United States Bankruptcy Court

Western District of Washington at Seattle

In re **KAREN ILENE CARTER** Debtor

Case No. **15-14301 CMA**

Chapter 11

Individual Filing Under Chapter 11

DISCLOSURE STATEMENT
Amended
as of November 18, 2016

TABLE OF CONTENTS

I. INTRODUCTION

The individual Debtor in Possession, **KAREN ILENE CARTER**, herein provides this Disclosure Statement to all of her known creditors in order to disclose that information deemed by the Debtor to be material, important, and necessary for the creditors to arrive at a reasonable informed decision prior to exercising their right to vote on the Plan of Reorganization (hereinafter "the Plan", attached hereto as Exhibit "A").

Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one. (If you do not have an attorney, you may wish to consult one.)

This Disclosure Statement has been approved by order of the Bankruptcy Court dated December 16, 2016 as providing adequate disclosure. The date set for a hearing on the acceptance of the Plan of reorganization is February 3, 2017, at the hour of 9:30 a.m.

The hearing will be held in Judge Christopher M. Alston's Courtroom, Room 7206, United States Courthouse, 700 Stewart Street, Seattle, WA 98101 for determination of acceptance of the Plan of Reorganization. Creditors may vote on the Plan by completing and mailing the accompanying ballot to David Carl Hill, 2472 Bethel Rd. SE, Port Orchard, WA 98366 [Telephone 360-876-5015; E-mail office@hilllaw.com]. Failure to complete the Ballot and return it by January 27, 2017 may result in it not being counted. As a creditor or interest holder, your vote is important. The Plan may be confirmed by the Court if it is accepted by the holders of two-thirds in amount and more than one-half in number of claims any class of claims voting on the Plan. In the event the requisite acceptances are not obtained, the Court may nevertheless confirm the Plan if the Court finds that it accords fair and equitable treatment to the class or classes rejecting it. The proposed distributions under the Plan are discussed hereinafter in this Disclosure Statement.

A. Purpose of This Document

This Disclosure Statement describes:

The Debtor and significant events during the bankruptcy case,
How the Plan proposes to treat claims or equity interests of the type you hold (i.e., what you will receive on your claim or equity interest if the plan is confirmed),
Who can vote on or object to the Plan,
What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan,
Why Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation, and
The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. Time and Place of the Hearing to Confirm the Plan

The hearing at which the Court will determine whether to confirm the Plan will take place on February 3, 2017, at 9:30 a.m., in Courtroom 7206, at the United States Courthouse, 700 Stewart Street, Seattle, WA 98101.

2. Deadline For Voting to Accept or Reject the Plan

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot in the enclosed envelope to David Carl Hill, 2472 Bethel Rd. SE, Port Orchard, WA 98366. See section entitled

Confirmation Requirements and Procedures, Paragraph A. below for a discussion of voting eligibility requirements.

Your ballot must be received by January 27, 2017 or it will not be counted.

3. Deadline For Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Court and served upon Debtor by October 14, 2016.

4. Claims Bar Date

By order of Court Dated January 25, 2016, the Claims Bar Date was set as March 15, 2016.

5. Conference of Attorneys

A conference of attorneys regarding objections to the Plan of Reorganization will be held on Monday, January 30, 2017 at 10:00 a.m. at the Law Office of DAVID CARL HILL, 2472 Bethel Rd SE, Port Orchard, WA 98366

6. Identity of Person to Contact for More Information

If you want additional information about the Plan, you should contact David Carl Hill, 2472 Bethel Rd. SE, Port Orchard, WA 98366 [Telephone 360-876-5015; E-mail office@hilllaw.com].

C. Disclaimer

No person (as defined in the plan) is authorized in connection with the plan, or the solicitation of ballots with respect to the plan, to give any information or to make any representations other than those contained in this disclosure statement, its exhibits and any other bankruptcy court-approved solicitation materials. If any such representations or information are given or made, they should not be relied upon. The delivery of this disclosure statement will not under any circumstances imply that all the information contained herein is correct as of any time subsequent to the date hereof.

The Debtor urges you to study the plan in full and to consult with your legal counsel and tax advisors about the plan and its impact upon your legal rights, including possible tax consequences.

The plan and this disclosure statement are not required to be prepared in accordance with federal or state securities laws or other applicable non-bankruptcy law. This disclosure has been provisionally approved by the bankruptcy court as containing "adequate information"; however, such approval does not constitute endorsement by the bankruptcy court of the plan or disclosure statement.

Except as otherwise specifically and expressly stated herein, this disclosure statement does not reflect any events that may occur subsequent to the date hereof. Such events may have a material impact on the information contained in this disclosure statement.

This disclosure statement may not be relied upon for any purpose other than to determine whether to vote in favor of or against the plan. Nothing contained herein will constitute an admission of any fact or of liability by any party with regard to any claim or litigation. No statement of fact will be admissible in any proceeding involving the Debtor or any other party, or in any proceeding with respect to any legal effect of the reorganization of the Debtor or the transactions contemplated by the plan and this disclosure statement.

This disclosure statement does not constitute or include legal, business, financial or tax advice. Any persons desiring any such advice should consult their own attorneys or advisors.

The information contained in this disclosure statement has been submitted by the Debtor, except where other sources are identified. The Debtor authorizes no representations concerning the Debtor or the plan other than those in this disclosure statement and accompanying documents. You should not rely on any

representations or inducements made by any party to secure your vote other than those contained in this disclosure statement. No one is authorized to make any representations on behalf of the Debtor. The Debtor has been careful to be accurate in this disclosure statement in all material respects, and the Debtor believes that the contents of this disclosure statement are complete and accurate in all material respects. However, the Debtor cannot and does not warrant or represent that the information contained herein is without inaccuracy. In particular, events and forces beyond the control of the Debtor may alter the assumptions upon which the feasibility of the plan is subject.

This disclosure statement may contain statements that are, or may be deemed to be forward-looking statements within the meaning of the private securities litigation reform act of 1995. Such forward looking statements include those regarding consummation of the transactions contemplated by the plan. Although the Debtor believes that such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Debtor to be different from any future results, performance, and achievements expressed or implied by these statements.

The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted.

II. BACKGROUND

A. Description and History of the Debtor

Education:

1972: B. A., Business Administration, and B.A., Secondary Education; Washington State University

1976: Graduate, Northwest Intermediate Banking School

1979: Graduate, Pacific Coast Banking School

1989: M.A., Business Administration, University of Washington, Executive MBA Program

Work:

12/11/72 – 2/28/83: First Interstate Bank of Washington. Increasingly responsible lending officer positions. Last position was Vice President & Commercial Loan Officer in the Middle Market Lending Division with a loan limit of $50,000.

3/1/83 – 12/31/89: Rainier National Bank; acquired by Security Pacific National Bank in late 1987.

Vice President, National Banking Division, from 1983 until early 1987; initially loan officer handling major national accounts in the Midwest, then promoted to Mid-Western Regional Manager; lending limit $60 million.

Promoted to Senior Vice President and Manager, Strategic Planning in early 1987 to prepare Strategic Plan to support efforts to sell the bank and then to oversee the merger integration after sale of Rainier to Security Pacific.

In 1988 Debtor was assigned to develop a plan to create new Business Banking Division, and then was Administrative Manager of the new division until 12/31/89 when Debtor resigned to start a Strategic Management Consulting firm.

1/1/90 – 5/14/03: Independent Management Consultant. Clients included major companies in King and Pierce counties, Washington; Portland, Oregon; Los Angeles, California; and Seoul, South Korea. Closed the business to find work that didn't require as much travel and where Debtor would be able to again collaborate with other successful professionals.

