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**COUNSEL FOR DEBTORS AND  
DEBTORS IN POSSESSION**

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

**In re:**

**R.E. LOANS, LLC,  
R.E. FUTURE, LLC, and  
CAPITAL SALVAGE, a California  
corporation,**

**Debtors.**

§ **Chapter 11**  
§  
§ **Case No. 11-35865-BJH**  
§  
§ **(Jointly Administered)**  
§  
§  
§

**FOURTH SUPPLEMENTAL STIPULATION RELATING TO EXTENSION OF TIME  
UNDER THE JOINT STIPULATION AND AGREED FINAL ORDER: (I)  
AUTHORIZING DEBTORS TO (A) OBTAIN POST-PETITION FINANCING ON A  
SUPER-PRIORITY, SECURED AND PRIMING BASIS IN FAVOR OF WELLS FARGO  
CAPITAL FINANCE, LLC; (B) USE CASH COLLATERAL ON A FINAL BASIS; (C)  
PROVIDE ADEQUATE PROTECTION TO WELLS FARGO CAPITAL FINANCE, LLC  
AND THE NOTEHOLDERS; AND (D) ENTER INTO POST-PETITION AGREEMENTS  
WITH WELLS FARGO CAPITAL FINANCE, LLC; AND  
(II) MODIFYING THE AUTOMATIC STAY**

This Fourth Supplemental Stipulation (the "**Fourth Supplemental Stipulation**") is entered into, by and among R.E. Loans, LLC, a California limited liability company ("**R.E. Loans**"), Capital Salvage, a California corporation ("**Capital Salvage**"), and R.E. Future, LLC, a California limited liability company ("**R.E. Future**"), the debtors and debtors-in-possession in the above-captioned cases (collectively, the "**Debtors**"), the Official Committee of Note Holders (as reconstituted, the "**Committee**") in the R.E. Loans' case, and Wells Fargo Capital Finance, LLC ("**Wells Fargo**"), and is based on the following facts and stipulations of the parties:

A. R.E. Loans, Capital Salvage, and R.E. Future each filed a voluntary chapter 11 petition on September 13, 2011. Pursuant to Bankruptcy Code sections 1107(a) and 1108, the Debtors are continuing to operate their respective businesses and managing their respective financial affairs as debtors in possession.

B. On September 22, 2011, the Office of the United States Trustee (the "**UST**") appointed the Committee.

C. On November 23, 2011, this Court entered the *Joint Stipulation and Agreed Final Order: (I) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral on a Final Basis; (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (II) Modifying the Automatic Stay* [Docket No. 273] (the "**Final Financing Order**"). Capitalized terms used but not defined herein have the meanings assigned to them in the Final Financing Order.

D. Paragraph 9(x) of the Final Financing Order provides that December 31, 2011 was the deadline for the Debtors and Committee (if the Committee was granted standing to assert such claims) to file any objection, complaint or other challenge based on the provisions set forth in Paragraph 9(x) and sub-paragraphs (8)(a), 8(b), 8(c)(i) and 8(d)(i) of the Final Financing Order. Paragraph 9(y) of the Final Financing Order provides that February 29, 2012 is the

deadline for the Debtors and Committee (if granted standing to assert such claims) to file any objection, complaint or other challenge based on the provisions set forth in Paragraph 9(y) and sub-paragraphs (8)(c)(ii), 8(d)(ii), 8(e) and 8(f) of the Final Financing Order.

E. On December 31, 2011, the Debtors, the Committee and Wells Fargo agreed to extend the deadline for certain limited objections that otherwise would have expired under Paragraph 9(x) to February 29, 2012, and agreed that all other objections covered by Paragraph 9(x) would expire and such other objections would not be filed, pursuant to the terms of that certain *Stipulation Relating to the Joint Stipulation and Agreed Final Order: (I) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral on a Final Basis; (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (II) Modifying the Automatic Stay* (the "**First Supplemental Stipulation**") [Docket No. 380].

F. On February 23, 2012, the Debtors, the Committee and Wells Fargo agreed to extend the deadline for certain limited objections that otherwise would have expired under Paragraph 9(x) to March 30, 2012, and agreed that all other objections covered by Paragraph 9(x) would expire and such other objections would not be filed, pursuant to the terms of that certain *Second Stipulation Relating to the Joint Stipulation and Agreed Final Order: (I) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral on a Final Basis; (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (II) Modifying the Automatic Stay* (the "**Second Supplemental Stipulation**") [Docket No. 380].

G. On March 26, 2012, the Debtors, the Committee and Wells Fargo agreed to extend further the deadline for certain limited objections that otherwise would have expired under Paragraph 9(x) to the "Extended Deadline" as defined therein, and agreed that all other

objections covered by Paragraph 9(x) had expired and such other objections would not be filed, pursuant to the terms of that certain *Third Supplemental Stipulation Relating to the Joint Stipulation and Agreed Final Order: (I) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral on a Final Basis; (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (II) Modifying the Automatic Stay* (the "**Third Supplemental Stipulation**") [Docket No. 688].

