

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**

as of June 30, 2016

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## 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 \_\_\_\_\_, 2016 as providing adequate disclosure. The date set for a hearing on the acceptance of the Plan of reorganization is October 21, 2016, 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 October 14, 2016 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:

1. The Debtor and significant events during the bankruptcy case,
2. 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),
3. Who can vote on or object to the Plan,
4. What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan,
5. 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
6. 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 October 21, 2016, 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 October 14, 2016 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, October 17, 2016 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 statement 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 – 12/31/07: 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 following the mortgage industry crash in August 2007, loan volume dropped significantly, causing Liberty to close their Silverdale office at the end of 2007.

11/1/08 – 8/31/09: 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 early 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. .

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.

#### 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 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	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.

### C. 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 120<sup>th</sup> 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.



#### D. Plan of Reorganization

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 by the end of August.<sup>1</sup> 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 three (3) years.<sup>2</sup>

#### E. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in Schedules filed with Debtor's petition for bankruptcy protection.

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].

#### F. 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

<sup>1</sup> The Plan of Reorganization provides that certain accrued funds held by the Debtor from rent receipts will be used to replace the roofs. [Discussed under Section III, Paragraph C, Subparagraph 1 – Class 1A.]

<sup>2</sup> The Plan of Reorganization provides \$3,000 per month to be set aside for these maintenance costs.

### 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 1** 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)).

**Class 1A** Arrears Payments — From prior to filing for bankruptcy protection Debtor has set aside funds received from the rents, less for property operating costs [property management, maintenance and repairs] for the individual properties [Arrears Fund]. Upon confirmation of the Plan of Reorganization the Arrears

Fund, adjusted to the date of confirmation of the Plan of Reorganization, will be used for a lump sum cash payment [“Arrears Payment”] on the then current arrears associated with each property. The amount of the payment will be determined as follows:

From the Arrears Fund for each property an amount will be deducted as a reserve for unscheduled maintenance with respect to each property and an amount will be deducted for known maintenance/repairs required within 90 days of confirmation of the Plan of Reorganization to result in the Arrears Payment. Exhibit “C” sets forth the Arrears Payment Calculations for the period ending May 31, 2016. These calculations will be adjusted upon approval of the Plan of Reorganization to reflect the amounts as of the date of the confirmation of the Plan of Reorganization. The balance of the Arrears for each property will be paid over the remaining term of the loan for each property.

**Class 2A** 1<sup>st</sup> 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 is less than the amount of the first mortgage plus the arrears. 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 amount toward the arrears as determined in **Class 1A**. Debtor will pay the balance of the arrears at 0.00% interest over the current remaining term of the loan. Impaired.

**Class 2B** 1<sup>st</sup> 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 is less than the amount of the first mortgage plus the arrears. The Debtor intends to “cramdown” the amount of the mortgage to \$300,000. Debtor will pay the principal amount of the mortgage, \$300,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears at 0.00% interest over the current remaining term of the loan. Impaired.

**Class 2C** 1<sup>st</sup> 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 is less than the amount of the first mortgage plus the arrears. The Debtor intends to “cramdown” the amount of the mortgage to \$120,000. Debtor will pay the principal amount of the mortgage, \$120,000, at a fixed interest rate of 4.125% be amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**Class 2D** 1<sup>st</sup> Mortgage – Seretus, Inc. acct # xxxx6006. Secured 1<sup>st</sup> mortgage claim on Debtor’s rental property located at 4870-4878 Lovely Ln SE, Port Orchard, WA 98367. The value of the property is less than the amount of the first mortgage plus the arrears. The Debtor intends to “cramdown” the amount of the mortgage to \$200,000. Debtor will pay the principal amount of the mortgage, \$200,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1 A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**Class 2E** 1<sup>st</sup> Mortgage - Seretus, Inc. acct # xxxx6015. Secured 1<sup>st</sup> 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** 1<sup>st</sup> Mortgage - Seretus, Inc. acct # xxxx6033. Secured 1<sup>st</sup> mortgage claim on Debtor’s rental property located at 4881-4889 Lovely Ln SE, Port Orchard, WA 98367. The value of the property is less than the amount of the first mortgage plus the arrears. The Debtor intends to “cramdown” the amount of the mortgage to \$200,000.00. Debtor will pay the principal amount of the mortgage, \$200,000, at a fixed interest

rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**Class 2G** 1<sup>st</sup> Mortgage - SLS acct # xxxx8064. Secured 1<sup>st</sup> mortgage claim on Debtor's rental property located at 4901-4909 Lovely Ln SE, Port Orchard, WA 98367. The value of the property is less than the amount of the first mortgage plus the arrears. The Debtor intends to "cramdown" the amount of the mortgage to \$200,000. Debtor will pay the principal amount of the mortgage, \$200,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**Class 2H** 1<sup>st</sup> Mortgage – BSI Financial Services acct # xxxx0484. Secured 1<sup>st</sup> mortgage claim on Debtor's rental property located at 4911-4919 Lovely Ln SE, Port Orchard, WA 98367. The value of the property is less than the amount of the first mortgage plus the arrears. 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. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**Class 2I** 1<sup>st</sup> Mortgage - Nationstar acct # xxxx7223. Secured 1<sup>st</sup> mortgage claim on Debtor's rental property located at 4931-4939 Lovely Ln SE, Port Orchard, WA 98367. The value of the property is less than the amount of the first mortgage plus the arrears. The Debtor intends to "cramdown" the amount of the mortgage to \$200,000. Debtor will pay the principal amount of the mortgage, \$200,000, at a fixed interest rate of 4.125% amortized over the current remaining term of the loan. Debtor will pay a lump sum amount toward the arrears as provided in **Class 1A**. Debtor will pay the balance of the arrears due at time of Plan confirmation at 0.00% interest over the current remaining term of the loan. Impaired

**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 "D" shows that there are no funds available to the General Unsecured Creditors.

## 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.

#### **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**

The source of payments to holders of Allowed Claims shall be from 1) Based upon the current rents, taxes, insurance, utilities and other costs, the Debtor believes that she will be able to meet the obligations set forth in the Plan. [See Exhibit "B"]

Debtor's source of income for personal expenses comes from Social Security benefits and from her father for the father's personal maintenance and care. Payment of mortgages, taxes, maintenance and insurance for the rental properties comes from the rent received by the individual properties.

#### **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.

#### **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 not 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:

1. holders of claims and equity interests that have been disallowed by an order of the Court;
2. 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.
3. holders of claims or equity interests in unimpaired classes;
4. holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code;

and

5. 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.

1. 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.

2. 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.***

**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 earnings of Debtor.

The total value of Debtor assets is approximately \$1,854,299 in real property and \$220,793 in personal property. Against those assets are approximately \$2,195,790 in "secured" claims, \$100 in unsecured priority claims, \$451,564 in general unsecured claims and \$16,383 in exemptions. The value of Debtor's real property as listed in her petition is \$1,854,299 against which there is \$1,851,168 in claims leaving \$3,133 unsecured. From prior to filing for bankruptcy protection Debtor has set aside funds received from the rents, less for property operating cost for the individual properties [See Class 1A, Arrears Fund]. Pursuant to the mortgages,

the secured creditors maintain a lien on the rents received from the properties secured by the mortgages. Currently the total arrearages owed are approximately \$287,300. The balances in the bank accounts holding the rent receipts is approximately \$190,000. [See Exhibit "C" for estimated distributions.] The total general unsecured claims (including unsecured portion of the secured claims) is approximately \$1,185,630. Most of the unsecured debt arises from the unsecured portion of the secured claims at approximately \$733,965, followed by the IRS claim of \$355,611.56 and finally the SLS general unsecured claim of \$95,952 arising out of deficiency on a foreclosure. Debtor will be filing an objection to the IRS claim as newly prepared and updated tax returns show that there is no debt to the IRS. Currently there are no other unsecured creditor claims. Total distribution to the unsecured creditors after estimated Chapter 7 Administrative expenses would be \$0.00 based upon the estate condition at the time of filing of the Petition. [See Exhibit "D" - Liquidation Summary.]

## **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 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