5/15/03 – 10/31/08: Mortgage Loan Originator, CFA Northwest Mortgage Professionals, Silverdale Office. Successfully built significant client base, and by 2005 had a support staff of five to process loan volume. CFA was acquired by Liberty Financial Group in 2006, and Debtor continued employment for it until 10/31/2008 when Liberty closed their Silverdale office due to the mortgage industry crash which had begun in August 2007.

11/1/08 – 9/15/09: Formed Clarity Mortgage, LLC, a mortgage loan origination company located in Silverdale. With the prolonged mortgage industry problems and the concurrent economic recession, Debtor closed Clarity in mid September 2009.

9/15/09 – 12/31/11: Mortgage Loan Originator, The Legacy Group, Silverdale Office. The mortgage industry was still struggling, with low loan volume. Legacy terminated Debtor's employment after Debtor suffered an injury that kept her from work. Legacy failed in 2012, closing all of their offices throughout the Western United States.

B. Events Leading to Filing for Bankruptcy Protection

In 2003, Debtor began investing in rental properties. Unlike many others who financed their properties 100% or with 10% down, Debtor chose to be more conservative, putting 20% down on all of her properties except the Cambrian apartments. Debtor did use option ARMs to finance most of her properties, expecting that values would continue to rise as they had in the great majority of the previous 30 years. Debtor planned to refinance the properties after five years when the low introductory fixed interest rates were scheduled to begin adjusting.

However, in early 2007 sub-prime lending companies began failing, leading to the collapse of the entire mortgage market in August 2007. That led to the prolonged recession and real estate values plummeted, and mortgage lending dried up. Since Debtor was a mortgage loan originator, her income also fell dramatically. In addition, on July 17, 2007 Debtor refinanced 4 of her properties.[1] All of these loans were underwritten and approved for sale to American Home Mortgage, however Liberty Financial Group delayed the sale of the mortgages immediately because the interest rates on the mortgages were higher than the interest rate they were paying on their warehouse line of credit. On August 6, 2007, American Home Mortgage filed for Chapter 11, so Liberty couldn't sell the mortgages to them. Liberty Financial Group was unable to find another lender who would buy the loans under the same terms & conditions that had been approved by American Home Mortgage. In September 2007, Liberty Financial Group required that Debtor execute new loan documents with increased interest rates and shorter terms, which increased her payments on each loan by $754.78 per month (a total of $3,019.12/per month for all four loans).[2] Debtor was informed that if she did not agree to execute the new loan documents, she would be terminated. She was also required to execute junior trust deeds on each of the properties.[3]

---

[1] 4870-4878 Lovely Ln.; 4871-4879 Lovely Ln.; 4881-4889 Lovely Ln; and 4980-4988 Lovely Ln. Each of these mortgages had a due date of August 1, 2047.

[2] The new due date was set at October 1, 2037.

[3] Each of the junior trust deeds was in the amount of $32,213.04. The purpose of these Trust Deeds was to reimburse Debtor for the increased monthly payments on the new first Deeds of Trust. Liberty Financial Group was to advance funds to Debtor each month for four years with the expectation that she would have an opportunity to refinance the properties at the end of that time to combine the

The starting of Debtor's own loan origination company in 2008 was a mistake. Rather than incurring overhead costs, Debtor believes that she should have gone to work for another mortgage company and focused on generating income. Operating Debtor's own company not only cost a lot of money but it diluted her focus from originating loans to include the administrative tasks of business ownership. She stuck with it too long, spent all of her savings, and began falling behind on her mortgage loans.

When the government introduced loan modifications to help people, Debtor began applying to modify her loans. Although the banks had been given massive amounts of money to encourage them to modify their clients' delinquent loans, the banks weren't prepared to handle the large volume of applications. Their people weren't adequately trained, especially when dealing with someone like Debtor who owned many properties. Some of Debtor's applications for loan modification were granted, but even with these modifications Debtor was unable to meet all of the payment requirements.

At the end of 2011, Debtor was terminated from The Legacy Group. Debtor had just turned 62, so she decided to apply for Social Security and focus all of her time on loan modification applications. Debtor also began making decisions on which properties she most wanted to keep and/or lose in foreclosure if she was unable to modify all of the loans.

Debtor decided to let her primary residence go into foreclosure because without more income, she couldn't justify the large mortgage payments, even if the loan was modified. In April of 2012, she moved into one of her rental properties. She stopped making all mortgage payments, knowing that the arrearages would be incorporated into the loan modifications. She used the cash generated from rentals to pay living expenses and to eliminate all consumer debt, believing that would help with loan modification applications.

C. Family Health Problems:

During this time Debtor was required to spend more time assisting her elderly parents with tasks they could no longer handle on their own. Debtor's mother had dementia and her father was wearing out as her primary caregiver. It was obvious that he wouldn't be able to continue doing that much longer, so plans were made for them to move in with Debtor. In preparation for that, Debtor had some remodeling done to the rental unit she was living in. Both of them were using walkers, and the home had to be safe and secure to protect her parents.

Debtor's parents moved into the rental unit in October 2012. Debtor's father had fallen and broken a shoulder a week prior to their move, so it was necessary to set up a hospital bed in one bedroom for him. Debtor was up frequently during the nights, assisting each of them to the bathroom as needed. In addition to managing their many medications, Debtor began managing their finances, finding new doctors for them, taking her father to physical therapy three days a week, preparing three meals a day, doing an amazing amount of laundry, assisting with bathing, etc. Thus work on loan modifications came to a halt.

Over the next 18 months, there were numerous 911 calls and hospital stays for both of them. Eventually, Debtor engaged the services of Visiting Angels to help with their care. They began paying Debtor $5,000 per month to offset the expenses associated with their care and to partially compensate Debtor to be with them full time rather than seek a job outside of the home. Debtor's mother passed away at home in April 2014 following several months of bedridden care.

After her mother's death, she renewed efforts to modify loans. By July 2015, Debtor had lost four

---

balances owing on the first Deeds of Trust with the Second Deeds of Trust. Liberty Financial Group only advanced funds to Debtor for seven months before they were acquired by Guild Mortgage. Guild Mortgage did not assume these notes in the acquisition, and on June 22, 2009 Liberty Financial Group offered to forever forgive the balance due under the loans and cancel the deeds of trust. Debtor accepted this offer, but the Deeds of Trust were never reconveyed.

properties to foreclosure and concluded that none of the banks would modify the loans. In an effort to protect the remaining properties, Debtor decided to file for bankruptcy.

All of the properties currently owned by Debtor were purchased and financed as rental properties:

ADDRESS	KITSAP ASSESSOR	SECURED CREDIT	LOAN DATE
132-134-136 Cambrian	3732-003-014-0007	Kuligowski	12-Apr-05
1918-1920 N Wycoff	102401-4-079-2003	Ocwen	11-Oct-06
4870-4878 Lovely Ln	082302-2-027-2004	Seterus (now Caliber Home Loans; transferred 8/24/16)	11-Sep-07
4871-4879 Lovely Ln	082302-2-040-2007	Seterus	01-Jun-15*
4881-4889 Lovely Ln	082302-2-039-2000	Seterus	17-Jul-07
4901-4909 Lovely Ln	082302-2-035-2004	SLS	06-Apr-06
4911-4919 Lovely Ln	082302-2-034-2005	BSI Financial Services	27-Apr-06
4931-4939 Lovely Ln	082302-2-024-2007	Nationstar	06-Apr-06
4891 Lovely Ln	082302-2-038-2001	Ocwen	29-Mar-06

* Loan Modification Date

Until April 2014 Debtor resided at 8675 Sunset Ln., Seabeck, WA 98380. At that time this property was foreclosed by the lender. She was forced to move into one of her rental units, 4891 Lovely Ln., Port Orchard, WA 98367. The property was deeded to Nationstar Mortgage LLC following the trustee sale of 9 May 2014.