H. On May 15, 2012, the Debtors filed their Fourth Amended Plan of Reorganization (the "**Debtors' Fourth Amended Plan**"). The Debtors' Fourth Amended Plan provides for a complete release of the causes of action, including the Residual Alleged Causes of Action, against the Wells Fargo Group (as defined in the Debtors' Fourth Amended Plan) if the Debtors' Fourth Amended Plan becomes effective. The Debtors and Wells Fargo are engaged in discussions to finalize the exit credit facility, pursuant to the terms and conditions of the Exit Credit Facility Commitment Letter made a part of the Final Financing Order, to be provided to the reorganized debtors by Wells Fargo to fund their operations after the effective date of the Debtors' Fourth Amended Plan.

I. In consideration of the agreement of Wells Fargo to extend the deadlines under the Third Supplemental Stipulation, the Committee stipulates and agrees (i) to send out to the Noteholders its Solicitation Letter, dated May 16, 2012, which is attached hereto as Exhibit "A" and is made a part hereof, therein recommending that the Noteholders vote in favor of the Debtors' Fourth Amended Plan; (ii) to support confirmation and implementation of the Debtors' Fourth Amended Plan, subject only to reserving the right at the confirmation hearing to object to the feasibility of the Debtors' Fourth Amended Plan under Bankruptcy Code § 1129(a)(11); and (iii) not to take any action, directly or indirectly, to seek to effect a conversion of these cases or to support any plan other than the Debtors' Fourth Amended Plan; provided, however, upon the Debtors' agreement with Wells Fargo concerning the Wells Fargo Exit Credit Facility and the

budget with respect thereto, the Committee shall no longer reserve the right to object to the feasibility of the Debtors' Fourth Amended Plan under Bankruptcy Code § 1129(a)(11).

J. Wells Fargo has agreed to extend the Extended Deadline (as defined in the Third Supplemental Stipulation to the "Fourth Extended Deadline" (as defined below), solely as to Residual Alleged Causes of Action (subject to possible amendment as provided in paragraph 3 below), and solely on the limited terms set forth herein, in order to allow time for the parties to seek confirmation of the Debtors' Fourth Amended Plan and to cause the Debtors' Fourth Amended Plan to become effective.

K. If the Debtors' Fourth Amended Plan is confirmed, on the Effective Date (as defined therein), the Debtors, the Estates, and the Reorganized Debtors will release the Wells Fargo Group of all claims, including the Residual Alleged Causes of Action (and all amendments thereto). If the Debtors' Fourth Amended Plan does not become effective, the release in favor of the Wells Fargo Group will not become effective. The parties are seeking by this Fourth Supplemental Stipulation to preserve the status quo with respect to the Residual Alleged Causes of Action until it can be determined whether or not the Debtors' Fourth Amended Plan will be confirmed and become effective.

L. The Debtors and Committee agree and acknowledge that all other objections, claims or challenges against Wells Fargo (and its pre-petition liens and pre-petition claims), all as more fully described in the Final Financing Order, save and except for the Residual Alleged Causes of Action (subject to possible amendment as provided in paragraph 3 below, if applicable), are barred and waived.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED AS FOLLOWS:

1. On February 21, 2012, at approximately 6:00 p.m. (Central Time), the Committee delivered to the Debtors and Wells Fargo a draft *Expedited Motion of the Official Committee of Note Holders For Authority To Prosecute Estate Causes of Action* (the "**February 21, 2012 Motion to Assert Standing**"). The "**Residual Alleged Causes of Action**" shall mean only the alleged causes of action described in the (i) February 21, 2012 Motion to Assert Standing, and

(ii) in any amended draft of the February 21, 2012 Motion to Assert Standing, timely delivered to the Debtors and Wells Fargo pursuant to the Second Supplemental Stipulation (the "**Timely Amended Motion**")<sup>1</sup>, subject to possible amendment under paragraph 3 below. Without in any way affecting any right, claim, objection, or defense of Wells Fargo or the Debtors to oppose the February 21, 2012 Motion to Assert Standing (or the Timely Amended Motion), the deadline for the Debtors (or the Committee if granted standing in accordance with the Final Financing Order) to file a complaint asserting all or any part of the Residual Alleged Causes of Action (subject to possible amendment under paragraph 3 below) shall be and is extended to the date that is ten (10) days after the Bankruptcy Court enters an order denying confirmation of the Debtors' Fourth Amended Plan (and any amendment thereto submitted for the Bankruptcy Court's consideration, consistent with the terms of the Final Financing Order and the Exit Credit Facility Commitment Letter made a part of the Final Financing Order) (the "**Fourth Extended Deadline**"). The Debtors can file a complaint alleging the Residual Alleged Causes of Action any time before the Fourth Extended Deadline. If the Committee files a Motion to Assert Standing before the Fourth Extended Deadline the time to file a complaint alleging the Residual Alleged Causes of Action will be further extended to three (3) business days after the Bankruptcy Court rules on the Motion to Assert Standing and this date shall become the "Fourth Extended Deadline" for all purposes under this Fourth Supplemental Stipulation.

