation. **Bring your Ballots and your recent account statement.**

If you have questions and want to talk with another investor about the Committee's Plan, then **call any of the following investors: Karen Epstein and Sheldon Epstein, M.D. at (480) 948-6777 or kme818@cox.net, Bruce Buckley at (480) 488-2672 or bbuckley@cox.net, or Joe Baldino at (480) 368-6125 or j.baldino@msn.com.**

3. THE BALLOTS ARE DUE BACK MAY 5 BY 5 PM. You should have received a large white envelop from Fennemore Craig which contained the CD of the Plan documents, the Order Approving Investors Committee's Amended Disclosure Statement and the 5 colored ballots. Of the 5 ballots you do not need to use the Pink or the Purple Ballots. Disregard them. The three Ballots you need to look at are Yellow, Blue and Green. 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.

Also complete all the information in the Ballots before you send them in. Not only check the box to ACCEPT the Committee's Plan, but also check the box in the MP Fund ballot (Blue Ballot) if you want to agree to remove Mortgages Ltd. as the Manager and modify the operating agreement or check the box in the Pass Through Investment Ballot (Yellow Ballot) if you want to agree to transfer your interest into the Loan LLCs. Also fill in the Green Ballot and send it in too.

If you have any questions about the Ballot, contact Ed McDonough at (602) 459-7010 or email him at emcdonough@alvarezandmarsal.com or contact Dan Holwerda at Fennemore Craig at (602) 916-5432 or email him at dholwerda@fclaw.com.

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.

4. QUESTIONS RAISED IN THE DEBTOR'S WEEKLY UPDATES.

The Debtor has raised two series of questions that they think investors should be asking, one series about the Exit Financing and another about what they call the "opt-out" provision. What they do not tell you is that they raised questions like these to the Court in their objections to the Committee's Approved Amended Disclosure Statement and based on the information the Committee added on these issues and the Exhibits attached, the Court overruled their objections and expressly stated that the information in the Amended Disclosure Statement was adequate and no further information was needed. We encourage you to read the Approved Amended Disclosure Statement and the Exhibits "A" through "T". Below we have tried to point out the pages or Exhibits that will be helpful for you.

5. CONCERNING THE EXIT FINANCING. As for the Exit Financing, the terms of the currently proposed Exit Financing are contained in Exhibit "O" to the

Approved Amended Disclosure Statement. You can pull it up on the CD provided in your package and click on the bookmarked Exhibit O. You can also go to pages 77 through 80 of the Approved Amended Disclosure Statement and read the long description already provided. In addition, Exhibit "N" to the Approved Amended Disclosure Statement explains the cash flow for 2009 through 2013 and details the amount and uses of the Exit Financing, the terms, the collateral, when it will be repaid and the costs of the financing.

Any plan in a chapter 11 proceeding has to have financing or cash flow sufficient to leave bankruptcy and to show the plan is feasible in the future. This is required under the Bankruptcy Code and case law. Some things have to be paid in cash when the plan becomes effective.

Exhibit "N" states that the Committee estimates that \$20 million is needed in order to leave this bankruptcy. About \$6 million is needed to pay the Debtor in Possession loans to Stratera obtained by the Debtor in the last 9 months, to pay the unpaid rent to the landlord ordered by the Court and to pay certain priority claims under the Bankruptcy Code. These have to be paid on the effective date in cash. The Committee also estimates that it has to have and reserve about \$7 million for professional fees incurred in this bankruptcy case. As the professional fees (like the Debtor's attorneys, the Committee's attorneys, the Debtor's financial advisor or the Committee's financial advisor) are approved by the Court after notice and hearing, the Committee's Plan has to have sufficient moneys to pay the approved fees. These are the obligation of the Debtor and have to be paid upon leaving bankruptcy. Then Exhibit "N" also shows that the Committee estimates that it will need \$3 million for the future operations. This reserve for the future operations helps to show that the Committee's Plan is feasible. Finally, the Committee estimates it needs about \$4 million for the Exit Financier's interest reserve and points. The Committee has reserved about 12 months of interest for the Exit Loan so the interest and other costs for the loan are reserved or prepaid. This insures for the Committee and the Court that there will not be a default for a reasonable time and that there will be time for the Board of Managers to work with the defaulting Borrowers and workout the Borrower Loans, among other things. If the Committee did not obtain some financing then the Court would not be able to approve the Plan or any exit from the bankruptcy.

The Committee realizes that the interest, points and certain terms make the financing seem expensive, but after months of meetings and reviewing proposals and negotiating with lenders, this proposal, which is Exhibit "O", is the best available to the Committee at this time. The Committee did say on page 78 of the Approved Amended Disclosure Statement that it reserved the right to substitute better financing and the Committee continues to talk with parties and solicit proposals from other lenders.

If you have questions about the Exit Financing, please call Ed McDonough, the Committee's financial advisor, and discuss it with him. His phone number and email address are stated several times above.

6. VOLUNTARY TRANSFER BY PASS-THROUGH INVESTORS.

As stated multiple times in the Committee's Approved Amended Disclosure Statement and the Amended Plan, the Committee's Plan provides that Pass-Through investors will be asked to voluntarily transfer their fractional interests in a Note and Deed of Trust into the Loan LLC. They will not be forced to transfer their interest. There are many benefits and reasons for Pass-Through investors to voluntarily transfer their

interests into a Loan LLC and be a part of the Loan LLC for the specific loan along with the other investors.

The form of the operating agreement for the Loan LLCs is Exhibit "K" to the Committee's Approved Amended Disclosure Statement. The structure and how it will be handled are described on pages 64 through 69 of the Approved Amended Disclosure Statement. Also the operating agreement for ML Manager LLC is Exhibit "M". As discussed on pages 6 through 9 of the Approved Amended Disclosure Statement and in the Exhibits, the Committee has proposed an investor controlled structure with a Board of Managers made up of investors and Radical Bunny and with all Major Decisions to be made by the investors in the Loan. The Loan LLCs will indemnify their investors and represent them in litigation. Further upon a deed of trust sale against the Borrower, title will be taken in the name of the Loan LLC thus providing protection for the investors and a better structure to resell the property.

In exchange for the voluntary transfer the Pass-Through investors will receive a fractional interest in the membership of the Loan LLC. Rather than owning the personal property of the fractional interest in the Note and Deed of Trust the investor will own the personal property of the fractional interest in the limited liability company. The safe-harbor exemption from Securities laws offered by the Bankruptcy Code provides this opportunity to transfer 100% of the ownership interest in the Notes into Loan LLCs without having to go through the complex securities offerings. The Committee decided to try to obtain the safe-harbor at this time as a part of its Bankruptcy Plan as it is the only time the investors can use this safe-harbor.

If you have questions, contact any of the above mentioned investors or Ed McDonough to discuss this aspect of the Committee's Plan.

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REMEMBER--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.

Call the people listed above if you questions or sign up for the remaining In-Person meeting April 29 or telephone conference call on May 1.