On July 15, 2015, Debtor filed a voluntary petition for relief under Chapter 13 of the Bankruptcy Code. At the time the case was filed there was a question whether the unsecured debt might exceed the jurisdictional limits for Chapter 13. On September 3, 2015, the Trustee filed an objection to confirmation of the Chapter 13 plan and a motion to dismiss the case. On September 23, 2015 the Debtor filed a motion to convert the case from Chapter 13 to Chapter 11.

On October 19, 2015, this court issued an order converting the case to Chapter 11 of the Bankruptcy Code. The Debtor has remained in possession of her assets and is now operating as Debtor in possession pursuant to §§ 1107(a) and 1108.

D. View Toward the Future

Under the current concept of the Plan of Reorganization Debtor would retain nine (9) parcels of property. The properties retained would be the Cambrian units, the Wycoff units and the 7 Lovely Lane units. At the time of filing her petition the title ownership of the real properties was held as follows:

TITLE OWNER	PROPERTY
Double Nickel Properties, LLC	132-134-136 Cambrian - Kitsap Assessor No. 3732-003-014-0007
Calloff Property, LLC	1918-1920 N Wycoff - Kitsap Assessor No. 102401-4-079-2003
Blue Heron Holdings Three, LLC	4870-4878 Lovely Ln - Kitsap Assessor No. 082302-2-027-2004
Blue Heron Holdings Nine, LLC	4871-4879 Lovely Ln - Kitsap Assessor No. 082302-2-040-2007
Blue Heron Holdings Eight, LLC	4881-4889 Lovely Ln - Kitsap Assessor No. 082302-2-039-2000
Karen I. Carter	4901-4909 Lovely Ln - Kitsap Assessor No. 082302-2-035-2004
Karen I. Carter	4911-4919 Lovely Ln - Kitsap Assessor No. 082302-2-034-2005
Karen I. Carter	4931-4939 Lovely Ln - Kitsap Assessor No. 082302-2-024-2007
Karen I. Carter	4891 Lovely Ln - Kitsap Assessor No. 082302-2-038-2001

While the Debtor desired to retain title ownership of various properties under the existing LLC's, a

number of factors suggested that formulation of a viable Plan of Reorganization would be more difficult. Most of the LLC's holding title had been administratively dissolved by the Secretary of State and would have to be reinstated in order to continue to hold title.

At the January 22, 2016 Case Management Conference the court ordered that a Disclosure Statement and proposed Plan of Reorganization be filed by March 22, 2016. At this same hearing the court expressed concerns about the title of the real property being held by various LLC's that were not under the jurisdiction of the court while the estate had the liability for the mortgages on these properties.

The Debtor, after consultation with her attorneys, has determined that it would be in the best interests of the estate and all parties to dissolve the LLCs that have title to real property and transfer those parcels of real property back into the name of the Debtor. To this end the Debtor filed Certificates of Dissolution with the Secretary of State of Washington on February 16, 2016 and, through her attorneys, published notices of dissolution [February 20, 2016, February 26, 2016 and March 4, 2016] for each of the LLCs that held real property. While RCW 25.15.301 does not provide for publication of notice of dissolution, other provisions of the Revised Code provide for such publication on the dissolution of a corporation. [RCW 23B.14.030(3).]

June 18, 2016 was the 120th day from date of first publication. There have been no claims filed with respect to any of the dissolved LLCs. On June 20, 2016, each of the LLCs holding title to Debtor's property transferred said properties to Debtor, and all current rental leases/contracts are confirmed in the Debtor.

E. Plan of Reorganization[4]

Plan of Reorganization is attached hereto as Exhibit "A".

A detailed Income/Expense Analysis of Debtor's Plan of Reorganization is attached hereto as Exhibit "B". The primary sources of income for the Debtor are Social Security benefits and funds received from Debtor's father for his maintenance and care, this income would provide for Debtor's personal expenses. The payments on the mortgages, taxes, maintenance and repairs on the real properties would be made from the rents received with respect to each individual property except for the property in which she currently resides.

The anticipated rental income from each of the properties is sufficient under the Plan of Reorganization to support the retention of the properties. All of the roofs at the Lovely Lane properties needed to be replaced. This work has been completed for all units except 4911-4919 Lovely Lane and 4891 Lovely Lane. The work on these two remaining units will be completed after the confirmation of the Plan of Reorganization. The bid to re-roof 4911-4919 Lovely Lane is $14,503.38, and the bid to re-roof 4891 Lovely Lane is $26,266.33. Substantial repairs, with an estimated total cost of approximately $100,000, are also needed at the Cambrian property. These repairs are needed to replace failing systems that were installed in 1940, including the installation of a new heating system ($54,000); rewiring the building ($27,000); re-piping the water system within the building ($18,500); repairing the sewer system (drain, waste, and venting; $10,000); and replacing the garage doors ($3,000). Debtor plans to complete these repairs over the next five (5) years.

Debtor will be borrowing $10,000 for the purpose of payment to the unsecured creditors that would otherwise not receive anything under a liquidation of the estate.

F. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in Exhibit "B." Exhibit "B" provides the valuation of the real property to be retained by the Debtor using the 2016 valuations by the Kitsap County

[4] The 120 day exclusivity period of Section 1121(b) has expired (November 13, 2015) and no other party has filed a competing plan proposing alternative conditions of ownership or valuation of the estate. [Note: petition filed July 15, 2015]

Assessor is approximately $1,957,250. By order of court dated October 3, 2016, the Debtor was authorized to retain the services of Sandra K. Johnson to prepare a Comparative Market Evaluation ("CMA") of the Debtor's properties. The CMA market value of each of the properties is set out below.

PROPERTY	CMA	
132-134-136 Cambrian - Kitsap Assessor No. 3732-003-014-0007	$350,000	Exhibit "H"
1918-1920 N Wycoff - Kitsap Assessor No. 102401-4-079-2003	$229,000	Exhibit "I"
4870-4878 Lovely Ln - Kitsap Assessor No. 082302-2-027-2004	$240,000	Exhibit "J"
4871-4879 Lovely Ln - Kitsap Assessor No. 082302-2-040-2007	$239,000	Exhibit "K"
4881-4889 Lovely Ln - Kitsap Assessor No. 082302-2-039-2000	$240,000	Exhibit "L"
4901-4909 Lovely Ln - Kitsap Assessor No. 082302-2-035-2004	$240,000	Exhibit "M"
4911-4919 Lovely Ln - Kitsap Assessor No. 082302-2-034-2005	$249,000	Exhibit "N"
4931-4939 Lovely Ln - Kitsap Assessor No. 082302-2-024-2007	$235,000	Exhibit "O"
4891 Lovely Ln - Kitsap Assessor No. 082302-2-038-2001	$289,000	Exhibit "P"

The CMA value of the real property to be retained by the Debtor under the Plan of reorganization is $2,311,000. Debtor will be paying approximately $2,143,121 principal plus arrears of $218,500 plus interest from the date the Plan is implemented to retain the properties. While the Debtor has no current equity in the properties, the income from those properties is sufficient to provide for payment of the mortgages on the properties.