2. Except as to the Residual Alleged Causes of Action (subject to amendment under paragraph 3 below, if applicable), the Debtors and the Committee agree that all other objections, challenges, avoidance actions, and claims of any kind or nature against Wells Fargo, its pre-petition claims, and pre-petition liens, as more fully described in the applicable provisions of the Final Financing Order, are barred and waived, and the Debtors and the Committee (if the

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<sup>1</sup> The Committee emailed to Wells Fargo an amended Motion to Assert Standing on February 29, 2012, at 6:09 p.m. (Central Time). The Committee contends that this was a Timely Amended Motion and Wells Fargo contends that this draft Motion to Assert Standing was not timely. The parties reserve their rights with respect to whether the draft Motion to Assert Standing emailed by the Committee on February 29, 2012, was timely.

Committee is granted standing in accordance with the Final Financing Order) stipulate and agree that they are barred from asserting any other causes of action against Wells Fargo, subject to possible amendment under paragraph 3 below.

3. To the extent that the Residual Alleged Causes of Action are pursued by the Debtors or the Committee (if the Committee is granted standing in accordance with the Final Financing Order) on or before the Fourth Extended Deadline, nothing herein shall bar such party from seeking to amend its initial pleading to include such additional causes of action that arose out of the conduct, transaction, or occurrence set out—or attempted to be set out—in the Motion for Standing and the Timely Amended Motion (if applicable), pursuant to, and subject to the limitations set forth in, Fed. R. Civ. P. 15 and Fed. Bankr. Rule 7015, and nothing herein shall bar Wells Fargo from objecting to the Committee's standing or such party seeking such amendment pursuant to the applicable rules.

4. Wells Fargo denies all liability on account of the Residual Alleged Causes of Action (and any additional causes of action that may be asserted subject to possible amendment under paragraph 3 above), and Wells Fargo reserves all rights to respond to and defend against the Residual Alleged Causes of Action (and any additional causes of action that may be asserted subject to possible amendment under paragraph 3 above) on any ground.

5. Nothing herein shall affect any Post-Petition Liens or any administrative expense priority claims granted to Wells Fargo under the Final Financing Order to secure payment of the obligations owing under the DIP Credit Facility.

6. Nothing herein shall constitute a grant of standing to the Committee to bring any causes of action owned by the Debtors or their estates against Wells Fargo, including, without limitation, the Residual Alleged Causes of Action (subject to possible amendment under paragraph 3 above), without a subsequent order of the Court granting such standing after notice and a hearing.

7. Nothing in this Fourth Supplemental Stipulation modifies the rights of the Debtors (or their bankruptcy estates) or the Committee (if the Committee is granted standing to assert any

of the Residual Alleged Causes of Action, subject to possible amendment under paragraph 3 above) to prosecute the Residual Alleged Causes of Action (subject to possible amendment under paragraph 3 above) for a period of time commencing on the Petition Date and continuing through and including the Fourth Extended Deadline.

DATED: May 17, 2012

/s/ Jeffrey C. Krause, Esq.

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**COUNSEL FOR OFFICIAL COMMITTEE OF  
NOTE HOLDERS**

## Official Committee of Note Holders of R.E. Loans, LLC, *et al.*

May 16, 2012

[insert addressee]  
[insert addressee]  
[insert addressee]  
[insert addressee]

Re: *Chapter 11 Bankruptcy Cases of R.E. Loans, LLC, et al., Case No. 11-35865*

Dear Fellow Noteholder:

On May 16, 2012, the Bankruptcy Court entered an order approving R.E. Loans, LLC's *Disclosure Statement for the Debtors' Fourth Amended Joint Chapter 11 Plan of Reorganization, dated May 15, 2012* (the "Disclosure Statement") and authorizing the Debtors to solicit votes on the *Debtors' Fourth Amended Joint Chapter 11 Plan of Reorganization, dated May 15, 2012* (the "Plan").<sup>1</sup> Copies of the Plan and Disclosure Statement are enclosed for your information, together with a Ballot and instructions for how to vote on the Plan.

