ML MANAGER LLC
14050 N.83rd Ave., Suite 180
Peoria, AZ 85381

September 28, 2010

ML MANAGER LOAN PORTFOLIO NEWSLETTER #12

Dear Investors:

I would like to update you on the significant events since our last newsletter.

<u>Potential Tax Deduction Due to Potential Theft Loss</u>

As reported in prior newsletters, we have retained the international accounting firm of PricewaterhouseCoopers LLC ("PwC") to provide advice regarding potential tax strategies relating to fraudulent activities. We are nearing the October 15th deadline for filing amended tax returns and would like to take this opportunity to update you about PwC's work and to urge you to discuss this situation with your professional tax advisors.

In 2009, the Internal Revenue Service ("IRS") issued Revenue Procedure 2009-20, which provides a safe harbor for the deduction of certain theft losses. The Revenue Procedure requires that certain elements be satisfied before the safe harbor may be used. If it is determined that the safe harbor for a theft loss is applicable an individual might be able to deduct the amount of loss against ordinary income in the current and, potentially, prior tax years without an annual limit on the amount of the deduction. This could be an extremely valuable tax deduction for many investors.

Because it was unclear whether investors in Mortgages Ltd. met the required elements, PwC contacted the IRS national office to discuss the applicability of the safe harbor to losses sustained by Mortgages Ltd. investors. Thereafter, PwC submitted initial written information to the IRS and met with various IRS personnel regarding this issue on September 14, 2010. At that meeting, the IRS stated that it is unclear that losses sustained by Mortgages Ltd. investors could be deducted under the safe harbor provided by Revenue Procedure 2009-20 as it is currently drafted. Despite the lack of certainty, it was a positive meeting and the following day, the IRS invited a representative investor to submit a request for a private letter ruling on the matter so the IRS could formally consider the question. The overall tenor of the meeting and the speed with which the IRS invited a ruling request provides a reasonable hope that a positive ruling could be issued.

A representative investor was identified and the ruling request is being prepared for submission to the IRS within the few days. Although not binding on the IRS with respect to all Mortgages Ltd investors, the ruling, once issued by the IRS, will provide investors and their respective tax advisors with definitive guidance on whether the IRS believes Mortgages Ltd. theft losses can be deducted under the safe harbor. These rulings, even though private, are published by the IRS with identifying information redacted.

Unfortunately, the IRS is not required to provide its ruling before October 15th. Therefore, investors should consult with their tax advisors as to positions to be taken on their 2009 calendar year returns. ML Manager LLC cannot and will not provide tax advice to individual investors. We have been informed that some tax advisors have advised investors to take the theft loss on their 2009 tax returns, but delay filing for a refund of previous years' taxes until a positive ruling is obtained from the IRS. We are also informed that some advisors believe that this may be the required action in order to obtain the "extended 5-year carryback" only available for 2009 tax returns. We have also learned that some tax advisors are advising investors to file their 2009 tax return without taking the theft loss, but file an amended return if and when a positive ruling is obtained. Your tax advisor may want to evaluate whether doing so will cause the investor to lose the ability to take advantage of the "extended 5-year carryback" discussed above. It appears that a careful review by a qualified tax professional of the relevant provisions of the IRS Code and IRS Revenue Procedure 2009-52 in particular would be prudent. **The foregoing is not to be construed by any investor as tax advice and we strongly urge each of you to seek professional tax advice on this matter.** ML Manager LLC is not going to issue amended K-1 tax returns for either the Loan LLCs or the MP Funds prior to October 15th and, depending upon the recommendations of PwC and the actions of the IRS, may never amend the K-1 tax returns. We will keep you informed of further developments.

<u>Allocation of Expenses to Each Loan</u>

The ML Manager LLC Board has approved a process or so-called "Allocation Model" that allocates the costs of the Mortgages Ltd bankruptcy and the post-confirmation operating costs to the loans and investors in a fair, equitable and non-discriminatory manner. On September 21, 2010, the Bankruptcy Court approved the "Allocation Model". This was an extremely important step as it will allow us to make distributions to investors as properties are sold. We need to advise you, however, that although the Court has approved the cost Allocation Model, there still may be some questions the Court will need to address. For example, the Court may choose to consider whether certain costs should be characterized as a "general" cost, or a cost attributable to a specific loan or some other way. The ML Manager LLC Board is hopeful that it will be able to make payments to substantially reduce or eliminate the Exit Finance loan and begin to distribute money to investors in the near future.