The Debtor's most recent financial statements issued before bankruptcy were filed with the Court and are available from the court or upon written request to Debtor's attorneys David Carl Hill, 2472 Bethel Rd. SE, Port Orchard, WA 98366 [Telephone 360-876-5015; E-mail office@hilllaw.com].

G. Property Ownership

The Debtor's interest in the parcels of real property within this estate are as follows:

TITLE OWNER	PROPERTY
Karen I. Carter	132-134-136 Cambrian - Kitsap Assessor No. 3732-003-014-0007
Karen I. Carter	1918-1920 N Wycoff - Kitsap Assessor No. 102401-4-079-2003
Karen I. Carter	4870-4878 Lovely Ln - Kitsap Assessor No. 082302-2-027-2004
Karen I. Carter	4871-4879 Lovely Ln - Kitsap Assessor No. 082302-2-040-2007
Karen I. Carter	4881-4889 Lovely Ln - Kitsap Assessor No. 082302-2-039-2000
Karen I. Carter	4901-4909 Lovely Ln - Kitsap Assessor No. 082302-2-035-2004
Karen I. Carter	4911-4919 Lovely Ln - Kitsap Assessor No. 082302-2-034-2005
Karen I. Carter	4931-4939 Lovely Ln - Kitsap Assessor No. 082302-2-024-2007
Karen I. Carter	4891 Lovely Ln - Kitsap Assessor No. 082302-2-038-2001

III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan of Reorganization places claims and equity interests in various classes and describes the treatment that each class will receive. The Plan of Reorganization also states whether each class of claims or equity interests is impaired or unimpaired.

If the Plan of Reorganization is confirmed, your recovery will be limited to the amount provided by the Plan of Reorganization. And the Plan creates contract between the Debtor and the Creditors as to the provisions

for the amount and payment of the indebtedness.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Debtor has not placed the following claims in any class:

1. Administrative Expenses

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Section 1129(a)(9) of the Code requires that all § 507(a)(2) administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

2. Priority Tax Claims

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief. There is one possible priority tax claim in this category. IRS has filed Claim No. 6-1 for $100 priority and $355,611.56 for "Unsecured General Claims." Newly prepared and updated tax returns show that there is no debt to the IRS.

C. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. Classes of Secured and Unsecured Claims

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to set-off) to the extent allowed as secured claims under § 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim.

The classes of Debtor's secured and unsecured prepetition claims and her proposed treatment are as follows: [See ARTICLE II of the Plan of Reorganization for details of individual treatment].

Class 1a Administrative and Priority--All allowed claims entitled to priority under §507 of the Code (except administrative expense claims under §507(a)(2) and priority tax claims under §507(a)(8)). These claims include attorney and accounting fees.

Class 1b Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Section 1129(a)(9) of the Code requires that all § 507(a)(2) administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment. All attorneys fees and other professional fees must be approved by the court before payment to the professional service provider. Attorneys have agreed to accept payment of fees due at confirmation on a monthly basis.

NOTE: Debtor has set aside the amount of the rents received, less expenses, since the filing for Chapter 11 protection. Debtor will be making lump sum arrears payments with respect to each of the properties as set

forth in Exhibit "C". Each of the deeds of trust[5] on the various properties contains a 1-4 Family Rider that provides:

> Borrower absolutely and unconditionally assigns and transfers to Lender all the rents and revenues ("Rents") of the property, regardless of to whom the Rents of the Property are Payable. . . .
>
> The deed of trust on the Cambrian property contains the provision that:
>
> "Grantor(s) hereby irrevocably grants, bargains, sells, and conveys to Trustee in trust, . . . the following described property . . . together with all the tenements, . . .now or hereafter belonging or in any was appertaining, and the rents, issues, and profits of the property."

Class 2A 1st Mortgage - Ocwen Loan Servicing - Acct #xxxx3111. Secured first mortgage claim on real property located at 4891 Lovely Ln, Port Orchard, WA 98367, Kitsap Assessor No. 082302-2-038-2001. The value of the property per CMA, dated October 27, 2016, is $289,000. This value does not take into consideration the immediate need for new roofs on the residence and standalone garage to protect the structures. The cost to replace the roof on house is $20,208.20 and the garage is $8,643.30. Quotes for replacement attached as Exhibit "D". The value of the property has been reduced to $260,00 to reflect these costs. The Debtor intends to "cramdown" the amount of the mortgage to $260,000. Debtor will pay the principal amount of the mortgage, $260,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay an arrears amount of $15,500, in equal monthly payments, payable at 0.00% interest over the current remaining term of the loan. The total principal and arrears to be received by the creditor is $275,500, $15,500 more than the adjusted CMA valuation of the property. Impaired.

Class 2B 1st Mortgage – Gary A. Kuligowski, etc.. Secured first mortgage claim on property located at 132-134-136 Cambrian, Bremerton WA 98312 - Kitsap Assessor No. 3732-003-014-0007. The value of the property per CMA, dated October 27, 2016, is $350,000. The Debtor intends to "cramdown" the amount of the mortgage to $330,000. Debtor will pay the principal amount of the mortgage, $330,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $35,500 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $365,500, $15,500 more than the CMA valuation of the property. Impaired.

Class 2C 1st Mortgage - Ocwen acct # xxxx1831. Secured first mortgage claim on real property located at 1918-1920 N. Wycoff, Bremerton, WA 98312, Kitsap Assessor No. 102401-4-079-2003. The value of the property per CMA, dated October 27, 2016, is $229,000. The Debtor intends to "cramdown" the amount of the mortgage to $209,000. Debtor will pay the principal amount of the mortgage, $209,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $35,500 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $244,500, $15,500 more than the CMA valuation of the property. Impaired.

Class 2D 1st Mortgage – Seretus, Inc. acct # xxxx6006. Secured 1st mortgage claim on Debtor's rental property located at 4870-4878 Lovely Ln SE, Port Orchard, WA 98367. The value of the property per CMA, dated October 27, 2016, is $240,000. The Debtor intends to "cramdown" the amount of the mortgage to $220,000. Debtor will pay the principal amount of the mortgage, $220,000, at a fixed interest rate of 4.125%

---

[5] Except for the Cambrian property. The deed of trust on the Cambrian property contains a provision that: "Grantor(s) hereby irrevocably grants, bargains, sells, and conveys to Trustee in trust, . . . the following described property . . . together with all the tenements, . . .now or hereafter belonging or in any was appertaining, and the rents , issues, and profits of the property."

amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $35,500 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $255,500, $15,500 more than the CMA valuation of the property. Impaired.

Class 2E 1st Mortgage - Seretus, Inc. acct # xxxx6015. Secured 1st mortgage claim on Debtor's rental property located at 4871-4879 Lovely Ln SE, Port Orchard, WA 98367. The Debtor intends to make payments in accordance with the current loan modification. Unimpaired.

Class 2F 1st Mortgage - Seretus, Inc. acct # xxxx6033. Secured 1st mortgage claim on Debtor's rental property located at 4881-4889 Lovely Ln SE, Port Orchard, WA 98367. The value of the property per CMA, dated October 27, 2016, is $240,000. The Debtor intends to "cramdown" the amount of the mortgage to $220,000. Debtor will pay the principal amount of the mortgage, $220,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $35,500 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $255,500, $15,500 more than the CMA valuation of the property. Impaired.

Class 2G 1st Mortgage - SLS acct # xxxx8064. Secured 1st mortgage claim on Debtor's rental property located at 4901-4909 Lovely Ln SE, Port Orchard, WA 98367. The value of the property per CMA, dated October 27, 2016, is $240,000. The current mortgage balance is $203,500. The Debtor intends to repay the current balance of the mortgage. Debtor will pay the principal amount of the mortgage, $203,500, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $5,000 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $208,500, $10,410 less than creditor's claim. Impaired.