This letter is intended as a summary to aid in your review of the Plan and Disclosure Statement; it is not intended as a substitute for reading the actual Plan and Disclosure Statement. ***This letter contains only a summary of certain terms of the Plan, and is qualified in all respects by the actual terms of the Plan. In the event of any inconsistency between this letter and the Plan, the actual terms of the Plan govern.*** We encourage you to read this letter and the enclosed Plan and Disclosure Statement carefully, complete the enclosed Ballot, and return it to the Balloting Agent on or prior to June 18, 2012, at 5:00 p.m. (C.S.T.). You may also want to consult your own legal and financial professionals.

Over the last several months, the Official Committee of Note Holders of R.E. Loans, LLC, *et al.* (the "Committee") and its legal and financial advisors has actively negotiated with the Debtors, Wells Fargo and other key constituencies over the terms of a potential plan of reorganization for the Debtors, including the enclosed Plan. At the same time, we have analyzed alternative scenarios to the Plan and evaluated their impact to Noteholders. After considering both the Plan and the available alternatives, the Committee believes that confirmation of the Plan is in the best interests of the Noteholders. **THE COMMITTEE RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.**

In this letter, we have provided (i) an overview of the Plan, (ii) important information about how to vote on the Plan, (iii) a description of certain key parts of the Plan that affect your rights, and (iv) a summary of the Committee's reasoning for supporting confirmation of the Plan. Where possible, we have included references to specific sections of the Plan where you can find more information about the points described herein. Your vote to ACCEPT the Plan is crucial, no matter how large or small your claim may be. ***This is your chance to be heard.***

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<sup>1</sup> Capitalized terms used in this letter have the meanings assigned to them in Section 2.1 of the Plan.

I.  
**OVERVIEW OF THE PLAN**

Article I of the Plan provides a brief overview of the Plan and the various Classes of Claims that are treated under the Plan, including the Noteholders' Claims.

Article II contains key defined terms that are used throughout the Plan and the Disclosure Statement. Capitalized terms used in the Plan and Disclosure Statement have the meanings assigned to them in Section 2.2 of the Plan.

Article III explains the proposed treatment under the Plan of certain "unclassified" categories of Claims, including Administrative Expenses, Priority Tax Claims, and the DIP Facility Claim owed to Wells Fargo. Either by Court order or by operation of the Bankruptcy Code, these Claims are all required to be paid ahead of Noteholders.

Article IV describes the treatment of each Class of Claims or Interests under the Plan, as well as the proposed compromise and settlement of disputes involving the Noteholder Claims. ***You should pay particular attention to Section 4.8 of the Plan, which describes the treatment of your Noteholder Claim and the proposed Plan Compromise.***

Article V explains which Classes of Claims are Impaired, and therefore entitled to vote on the Plan. Noteholders, as the Holders of Impaired REL Class 8 Noteholder Claims, are entitled to vote to accept or reject the Plan.

Article VI enumerates the means by which the Debtors propose to implement the Plan, including the reorganization of each Debtor as a "Reorganized Debtor," the issuance of the New Equity Interests in Reorganized R.E. Loans, LLC to the Liquidating Trust, and the consummation of a new secured loan from Wells Fargo (the "Wells Fargo Exit Facility").

Article VII describes the Liquidating Trust and the duties and responsibilities of the Liquidating Trustee.

Article VIII describes the treatment of certain executory contracts and unexpired leases against the Debtors that may be assumed or rejected in connection with confirmation of the Plan.

Article IX sets forth procedures governing the payment of Distributions under the Plan.

Article X describes the effect of Confirmation of the Plan, including (i) the vesting of the REO Property and the Notes Receivable in the Reorganized Debtors, (ii) the vesting of the Causes of Action and the New Equity Interests in Reorganized R.E. Loans in the Liquidating Trust, (iii) the discharge of Claims against the Debtors, and (iv) certain releases and injunctions that will take effect under the confirmed Plan.

Article XI enumerates certain conditions that must be met for the Plan to become effective, including approval of the Plan by the Bankruptcy Court.

Article XII contains various miscellaneous administrative provisions.

Article XIII contains the Debtors' recommendation of support for the Plan.

A few key components of the Plan, including the Plan Compromise, the Liquidating Trust and the Wells Fargo Exit Facility, are described in more detail below. While we encourage you to read the entire Plan in its entirety, you should pay particular attention to Sections 4.8, 4.9, 6.4, and 10.6, and Article VII, of the Plan, which bear most directly on your Claims. In addition, you should carefully read Article X of the Disclosure Statement, which explains certain tax consequences of the Plan, including the ability of Noteholders holding Noteholder Claims held in non-retirement accounts to recognize significant losses for tax purposes. ***Noteholders are advised to consult a tax advisor for more information on the tax consequences of the Plan.***

