

April 29, 2009—Newsletter #26

1. DEBTOR HAS ONCE AGAIN CONTINUED ITS DISCLOSURE STATEMENT HEARING.

The Debtor has again continued its disclosure statement hearing and has not filed any amended or redlined plan or disclosure statement. The new hearing on Debtor's disclosure statement is now May 4, 2009 at 2 p.m. According to the Bankruptcy law, the Debtor needs to obtain Court approval of its disclosure statement before it can proceed any further in the plan process. The Debtor has had the right to file a plan since June 24, 2008. It finally filed a plan and disclosure statement March 4, 2009, but has continued its hearing for approval of its disclosure statement several times. As indicated in prior Newsletters, the Committee and other parties filed objections to the adequacy of the Debtor's disclosure statement. Those objections are posted on the Committee's website and have been highlighted in prior Newsletters.

2. DEBTOR'S MARCH 2009 OPERATING REPORT.

The Debtor filed its March 2009 Operating Report with the Court. The report states that since the filing of bankruptcy in June 2008, the Debtor shows a loss of over \$25 million. It states the Debtor's negative net worth of over \$20 million, which means that their liabilities or amounts they owe exceed their assets. The report also states that since the filing of bankruptcy and as of March 31, 2009 the Debtor has incurred an additional \$41 million of liabilities or unpaid bills. The report also shows that the Debtor posted cash of \$100,000 with the Department of Financial Institutions, because it did not have a bond. There is no explanation for the source of these funds. This money will be tied up for 3 years. Finally, the report shows that as of March 31, 2009 the Debtor has only \$640,000 in cash and that its monthly cash costs exceed \$500,000.

3. MOUNTING PROFESSIONAL FEES.

According to the Order of the Court, the professionals in this bankruptcy are allowed to file their monthly fee requests. Among other things, this allows the parties to monitor the amount of fees incurred. The Debtor was ordered to pay 80% of the fees and 100% of the costs on a current basis each month. It has not done so and is now not paying any professional fees but is incurring large amounts of administrative claims that have to be paid in cash in order to get out of bankruptcy. As of April 28, 2009, the professional fees total over \$6.3 million with only about \$1.1 million having been paid. Of these accrued professional fees, the Debtor's professionals total over \$4.2 million. Plus one of the Debtor's professionals, FTI Consulting (its financial advisor), has not filed one fee request and has not disclosed the amount of its unbilled fees, which could be a significant number. This compares to the Committee's professionals fees of \$1.6 million.

4. PROCESS ON COMMITTEE'S PLAN.

The Debtor and another party have accused the Committee of trying to rush its Plan through and are giving the impression that there is something improper or unseemly about this whole process by the Committee. To the contrary, the Committee is proceeding appropriately and pursuant to the decision and timeframes set forth by the Court. As you know, the Court approved the Committee's Amended Disclosure Statement. According to the Court approved process the Court has allowed the Committee to send out ballots and

solicit votes for the Committee's Amended Plan of Reorganization. The Court set the hearing on confirmation of the Committee's Plan for May 13, 2009 at 10 a.m.

The Debtor has had since June 24, 2008 to file a plan but delayed doing so until March 4, 2009. As demonstrated by the March 2009 Operating Report and the mounting professional fees, the Debtor cannot afford to stay in bankruptcy and will shortly run out of cash. Each month the Debtor continues to accrue and not pay administrative costs for the professionals of about \$750,000 each month. These large professional fees have to be paid in cash on the effective date of the Plan. That is the Bankruptcy law. This means that any party proposing a Plan (such as the Committee) has to have exit financing of an increasing amount to confirm its Plan and get out of bankruptcy. The longer the Debtor stays in bankruptcy the larger the professional fees grow.

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.

The Committee has held 7 in-person meetings with investors and 2 telephonic conference calls. 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 Committee's Approved Amended Disclosure Statement but we went through the major points with the investors.

If you missed the meetings or cannot make the remaining meeting or call 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.

5. 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#.

6. 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. **Bring your Ballots and your recent account statement.**

7. MAY 5 BY 5 PM—VOTING DEADLINE.

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. 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. (If you are a VTL Investor then you would use the pink ballot).

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 dhholwerda@fclaw.com.

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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.

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

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8. ALTERNATE FINANCING—As we have mentioned in a previous newsletter, the Committee is looking for financing on more favorable terms, as a substitute for or replacement for the Exit Financing attached to the Approved Amended Disclosure Statement. The Committee has been informed that there is a group of investors who are considering putting together a loan proposal of their own with funds made available by investors. If you are interested in discussing this with other investors contact Bruce Buckley at bbuckley@cox.net or Eva Sperber-Porter at regal1to21@aol.com. They may be setting up a meeting next week and are getting closer to making a proposal. As a disclaimer, the Committee itself is not putting this together or sponsoring it. Any such inquiry or interest will need to be outside the Committee and such investors will need to proceed with their own counsel and legal advice. Once a proposal is submitted to the Committee, it along with all other proposals will be considered.