Class 2H 1st Mortgage – BSI Financial Services acct # xxxx0484. Secured 1st mortgage claim on Debtor's rental property located at 4911-4919 Lovely Ln SE, Port Orchard, WA 98367. The value of the property per CMA, dated October 27, 2016, is $249,000. The Debtor intends to "cramdown" the amount of the mortgage to $229,000. Debtor will pay the principal amount of the mortgage, $229,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $21,000 within 60 days of confirmation of the Plan of Reorganization. Debtor will retain $14,500 of what otherwise would have been paid in arrears to replace the roof. The total principal and arrears to be received by the creditor is $250,000, $1,000 more than the CMA valuation of the property and the property value will be improved by $14,500. Impaired.

Class 2I 1st Mortgage - Nationstar acct # xxxx7223. Secured 1st mortgage claim on Debtor's rental property located at 4931-4939 Lovely Ln SE, Port Orchard, WA 98367. The value of the property per CMA, dated October 27, 2016, is $235,000. The Debtor intends to "cramdown" the amount of the mortgage to $215,000. Debtor will pay the principal amount of the mortgage, $215,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum arrears amount of $35,500 within 60 days of confirmation of the Plan of Reorganization. The total principal and arrears to be received by the creditor is $250,500, $15,500 more than the CMA valuation of the property. Impaired.

Classes 2J, 2K and 2L 2nd Mortgages – Liberty Financial Group, Inc. a Washington corporation. Secured 2nd mortgage claim on Debtor's rental properties located at 4870-4878 Lovely Ln SE; 4871-4879 Lovely Ln SE; 4881-4889 Lovely Ln SE; and 4980 -4988 Lovely Ln SE (first mortgage foreclosed in June, 2015), Port Orchard, WA 98367.[6] Each of these second mortgages was in the amount of $32,213.04. Debtor

[6] Liberty Financial Group, Inc. also recorded a 2nd mortgage with respect to 4980-4988 Lovely Ln - Kitsap Assessor No. 082302-2-029-2002. This property was sold pursuant to a foreclosures sale and Debtor has no interest in the property. Debtor is filing an objection to this mortgage as well as objections to possible claims with respect to Classes 2J, 2K and 2L.

will object to any claim made under these trust deeds based upon the following:

As a condition of Debtor's continued employment with them, Liberty required that Debtor execute new loan documents for the first mortgages on all of these properties after they delayed the sale of the first mortgages to American Home Mortgage. Before they sold the loans to American Home Mortgage, that company filed for bankruptcy protection under Chapter 11. By that time, no other mortgage companies were willing to buy the first mortgages as structured. In order to sell the mortgages, they had to be restructured and new loan documents had to be executed. The restructured loans carried higher interest rates and shorter terms than the original loans, resulting in higher payments on each of Debtor's loans of $754.78 per month, a total of $3,019.12 per month.

Liberty had delayed the sale of the first mortgages to American Home Mortgage because the interest rates on the first mortgages were more than the interest rate they were then paying on their mortgage warehouse line of credit. In total, Liberty delayed the sale to American Home Mortgage of 31 first mortgages, including the four executed by Debtor. The loans not sold totaled more than $10,000,000. Liberty had to convince the borrowers to execute new restructured loan documents that would enable them to sell the mortgages. If they were unable to do that, their warehouse line of credit would be cancelled, which would likely cause the company to fail. In addition to executing new loan documents for her own first mortgages, Debtor was required to help convince her borrowers whose loans hadn't been sold to execute restructured documents. This was also a condition of Debtor's continued employment with Liberty.

To induce Debtor and the other borrowers to execute new loan documents, Liberty agreed to provide second mortgage lines of credit to each borrower with monthly advances equal to the increased amount of their payments on their new first mortgages. The term of each line of credit was four-years. It was expected that the mortgage industry would rebound during that four-year period, allowing Debtor and the other borrowers to refinance their first mortgages to combine the debt on the lines of credit with new first mortgages.

Liberty made advances of $754.78 on each Debtor's lines of credit for only seven months (a total of $3,019.12 per month for all four loans). On July 25, 2008, Liberty notified Debtor that they had decided to sell the company's assets to another mortgage bank, and that they were suspending the monthly advances on Debtor's lines of credit until the proceeds from the sale were released from escrow. On June 22, 2009, Liberty notified Debtor that they did not have the wherewithal to resume advances on the lines of credit. Liberty offered to forever forgive the balance due under the lines of credit and to cancel the related deeds of trust. On June 26, Debtor accepted Liberty's offer in writing. However, Liberty did not reconvey the deeds of trust.

Liberty Financial Group, Inc. is not now registered nor has it been registered with the Washington Secretary of State.

> As of May 12, 2008, Liberty Financial Group, Inc. was acquired by Guild Mortgage Company, Inc. Liberty Financial Group, Inc. operates a full-service mortgage bank that provides mortgage lending products and services in the United States. It offers various loan programs, such as fixed rate mortgage, intermediate ARM, construction loans, buy down mortgages, jumbo mortgages, first time home buyer loans, cash flow ARM, less than perfect credit, and federal housing administration home loans. The company was founded in 2001 and is based in Bellevue, Washington with branch locations in Alaska, Arizona, Colorado, Idaho, and Washington. [http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=13405422]

Debtor will object to any claim made on these mortgages.

Class 3A: Unsecured administrative priority claims allowed under §507(a)(2) of the Code. Debtor will pay the Class 3A Administrative Claims in an amount as approved by the court. To the extent the attorneys' fees exceed the net amounts deposited by Debtor and approved by the court, commencing the effective Date of

the Plan Debtor shall make equal monthly payments to amortize the amount owing for 36 months at five (5.00%) percent interest until the unsecured administrative priority claims have been paid in full.

Class 3B: General Unsecured Creditors – Personal Debts of the Debtor. The Liquidation Summary attached as Exhibit "G" shows that there would be no funds available to the General Unsecured Creditors upon liquidation of the estate. The Debtor will obtain a "new value" loan that will allow payment of $10,000 to the unsecured creditors within 60 days of confirmation of the Plan of Reorganization. Debtor is aware of only one (1) unsecured creditor, Specialized Loan Servicing, LLC.[7]

2. Classes of Priority Unsecured Claims

Certain priority claims that are referred to in §§ 507(a)(1), (2), (3), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment. Debtor is aware of only one claim (IRS) under §507(a) except §507(a)(2) administrative priority unsecured claims.

3. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (i.e., equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members. Finally, with respect to an individual who is a Debtor, the Debtor is the equity interest holder.

As the Debtor has filed as an individual, there are no classes of Equity Interest Holders.

D. New Value Contribution To Capital

The Debtor will obtain a "new value" loan in the sum of $10,000. This loan is repayable at 4.125% over a period of 7 years. This contribution is required so that Debtor can meet the costs of roof replacements and attorney fees. While Debtor has been able to meet the current repair costs[8] on the structures currently rented, with the record rains of October 2016 substantial roof leakage has occurred at 4891 Lovely Lane. Debtor has been able to have temporary repairs made, and within the next few months will need to make full replacement.

From the "new value" loan Debtor will use $10,000 to pay to the unsecured creditors. Currently there is only one unsecured creditor, Specialized Loan Servicing, LLC.