II.  
**VOTING ON THE PLAN**

Your Claim is defined under the Plan as a "Noteholder Claim" and classified in "REL Class 8." You are entitled to vote to accept or reject the Plan using the enclosed ballot. If you have more than one Noteholder Claim (*i.e.*, you have more than one investment account), you are entitled to cast a ballot to accept or reject the Plan for *each* Noteholder Claim. ***For the reasons explained below, we urge you to vote every Noteholder Claim to ACCEPT the Plan.***

To have your vote on the Plan count, you must complete, sign and return the enclosed ballot in accordance with the enclosed instructions. ***Please review the enclosed instructions carefully before completing and returning your ballot.***

**YOUR BALLOT MUST BE RECEIVED NO LATER THAN:**

**June 18, 2012 at 5:00 p.m. (prevailing Central Time)**

**YOUR BALLOT MAY BE DELIVERED EITHER:**

**by FedEx, USPS, or hand delivery to:**

**OR**

**by email to:**

R.E. Loans claims  
c/o AlixPartners LLP  
2010 Cedar Springs Road, Suite 1100  
Dallas, TX 75201

[RELoansBallots@alixpartners.com](mailto:RELoansBallots@alixpartners.com)

Under the Plan, the treatment of your Claim depends on whether the Class of Noteholder Claims votes to accept or reject the Plan. The Class of Noteholders will have accepted the Plan if at least two-thirds in dollar amount and more than one-half in number of the Allowed Noteholder Claims *that are actually voted* are cast in favor of the Plan. Whether you cast a ballot or not, if the Plan is confirmed you will be bound by its terms.

The treatment of Noteholders will depend on whether the Class of Noteholders votes to accept or reject the Plan. If the Class of Noteholders votes to accept the Plan, your Noteholder Claim will be Allowed as an unsecured claim against R.E. Loans for the entire amount of your Claim, as reduced pursuant to the Plan Compromise (as discussed below), and not subject to further objection, subordination or disallowance. In addition, you will receive Beneficial

Interests in the Liquidating Trust that will entitle you to a ratable share of the net proceeds of the Debtors' assets (after payment of future expenses and the remaining senior indebtedness) and the net proceeds of any successful litigation after payment of litigation costs and the costs of administering the Liquidating Trust. If the Class of Noteholders votes to reject the Plan, your Noteholder Claim may be subordinated to other unsecured claims, in which case you will likely not receive any Distribution under the Plan. A detailed explanation of the proposed treatment of Noteholder Claims is provided below and in Section 4.8 of the Plan.

You may also hold one or more Exchange Notes that were fully repaid prior to the Petition Date (defined in the Plan as "Fully Repaid Exchange Notes"). Fully Repaid Exchange Notes do not give rise to a Noteholder Claim against the Debtors (because no amount remains due under them), and you will not cast a ballot in respect of any Fully Repaid Exchange Note. If you hold one or more Fully Repaid Exchange Notes, you should carefully review Section 7.6(c) of the Plan, which contains an offer of settlement of certain Causes of Action that the Debtors or the Liquidating Trustee could assert against you for the recovery of payments made on account of a Fully Repaid Exchange Note.

### III. **KEY COMPONENTS OF THE PLAN**

Although every provision of the Plan is important, there are a few key components of the Plan of particular relevance to you, as a Noteholder, and to your understanding of how the Plan impacts your rights, including (i) the Liquidating Trust, (ii) the Plan Compromise, and (iii) the Wells Fargo Exit Facility and accompanying releases of any claims the Debtors may have against the Wells Fargo Group. Each of these components is described more fully below.

#### **A. The Liquidating Trust**

The Plan creates a "Liquidating Trust" for the purpose of collecting, liquidating and distributing the assets transferred to it. *Plan*, § 7.1(a). The Liquidating Trust is intended to be classified as a "Liquidating Trust" for federal income tax purposes within the meaning of Treasury Regulation § 301.7701-4(d). *Plan*, § 7.1(a).

Following confirmation of the Plan the Liquidating Trustee will be the sole member of Reorganized R.E. Loans. *Plan*, § 7.6(d). The sole manager of Reorganized R.E. Loans will be Mackinac Partners, which will be responsible for managing and selling the Notes Receivable and REO Property. *Plan*, § 7.6(d). The Trust Assets transferred to the Liquidating Trust include all Causes of Action against third parties (other than Wells Fargo) that currently belong to the Debtors, cash to fund the operation of the Liquidating Trust, and 100% of the New Equity Interests in Reorganized R.E. Loans. *Plan*, § 7.3. The Liquidating Trust—and the duties and responsibilities of the Liquidating Trustee appointed to administer it—are described in detail in Article VII of the Plan and in the Trust Agreement.