The basis of the Allocation Model approved by the ML Manager LLC Board and the Bankruptcy Court is that all investors will pay a proportionate share of all the costs and expenses in a fair, equitable and non-discriminatory manner. A few groups opposed this concept and tried to argue that they did not have to pay their share of all of the costs. The Court rejected these arguments.

This means that investors whose interests are held by a Loan LLC are not treated better or worse than pass-through investors who did not transfer their interests into Loan LLCs. Although all investors are to be treated essentially the same, the Plan of Reorganization contained some distinctions between the members of the Loan LLCs and the pass-through investors. The primary distinction is that 70% of the net sales proceeds that would otherwise be largely paid to the members of the Loan LLCs are used to pay off the Exit Finance loan. This was a requirement in order to obtain the Exit Loan and emerge from bankruptcy. The pass-through investors do not have any of their funds diverted to pay off the Exit Finance Loan. As compensation for having their funds diverted the members of the Loan LLCs receive interest at an annual rate of 17.5% on the funds that they have to wait to receive. The diverted funds will be repaid to the members of the Loan LLCs periodically as the other loans pay their share of expenses by selling properties or otherwise.

The ML Manager LLC Board has attempted to be conservative in the allocations of costs in order to minimize the risk that there will not be sufficient funds to fully repay the diverted funds back to the members of the Loan LLCs. Please keep in mind that this distinction merely relates to the timing of cash payments and does not affect the amount of costs borne by groups of investors. **All investors are allocated their appropriate share of expenses and there is no discount to either pass through investors or members of the Loan LLCs.**

In connection with the Allocation Model, ML Manager LLC retained a Certified Public Accountant, Peter Davis, to create spreadsheets and schedules to reflect the operation of the decisions made in the Allocation Model. These spreadsheets and schedules contain the basic assumptions of the Allocation Model. It could be extremely detrimental to the operations of ML Manager LLC if the information contained in these spreadsheets and schedules were disclosed to the borrowers or potential purchasers of our properties. For this reason, the Bankruptcy Court issued a Protective Order that maintains the spreadsheets and schedules as confidential. The Court did provide, however, that if an investor wants to review the spreadsheets or schedules, the investor can sign a confidentiality agreement and inspect the information at the offices of Fennemore Craig, P.C. If you would like to review the confidential information, you may make arrangements to do so by contacting Keith Hendricks at 602-916-5430 or by email at khendricks@fclaw.com.

Zacher – Missouri (Loan 857502)

The sale of this property was successfully consummated on September 21st for $2,112,000. A payment in the amount of $842,216.17 was made to reduce the balance of the Exit Finance loan. We look forward to distributing the available proceeds to the investors in the near future as describe in the proceeding section of this newsletter.

City Lofts (Loan 860806)

The sale of this property was successfully consummated on September 28th for $1,925,000. A payment in the amount of $864,881.44 was made to reduce the balance of the Exit Finance loan. Again, we look forward to distributing the available proceeds to the investors in the near future.

Osborn III/Ten Wine Lofts (Loan 851106)

A Sale Agreement for this project in central Scottsdale has been signed by the ML Manager LLC Board with a purchase price of $19,500,000. The buyer has been performing its due diligence for the past few weeks and its $2,000,000 of earnest money is scheduled to become non-refundable on September 29th. Ballots have been sent to the investors in the Osborn III Loan LLC. A group of the Rev Op investors has filed an objection to the sale. We will ask the Bankruptcy Court to overrule the objection at a hearing at the Bankruptcy Court scheduled for 2:30 on September 28th. The closing of the sale is scheduled for about October 15th.

VTL

In accordance with the confirmed plan of reorganization, ML Manager LLC is not the current manager for the VTL I, LLC. Mr. David Birdsell is the proposed successor manager and a vote is currently being held to officially appoint Mr. Birdsell. All questions and requests for information should be directed to Dale Schian with Schian Walker in Phoenix, Arizona by phone at 602-277-1501.

If you have any questions, do not hesitate to contact Karen Epstein at 480-948-6777 or kme818@cox.net or Erica Jacob at ejacob@mtgltd.com or 623-234-9569 for further assistance. Thank you for your support of our efforts.

Best Regards,

Elliott Pollack
Chairman
ML Manager LLC Board