IV. CLAIMS OBJECTIONS

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

V. MEANS OF IMPLEMENTING THE PLAN

Debtor's sources of income come from Social Security benefits, from her father for the father's personal maintenance and care and from the rents received with respect to the various rental properties. The rental income is used primarily for payment of mortgages, taxes, maintenance and insurance for the rental properties. The payments to holders of Allowed Claims will be from 1) from the current rents after taxes, insurance,

---

[7] Claim No. 8-1 filed by Specialized Loan Servicing, LLC arose out of a delinquency on a second trust deed regarding foreclosure on 3731 & 3757 Aiken Rd, Port Orchard, WA.

[8] Including re-roofing the Lovely Lane properties, except for 4911-4919 Lovely Lane and 4891 Lovely Lane.

utilities and other costs related to the rental properties. The Debtor believes that she will be able to meet the obligations set forth in the Plan. [See Exhibit "B"]

VI. RISK FACTORS

The viability of the Plan has the risks associated with Debtor's leasing of various parcels of real property. As long as the rents from the properties continue in sufficient amounts to pay for the mortgage costs, real estate taxes, insurance and maintenance of each of the rental properties, which appears to be reasonably secure over the term of the Plan, the Debtor will be able to meet the terms and conditions of the Plan of Reorganization. Debtor's individual expenses will be met by her receipt of Social Security payments and income for care of her father, and some of the income from the rental properties. [See Exhibit "B"]

VII. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

Debtor is not in default on any of the property leases and will assume each of the Rental Property Leases for the real properties located at:

132-134-136 Cambrian, Bremerton WA 98312 - Kitsap Assessor No. 3732-003-014-0007

1918-1920 N Wycoff, Bremerton WA 98312 - Kitsap Assessor No. 102401-4-079-2003

4870-4878 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-027-2004

4871-4879 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-040-2007

4881-4889 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-039-2000

4901-4909 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-035-2004

4911-4919 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-034-2005

4931-4939 Lovely Ln, Port Orchard WA 98367 - Kitsap Assessor No. 082302-2-024-2007

VIII. CONSEQUENCES RELATED TO NON-APPROVAL OR APPROVAL OF THE PLAN

A. Consequences of approval of "The Plan"

In the event that the Plan is approved, all creditors will be paid in accordance with the terms of the Plan. All priority taxes will be paid in accordance with properly and timely filed proofs of claim.

B. Consequences of non-approval of "The Plan"

If the plan is not confirmed, the case may be dismissed or converted to a Chapter 7. Under such conditions nothing would be available for the unsecured creditors. [See Section X. Liquidation Analysis.]

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.

IX. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the Plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are <u>not</u> the only requirements listed in §1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Debtor believe that Classes 2A, 2B, 2C, 2D, 2F, 2G, 2H, 2I, and 3B are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan.

B. What Is an Allowed Claim or an Allowed Equity Interest?

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

NOTE: Each creditor was given notice of and was required to file its claim with the court within the time allowed for filing claims. The Bar Date for claims in this matter was March 15, 2016.

C. What Is an Impaired Claim or Impaired Equity Interest?

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

D. Who is Not Entitled to Vote

The holders of the following five types of claims and equity interests are *not* entitled to vote:

holders of claims and equity interests that have been disallowed by an order of the Court;
holders of other claims or equity interests that are not "allowed claims" or "allowed equity interests" (as discussed above), unless they have been "allowed" for voting purposes.
holders of claims or equity interests in unimpaired classes;
holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and to the Adequacy of the Disclosure Statement.

E. Who Can Vote in More Than One Class

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

F. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cram down" on non-

accepting classes, as discussed later in paragraph 2 below.

Votes Necessary for a Class to Accept the Plan

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

Treatment of Nonaccepting Classes

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a "cram down" plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation (except the voting requirements of § 1129(a)(8) of the Code), does not "discriminate unfairly," and is "fair and equitable" toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a "cramdown" confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

G. 11 U.S.C. 1129(a) Detailed Requirements

Set forth below are the specific requirements of 11 U.S.C. 1129(a)(1) through (15) together with Debtor's response as to the applicability of the provisions to the Plan of Reorganization as proposed. As to a number of the provisions, Debtor can only speculate as to creditor response.

11 U.S.C. 1129(a) detailed:

11 U.S.C. 1129(a)(1) The plan complies with the applicable provisions of this title.

- Debtor is of the belief that the Plan of Reorganization complies with the applicable provisions of the title.

11 U.S.C. 1129(a)(2) The proponent of the plan complies with the applicable provisions of this title.

- Debtor is of the belief that the Debtor as proponent of the Plan of Reorganization complies with the applicable provisions of the title.

11 U.S.C. 1129(a)(3) The plan has been proposed in good faith and not by any means forbidden by law.

- Debtor is of the belief that the Plan of Reorganization has been proposed in good faith and not by any means forbidden by law.

11 U.S.C. 1129(a)(4) Any payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in

connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.

- Debtor is of the belief that any payments by the Debtor for services or for costs and expenses in or in connection with the case, or in connection with the Plan of Reorganization and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.

11 U.S.C. 1129(a)(5)(A)(i) The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan; and

(ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and

(B) The proponent of the plan has disclosed the identity of any insider that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.

- Debtor is of the belief that the provisions of subsection (a)(5) are not applicable to this matter as the Debtor is an individual filing for relief under Chapter 11.

11 U.S.C. 1129(a)(6) Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

- Debtor is of the belief that the provisions of subsection (a)(6) are not applicable to this matter.

11 U.S.C. 1129(a)(7) With respect to each impaired class of claims or interests—

(A) each holder of a claim or interest of such class—

(i) has accepted the plan; or

- Debtor is of the belief that the provisions of subsection (a)(7)(A)(i) are not applicable to this matter as the Plan of Reorganization meets the standard set forth in (7)(A)(ii) in that each holders of claims in Classes 2A, 2B, 2C, 2D, 2F, 2G, 2H, 2I, 3A and 3B (unsecured creditors) will receive/retain an interest in the particular property that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of the bankruptcy code.

(ii) will receive or retain under the plan on account of such claim or interest property of a value, as of

the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of this title on such date; or

- Debtor is of the belief that the provisions of subsection (a)(7)(A)(ii) are applicable to this matter as the Plan of Reorganization in that each holder of claims in Classes 2A, 2B, 2C, 2D, 2F, 2G, 2H, 2I, 3A and 3B (unsecured creditors) will receive/retain an interest in the particular property that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of the bankruptcy code.

(B) if section 1111(b)(2) of this title applies to the claims of such class, each holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

- Debtor believes that subsection (a)(7)(B) is applicable to this matter. Each of the secured creditors Classes 2A through 2I having a secured lien on one of Debtor's properties "will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims." As to Class 2J, Debtor will be filling an objection to each of such claims.

11 U.S.C. 1129(a)(8) With respect to each class of claims or interests—

(A) such class has accepted the plan; or

- Debtor cannot comment as to the applicability of section (a)(8)(B), as the Plan of Reorganization has not been submitted to the creditors for a vote to accept or reject.

(B) such class is not impaired under the plan.

- Classes 2A, 2B, 2C, 2D, 2F, 2G, 2H, 2I, and 3B are impaired. Debtor cannot comment as to the applicability of section (a)(8)(B), as the Plan of Reorganization has not been submitted to the creditors for a vote to accept or reject.

11 U.S.C. 1129(a)(9) Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that—

(A) with respect to a claim of a kind specified in section 507 (a)(1) or 507 (a)(2) of this title, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;

- Debtor believes that the requirements of subsection (a)(9)(A) are not applicable to this matter as there are no claims as there are no claims of a kind specified in section 507 (a)(1) or 507 (a)(2).
- Debtor's attorneys have agreed to a payout schedule for their 507(a)(2) administrative claim balance in an amount as is unpaid as of the date of confirmation of the Plan of Reorganization.