Among other primary responsibilities, the Liquidating Trustee is charged with the investigation, prosecution and settlement of any litigation that may be commenced by R.E. Loans against third parties. *Plan*, § 7.6(a). Except for the Debtors' claims against Wells Fargo, which are released pursuant to Section 10.6 of the Plan, all other Causes of Action the Debtors' have

against third parties, including the Ng Family, Bruce Horwitz, Greenberg Traurig, Development Specialists, Inc. (“DSI”), and Armanino McKenna, are expressly preserved under the Plan and will vest in the Liquidating Trustee. *Plan*, § 7.6(b). Moreover, the Plan Compromise described below, if the Plan is confirmed, will not compromise any claims against such third parties.

In addition, the Liquidating Trustee is primarily responsible for making Distributions of available funds (the “Liquidating Trust Proceeds”) in accordance with the priorities set forth in Section 7.5 of the Plan. *Plan*, §§ 7.5, 7.6(a). Importantly, no Distributions are payable on account of Subordinated Trust Interests until after all Allowed Claims of the Holders of Beneficial Interests are paid in full. *Plan*, § 7.5. This is significant for Noteholders because, if the Class of Noteholders votes to reject the Plan (despite the Committee’s recommendation) and the Plan is nevertheless confirmed, the effect of the resulting subordination of the Noteholder Claims will be that Noteholders will receive Subordinated Trust Interests and will therefore not be eligible to receive any Distribution under the Plan until all prior claims, including all Allowed General Unsecured Claims, are paid in full.

## **B. The Plan Compromise**

The “*Plan Compromise*” is described in detail in Section 4.8 of the Plan, and we encourage you to read Section 4.8 carefully. The Plan Compromise resolves potential objections to, or grounds for subordination of, the Noteholders’ Claims, and further eliminates the risk that Noteholders could be subject to future litigation over the recovery of distributions paid to Noteholders between November 2007 and the Petition Date. ***The proposed Plan Compromise will be implemented only if the Class of Noteholders votes to accept the Plan.***

If the Class of Noteholders votes to accept the Plan, the net effect of the Plan Compromise is as follows:

- The lien securing your Noteholder Claim will be released, and your Noteholder Claim will be deemed Allowed for all purposes under the Plan and no longer subject to any objection, disallowance, subordination, or avoidance by the Debtors or any other party (including DSI).
- If you received cash distributions on account of your Exchange Note, in full settlement of any claims the Debtors may have against you to recover such distributions, the face amount of your Noteholder Claim will be reduced by an amount equal to 50% of the aggregate amount of such Distributions;<sup>2</sup> *provided, however*, that your Claim will not be reduced below zero, and you will not be required to make any cash payment to the Debtors.<sup>3</sup> ***The Committee specifically negotiated this feature to ensure that current Noteholders would not have to***

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<sup>2</sup> For example, a Noteholder who holds a Noteholder Claim of \$100 and received \$10 in prepetition distributions would have his Claim reduced by \$5 (50% of \$10), and therefore receive Distributions under the Plan based on a remaining allowed claim of \$95.

<sup>3</sup> For example, a Noteholder who holds a Noteholder Claim of \$100 and received \$300 would have his claim reduced by \$150 (50% of \$300). The reduction exceeds the amount of the \$100 Noteholder Claim, so the Noteholder Claim would be reduced to \$0, and the Noteholder would not be required to make any cash payment to the Liquidating Trustee to obtain the benefit of the settlement and release.

*incur future litigation costs or be at risk of having to repay any money to the Debtors.*

- Mortgage Fund 2008, LLC (“MF08”): The Plan Compromise will trigger a settlement resolving pending disputes to the approximately \$66 million General Unsecured Claim asserted by MF08. Under the terms of that settlement, (i) the MF08 Claim will be allowed in the amount of \$66,226,496, minus the amount of all net cash proceeds obtained by MF08 under the various promissory notes that were transferred to it by R.E. Loans prior to the Petition Date, and (ii) Holders of Allowed General Unsecured Claims (including MF08) will receive the first \$5 million of any Net Liquidating Trust Proceeds. *Plan, § 4.5, 7.5. In addition, MF08 will release any claims it could otherwise assert against Noteholders that received transfers from R.E. Loans (other than insiders).*
- You will receive, on account of your Allowed Noteholder Claim, a Beneficial Interest in the Liquidating Trust that entitles you to a *pro rata* distribution of Net Liquidating Trust Proceeds with all other Noteholders and Holders of Allowed General Unsecured Claims (after reduction for the initial \$5 million “Class 5 Preferred Payment” described above). *Plan, §§ 4.8(c), 7.5.*
- For Fully Repaid Exchange Notes Only: If, in addition to one or more remaining Noteholder Claims, you also hold one or more “Fully Repaid Exchange Notes” (*Plan, § 2.1*), the Plan also gives you the opportunity to obtain a separate settlement, release and discharge of any Cause of Action to avoid and recover payments made on those Fully Repaid Exchange Notes by tendering payment in cash to the Liquidating Trustee in an amount equal to 5% of the aggregate distributions and other payments you received on account of that Fully Repaid Exchange Note.<sup>4</sup> *Plan, § 7.6(c)*. This offer will take effect following confirmation of the Plan, and the Liquidating Trustee will reserve all rights to sue (or not sue) to recover payments made on account of Fully Repaid Exchange Notes that are not otherwise settled through the foregoing offer.

If the Class of Noteholders votes to reject the Plan, the Plan Compromise will not take effect. Instead, as a part of the Confirmation Hearing, the Debtors will seek to subordinate the Noteholder Claims to all Class 5 General Unsecured Claims. *Plan, § 4.8(d)*. In that event, the Committee will oppose the Debtors’ request for subordination at the Confirmation Hearing. If the Debtors prevail in subordinating the Noteholder Claims, you will receive a Subordinated Trust Interest that will entitle you to a *pro rata* distribution of proceeds from the Liquidating Trust only after all Holders of Allowed General Unsecured Claims are paid in full. *Plan, § 4.8(d)*. In addition, the Debtors or the Committee will object to the allowance of MF08’s alleged claim; however, the Debtors’ and MF08’s alleged claims against Noteholders to recover distributions paid on account of Exchange Notes prior to the Petition Date will not be compromised, and both the Liquidating Trustee and MF08 will preserve all rights to pursue such

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<sup>4</sup> For example, a person who received \$100,000 in distributions prior to the Petition Date would be required to make a cash payment of \$5,000 to obtain the same release provided to current Noteholders under the Plan.

Causes of Action (called “Potential Recovery Remedies” in the Plan). *Plan*, § 4.8(d). If the Debtors do not prevail in subordinating Noteholder Claims at the Confirmation Hearing, then the Plan will not be confirmed in its present form.

### C. The Wells Fargo Exit Facility and the Wells Fargo Release

The Wells Fargo Exit Facility is a senior secured credit facility to be provided to R.E. Loans an amount sufficient to (i) pay the secured claims of Wells Fargo (*i.e.*, the Wells Fargo’s Prepetition Claims and Wells Fargo’s DIP Facility Claim); (ii) provide working capital to the Reorganized Debtors to administer the remaining Assets; and (iii) fund the Reorganized Debtors’ initial cash contribution to the Liquidating Trust. *Plan*, § 1.2.

The Wells Fargo Exit Facility will be secured by first-priority liens on all the assets of Reorganized R.E. Loans, including all of the REO Property and the Notes Receivable, but not on Causes of Action. The Wells Fargo Exit Facility matures September 30, 2013, and bears interest at the rate of LIBOR+12% *per annum*. Prior to the maturity of the Wells Fargo Exit Facility, the Reorganized Debtors will be required to pay down the outstanding indebtedness by prenegotiated amounts at regular quarterly intervals, with the final remaining balance due to be repaid in full on September 30, 2013.

Significantly, Wells Fargo’s willingness to provide the Wells Fargo Exit Facility is conditioned on a release (the “Wells Fargo Release”) of all the Debtors’ potential claims against the Wells Fargo Group. The Committee believes that the Debtors hold viable claims against Wells Fargo, including to avoid the transactions comprising the Prepetition Wells Fargo Facility and recover for the benefit of the estate all net payments made by the Debtors to Wells Fargo from July 2007 to the present as fraudulent conveyances. The precise terms of the Wells Fargo Release are set forth in Section 2.1 of the Plan and are given effect in Section 10.6 of the Plan, but generally include a broad release of any and all existing claims that the Debtors or their Estates could have asserted against Wells Fargo. If the Plan is confirmed and the Wells Fargo Exit Facility is funded, therefore, all potential claims of the Debtors against Wells Fargo will be released for all purposes. ***Importantly, the Wells Fargo Release does not operate to release claims that individual Noteholders may personally own and assert against the Wells Fargo Group, including claims asserted against Wells Fargo in the Putative Class Action, nor does the Plan release claims the Debtors have against other parties, including Greenberg Traurig. All such other claims are expressly preserved.***

#### IV.

#### THE COMMITTEE’S POSITION

<p><b>The Committee supports confirmation of the Plan and recommends that you vote to ACCEPT the Plan by signing and returning a completed ballot on or before the deadline.</b></p>
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The Committee arrived this recommendation only after extensive consideration of the pros and cons of supporting or opposing the Plan, as well as available alternatives to the Plan.



The Committee also had the benefit of extensive legal and financial analysis from its advisors, Akin Gump Strauss Hauer & Feld LLP, Diamond McCarthy LLP and FTI Consulting.