(B) with respect to a class of claims of a kind specified in section 507 (a)(3), 507 (a)(4), 507 (a)(5), 507 (a)(6), or 507 (a)(7) of this title, each holder of a claim of such class will receive—

(i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim;

- Debtor believes that subsection (a)(9)(B)(i) and (ii) are not applicable to this matter as there are no claims of the kinds specified in section 507 (a)(3), 507 (a)(4), 507 (a)(5), 507 (a)(6), or 507 (a)(7).[9]

(C) with respect to a claim of a kind specified in section 507 (a)(8) of this title, the holder of such claim will receive on account of such claim regular installment payments,

(i) of a total value, as of the effective date of the plan, equal to the allowed amount of such claim

(ii) over a period not exceeding 5 years after the date of the order for relief under section 301,302, or 304; and

(iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b)); and.

- Debtor believes that subsection (a)(9)(C) is not applicable to this matter as there are no claims of the kind specified in section 507 (a)(8).

(D) with respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8), but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as prescribed in subparagraph (C).

---

[9] While Debtor maintains a bank account for tenants' security deposits, none of the current tenants have indicated that they are rescinding their leases or have made any claim for such deposits. Former tenants have received the balance on their deposits in accord with the terms of their leases.

- Debtor believes that subsection (a)(9)(D) is not applicable to this matter as there are no claims of the kind specified in section 507 (a)(8).

11 U.S.C. 1129(a)(10) If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, determined without including any acceptance of the plan by any insider.

- Debtor cannot comment as to the applicability of section (a)(10) as the Plan of Reorganization has not been submitted to the creditors for a vote to accept or reject.

11 U.S.C. 1129(a)(11) Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

- Debtor believes that the Plan of Reorganization is sufficiently strong that the Debtor will not need further financial reorganization. This belief is supported by the Debtor's income as projected for the term of the plan will be sufficient to meet the obligations of the Debtor under the plan.

11 U.S.C. 1129(a)(12) All fees payable under section 1930 of title 28, as determined by the court at the hearing on confirmation of the plan, have been paid or the plan provides for the payment of all such fees on the effective date of the plan.

- The fees payable by the Debtor have been paid or will be paid by the effective date of the Plan of Reorganization.

11 U.S.C. 1129(a)(13) The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of this title, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114 of this title, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

- Debtor is of the belief that the provisions of subsection (a)(13) are not applicable to this matter.

11 U.S.C. 1129(a)(14) If the debtor is required by a judicial or administrative order, or by statute, to pay a domestic support obligation, the debtor has paid all amounts payable under such order or such statute for such obligation that first become payable after the date of the filing of the petition.

- Debtor is of the belief that subsection (a)(14) are not applicable to this matter as there are no claim arising under §§507(a)(1)(A) and 507(a)(1)(B).

11 U.S.C. 1129(a)(15) In a case in which the debtor is an individual and in which the holder of an allowed unsecured claim objects to the confirmation of the plan--

(A) the value, as of the effective date of the plan, of the property to be distributed under the plan on account of such claim is not less than the amount of such claim; or

- Debtor cannot comment as to the applicability of section (a)(15)(A), as the Plan of Reorganization has not been submitted to the creditors for a vote to accept or reject. Under the Plan of Reorganization the "property" to be distributed to the unsecured creditors under the Plan is less than the amount of the claims. Thus Debtor believes that, if an unsecured creditor votes against the Plan, the provisions of subsection (a)(15)(A) would not be applicable to this matter.

11 U.S.C. 1129(a)(15)(B) the value of the property to be distributed under the plan is not less than the projected disposable income of the debtor (as defined in section 1325(b)(2)) to be received during the 5-year period beginning on the date that the first payment is due under the plan, or during the period for which the plan provides payments, whichever is longer.

- The Debtor's sources of income are Social Security, rental income and funds received for caring for her invalid father. Debtor's Social Security income is not to be included projected disposable income.[10] Income from caring for her father reimburses her for the costs of that service and Income from rents would be part of the projected disposable income. Exhibit "B" analyzes all of Debtor's income and expenses and projects that the Debtor's net income would be approximately $167 per month. The analysis includes Debtor's Social Security income. Removing Debtor's Social Security income from the equation would give a projected disposable income of a negative $1,660 per month. Therefore the Debtor, under the code, has no projected disposable income. The analysis does not reflect months when any of the rental units might be vacant.

11 U.S.C. 1129(a)(16) - All transfers of property of the plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust.

Debtor is of the belief that the provisions of subsection (a)(16)(B) are not applicable to this matter as the Debtor is an individual and no property, other than cash, is being distributed under the Plan of Reorganization.

---

[10] 11 U.S.C. § 101(10A) The term "current monthly income"-- (B) that reads in part: ". . . but excludes benefits received under the Social Security Act, ..."

11 U.S.C,1129(b)(1) - Notwithstanding section 510(a) of this title, if all of the applicable requirements of subsection (a) of this section other than paragraph (8) are met with respect to a plan, the court, on request of the proponent of the plan, shall confirm the plan notwithstanding the requirements of such paragraph if the plan does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan.

H. 11 U.S.C. 1129(b) Detailed Requirements

Debtor believes that the requirements of subsection 11 U.S.C. 1129(b)(1) have been met under the Plan of Reorganization as discussed below.

(2) For the purpose of this subsection, the condition that a plan be fair and equitable with respect to a class includes the following requirements:

(A) With respect to a class of secured claims, the plan provides—

(i) (I) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and

(II) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;

If one class of claims approves the Plan of Reorganization then the Plan of Reorganization meets the requirements of 11 U.S.C. 1129(b)(2)(i) as each of the secured creditors retains its liens securing such claims and receives an amount greater than the value of the liquidation value of the property and a cramdown of the creditor claim is effective under 11 U.S.C. 1129(a)(10).

(ii) for the sale, subject to section 363(k) of this title, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (i) or (iii) of this subparagraph; or

Section 11 U.S.C. 1129(b)(2)(ii) is not applicable to this matter.

(iii) for the realization by such holders of the indubitable equivalent of such claims.

Section 11 U.S.C. 1129(b)(2)(iii) is not applicable to this matter.

(B) With respect to a class of unsecured claims—

(i) the plan provides that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property, except that in a case in which the debtor is an individual, the debtor may retain property included in the estate under section 1115, subject to the requirements of subsection (a)(14) of this section.

11 U.S.C §1129(b)(2) sets forth criteria that must be met in order for a plan to be considered fair and equitable as to a dissenting class of unsecured claims. Specifically, §1129(b)(2)(B) requires that the plan satisfy the "absolute priority rule." Under this rule, either (i) the plan must provide for payment in full of the allowed amount of the unsecured claims in the dissenting class, or (ii) the holder of any claim or interest junior to the dissenting class (i.e., equity owners in the debtor) may not receive or retain property on account of such claim or interest.

The Debtor by obtaining a $10,000 loan:

> "falls within the "new value exception" to the absolute priority rule. Under the new value exception, equity may retain an interest in a reorganized debtor over the objection of a class of creditors whose claims are not paid in full, in exchange for a fresh contribution of new capital. See In re Bonner Mall P'ship, 2 F.3d 899, 909 (9th Cir. 1993); Grandfather Mtn. Limited P'ship, 207 B.R. at 492. A plan that meets the new value exception does not violate §1129(b)(2)(B)(ii) because it does "not give old equity property on account of' prior interests, but instead will allow the former owners to participate in the reorganized debtor on account of a substantial, necessary, and fair new value contribution." In re Bonner, 23 F.3d at 909."[11]

> "The five requirements of new value' are that it be "1) new, 2) substantial, 3) money or money's worth, 4) necessary for a successful reorganization and 5) reasonably equivalent to the value or interest received." Id."[12]

1) New: The $10,000 the Debtor is borrowing is certainly "new" money.