In the Committee's view, the Plan Compromise and the Wells Fargo Exit Facility, including the Wells Fargo Release, have the most significant impact on the potential recoveries of Noteholders. Other components of the Plan may impact the ultimate recovery to Noteholders, but the Committee believes that these are the two that "move the needle" most significantly. The Committee had significant input on the terms of the Plan; in particular, certain components of the Plan Compromise were inserted into the Plan at the express request of the Committee.

The essence of the Plan is a tradeoff between maximizing the value of the REO Property and the Notes Receivable, on the one hand, and the value of certain potential claims the Committee believes the Debtors might otherwise assert against Wells Fargo, on the other hand. If the Plan is confirmed, the Wells Fargo Exit Facility will enable the REO Property and Notes Receivable to be liquidated in a manner that should provide a positive recovery to Noteholders, and the Plan Compromise will be implemented. Current estimates suggest that the liquidation of the REO Property and Notes Receivable under the confirmed Plan could yield approximately \$34-\$63.6 million for Distribution to Holders of Allowed Claims, including Noteholders.<sup>5</sup>

Conversely, if the Plan is not confirmed, the Debtors' cases would likely be converted to a chapter 7 liquidation. In that event, the real estate portfolio would likely be sold in a "fire sale" liquidation yielding no recovery to Noteholders. The Debtors' claims against Wells Fargo could be preserved; however, for comparative purposes, the Committee assesses the relative value of those potential claims as less than the value of the real estate portfolio if liquidated under the Plan. Moreover, Noteholders would face the risk of future litigation over their own claims. ***Despite significant effort by both the Debtors and the Committee to locate a viable alternative, there is no option that would permit Noteholders to preserve and realize the full value of both the real estate portfolio and the claims against the Wells Fargo Group.***

Thus, the Committee was faced with a choice—leaving all other terms of the Plan aside—between (i) preserving the value of the real estate (via confirmation of the Plan) and insulating Noteholders from further litigation, or (ii) preserving the value of the Debtors' claims against Wells Fargo (by defeating the Plan and converting the case to chapter 7) while exposing Noteholders to the risk of further litigation. Neither alternative is perfect; however, on balance, the Committee has concluded that the Noteholders' interests are best served by permitting the waiver of the Debtors' potential claims against Wells Fargo in order to preserve the remaining value in the REO Property and Notes Receivable and implement the Plan Compromise.

In addition to the potential for a greater recovery to Noteholders, confirmation of the Plan will resolve pending disputes relating to the Noteholders and insulate them from further litigation. As described above, if the Noteholders vote to accept the Plan, your Claim will be Allowed and not subject to further objection, disallowance or subordination. Further, you will not be subject to suit by the Liquidating Trustee or MF08 for the recovery of distributions you

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<sup>5</sup> These figures represent estimates only, and actual recoveries could be substantially higher or lower than these projections. Nevertheless, the Committee believes that they represent reasonable assessments of the options available.

may have received from R.E. Loans since 2007, and confirmation of the Plan (including the Plan Compromise) will effectively moot DSI's prior objections to Noteholder Claims, further insulating Noteholders from further risk of litigation. In exchange, your lien on certain of the Debtors' assets will be released, making the cash proceeds from the sale of those properties available for ratable distribution to other unsecured creditors, too.

Contrasted with that, the Committee believes that Noteholders face significant risk if the Plan is not confirmed and the Debtors' cases are converted to a chapter 7 liquidation. In that event, a chapter 7 trustee could object to, or seek subordination of, the Noteholders' Claims under any of the theories previously asserted by DSI. A trustee could also seek to avoid and recover distributions previously paid to Noteholders (so-called "clawback" claims). Because official committees are generally not formed in chapter 7 cases, the Committee would cease to exist and would not have the ability to oppose such claim objections or litigation on behalf of individual Noteholders; Noteholders would have to defend their rights individually.

Thus, the Committee believes the Plan Compromise represents a favorable outcome for Noteholders when weighed against the risk, uncertainty and potential cost of litigating against objections to the allowance or priority of the Noteholders' claims. The proposed Plan Compromise resolves the Debtors' and MF08's potential claims against Noteholders to recover prepetition distributions as alleged fraudulent conveyances, ensures that current Noteholders will not be at risk of being sued by the Liquidating Trustee for the recovery of distributions paid out years ago, and insulates Noteholders from the expense of defending against such litigation.

V.  
**CONCLUSION**

After weighing the possible alternatives, we have concluded that confirmation of the Plan represents the best possible outcome for Noteholders. To the extent possible, the Plan preserves the rights of Noteholders, while simultaneously eliminating the cost, expense and risk of future litigation over the Noteholders' claims and the disposition of assets. **THE COMMITTEE THEREFORE RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.**

If you have any questions regarding voting procedures or otherwise, please contact Michael Cooley at (214) 969-2723 or via email at [mcooley@akingump.com](mailto:mcooley@akingump.com).

Regards,

The Official Committee of Note Holders