2) Substantial: The $10,000 is the only source of funds to pay administrative expenses. Administrative expenses must be paid as a condition of confirmation. While the Debtor has some money in bank accounts, those funds are necessary to operations. With residential rental properties the Debtor must retain funds for contingencies as vacant rental units and unit upkeep and maintenance. Nor can the Debtor fund attorney fees from a secured creditor's collateral.[13]

While $10,000 may be small compared to the outstanding unsecured debt, the infusion of $10,000 is significant to a small individual generally limited in its cash resources. As of Debtor's September monthly report, the Debtor has only $14,337.69 available in bank accounts. The other amounts retained in Debtor's bank accounts were either cash collateral rent receipts or tenant deposits, neither of which can be used by the Debtor to pay unsecured creditors or administrative costs. The Debtor is of modest means, subsisting on her Social Security income, rents from the properties,[14] and a small stipend for care for her aged father.

3) Money or money's worth: The borrowing to contribute to the estate is certainly new money.

4) Necessary for a successful reorganization: The equity contribution serves a necessary function in this particular case. See discussion re Substantial above.

5) Reasonably equivalent to the value or interest received: What is being purchased with $10,000 is nothing more than the right to control a small family business that has no net asset value. On these facts, the new value is substantial.

Courts have held that the absolute priority rule is violated by a plan

---

[11] In re: RTJJ, Inc. Case No. 11-32050, Charlotte Division, Western District of North Carolina.
[12] Id.
[13] In re 680 Fifth Ave. Assocs., 154 B.R. 38, 43 (Bankr. S.D.N.Y. 1993).
[14] The majority of the rents make payments on the properties, including property taxes, insurance, upkeep and maintenance.

> "provision for vesting equity in the reorganized business in the Debtor's partners without extending an opportunity to anyone else either to compete for that equity or to propose a competing reorganization plan." (emphasis added). Bank of Am. Nat. Trust and Sav. Ass'n v. 203 N. LaSalle St. P'ship, 526 U.S. 434, 436 (1999). Because "no one else could propose an alternative" plan, "the Debtor's partners necessarily enjoyed an exclusive opportunity that was in no economic sense distinguishable from the advantage of the exclusively entitled offeror or option holder." Id. at 455. [15]
>
> However, when exclusivity has expired and there is no option value to the right to propose a plan, the value of the property being retained should be determined based on normal valuation basis (i.e., the balance sheet of the reorganized debtor or by capitalizing its projected income). In re Red Mountain Mach., 448 B.R. 1, 18 (Bankr. D. Ariz. 2011). [16]

Exclusivity in this matter expired many months ago. Debtor filed a voluntary petition for relief under chapter 13 of the Bankruptcy Code on July 15, 2015 which was subsequently converted to a case under chapter 11 on October 19, 2015. The exclusivity period provided under 11 U.S.C. 1121(b) is 120 days. After the 120 period, any party could have filed a competing plan that proposed a different ownership of the business. No one has done so, and no one has suggested there is retained value in the estate in excess of $10, 000. Debtor has obtained, with approval of the court, a market analysis of the value of the retained properties. No one has offered any evidence to support net valuation of the estate is greater than $0.00.

Therefore Debtor believes that the absolute priority rule will not apply in this case under the plan of reorganization as proposed.

X. LIQUIDATION ANALYSIS

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation value of the estate. The pre-bankruptcy source of funds for the Debtor came from the Social Security income, rental income and for services rendered to her father.

The total value[17] of Debtor assets is approximately $2,572,900, $2,311,000 in real property and $261,940 in personal property. The secured claims against those assets total $2,857,000, with approximately $2,613,500 in claims secured by real property and approximately $243,400 in claims secured by personal property (bank accounts for cash collateral rents and tenant security deposits). Total unsecured debt is $450,080 including Schedule D of $354,128 and Schedule F or $95,952. Debtor's exemptions total $16,383. Liquidation analysis shows that unsecured creditors would receive 4.48 percent of the $450,080 in unsecured debt. [See Exhibit "D" - Liquidation Summary.]

The total distribution to the unsecured creditors under the Plan of Reorganization would be $10,000. The under secured creditors are subject to a "cramdown" of their claims pursuant to the Plan of Reorganization. Under the "cramdown" and lump sum payment of arrears these under secured creditors will be receiving more than they would receive under liquidation. The $10,000 "new money" will be paid to Specialized Loan Servicing with respect to the 2nd TD delinquency in the foreclosure of 3731 & 3757 Aiken Rd.

XI. FEASIBILITY

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation

---

[15] In re: RTJJ, Inc. Case No. 11-32050, Charlotte Division, Western District of North Carolina.
[16] Id.
[17] Value of the Estate is based upon Debtor's September monthly report.

or reorganization is proposed in the Plan.

A. Ability to Initially Fund Plan

The Debtor believes that the Debtor will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date.

B. Ability to Make Future Plan Payments And Operate Without Further Reorganization

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments.

The Debtor has provided herewith projected financial information for the Plan of Reorganization. [See Exhibit "B".]

You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.

XII. EFFECT OF CONFIRMATION OF PLAN

A. Discharge Of Debtor

Discharge. Confirmation of the Plan does not discharge any debt provided for in the Plan until the court grants a discharge on completion of all payments under the Plan, or as otherwise provided in §1141(d)(5) of the Code. Debtor will not be discharged from any debt excepted from discharge under §523 of the Code, except as provided in Rule 4007(c) of the Federal Rules of Bankruptcy Procedure.

B. Modification Of Plan

The Debtor may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or re-voting on the Plan.

The Debtor may also seek to modify the Plan at any time after confirmation if (1) the Plan has not been substantially consummated and the Court authorizes the proposed modifications after notice and a hearing or (2) circumstances relating to Debtor's financial condition indicate that such modification will substantially benefit the estate and the creditors and the Court authorizes the proposed modifications after notice and a hearing.

XIII. CREDITOR COMMUNICATION – CONTACT PERSON

Each creditor will provide to the Debtor a "Contact Person", including name, address and direct telephone number to facilitate implementation of the Plan of Reorganization. Such contact person shall have direct authority from creditor to communicate with Debtor regarding amounts due under the Plan, payments under the Plan, payment address, balances, etc. No payments will be made to creditor until such "Contact Person" is designated by the creditor. If no "Contact Person" is designated by a creditor, the amounts to be paid to such creditor under the plan will be paid into a trust/escrow account to be held for the creditor until it designates the "Contact Person". No interest will accrue or be paid on amounts held in escrow or upon the underlying debt until such "Contact Person" is designated. Creditor shall give Debtor 30 day written notice of any change in the "Contact Person."

XIV. FINAL DECREE

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Debtor, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

The Reorganized Debtor may apply for an order closing the case for administrative purposes, while

retaining the right to reopen the case at a later date to file a final report and obtain an order of discharge. Any such application for an order closing the case for administrative purposes by the Reorganized Debtor shall include a certification by the United States Trustee that the quarterly fees payable pursuant to 28 U.S.C. have been paid in full.

/s/ Karen Ilene Carter
KAREN ILENE CARTER

Approved

/s/ Jerry Cahan
David Carl Hill, WSBA #9560
Jerry Cahan, WSBA #41675
Attorneys for Debtor