ML Manager Loan Portfolio Newsletter #16

April 1, 2011

Dear Investors,

A few of you may have received an email this week from a Rev-Op investor Bill Hawkins and we want to address some of the misinformation and concerns expressed in the email. We have addressed these issues in prior newsletters but we believe it would be useful to remind you of the discussions and process.

The ML Manager Board is a well functioning board that takes its responsibilities seriously. The 5 members of the Board are investors in the loans just like you. We have met almost weekly for the last 22 months. Like other boards managing large loan portfolios, we rely upon advice from counsel, accountants, brokers, experienced real estate advisors and consultants. We have hired a number of independent professionals, as needed, and do not rely on one group or law firm for advice. We review all the available information and make our own reasoned business decisions. Almost all of our decisions have been unanimous. No one member controls the decisions and there is a respectful dialogue as the issues are discussed and decided. We spend hours every week serving in the capacity as Board members. If an action item is a Major Decision (such as a sale), we ask the investors in the Loan LLCs to vote on our recommendations. So far there have been 21 ballots on Major Decisions. Every vote to date has passed and almost all have passed by over 85%. This is an important check and balance that was put into the Plan to counter the concerns of investors that Mortgages Ltd. gave them no voice. All investors were given the opportunity to transfer their interests into the Loan LLC for that loan. Most investors made that transfer and have the right to vote on Major Decisions. Some investors did not transfer in and therefore ML Manager under the Agency Agreement makes the decision for them. ML Manager tries to exercise its best business judgment to do what is right for all investors.

Many times during the last 22 months we have asked the Bankruptcy Court to review and approve the decisions of the ML Manager Board on sales and settlements. In some instances, certain investors (mostly Mr. Hawkins' 8 entities and the other 5 Rev-Op investors in the group) have objected and the Bankruptcy Court has held hearings and considered their objections, some times in great detail, and so far in every situation has overruled the objections. The Bankruptcy Court has ruled repeatedly that ML Manager has exercised its best business judgment consistent with its fiduciary duties.

Everyone is aware that real estate values are significantly lower than 3-4 years ago, but it is our goal to maximize the sale prices we obtain for the properties. We have retained the top real estate professionals to insure that the properties are fully and appropriately marketed with the goal of obtaining the best prices available. Mr. Hawkins cites two sales within the vicinity of two of our properties that sold for higher values than our properties. Since Mr. Hawkins holds himself out as an experienced real estate investor he must be aware that just because properties are in the same proximity doesn't mean they have the same values. The real estate professionals representing us are well aware of the sales cited by Mr. Hawkins and many additional comparable sales. Any insinuation that we are selling properties for less than market value is plainly wrong. Mr. Hawkins has been provided with all of the marketing information he has requested for the available properties and he has yet to produce any buyers willing to pay more for the properties than our representatives have produced. The Bankruptcy Court in each instance has expressly found that the sale prices we have

obtained were fair market value and represented fair consideration for the property. The buyers have all been unrelated entities and the deals were arm's length.

We are not going to be able to sell the properties for the same amounts that Mortgages Ltd. loaned on the properties. Unfortunately, Scott Coles loaned more money on the properties than was justified. Additionally, the loan amounts were increased so that substantial fees could be paid to Mortgages Ltd. Furthermore, some borrowers were allowed to use loan proceeds for purposes unrelated to the properties, so the amounts loaned were often not used to enhance the value of the properties. The University & Ash property is a prime example of the way Mortgages Ltd. operated. The loan amount was $30,000,000. At the closing, fees in the approximate amount of $10,000,000 were paid to Mortgages Ltd. Additionally, it appears that millions of dollars of the loan proceeds were used by the borrower on different properties and did not benefit the University & Ash property at all. The reality is that the University & Ash property was never worth anything close to $30,000,000 and it will not be possible to recover all of that money. According to the testimony in the Bankruptcy proceeding, the property was originally purchased for $4 million at the height of the real estate market. Because the property was never improved, it is simply not worth more. The marketing efforts of our real estate brokers produced several good offers and after a few rounds of asking the potential buyers to increase their offers, we accepted a price of $3,240,000. We are sorry that we are not able to recoup all of the investors' money from this loan, but we take offense at Mr. Hawkins' insinuation that we are selling the property at a below market price.

The Bankruptcy Court acknowledged that the Plan of Reorganization, the necessary borrowing of funds, high interest rates and loan fees, real property taxes and other holding costs dictate that properties need to be sold in the near term. The Plan of Reorganization did not provide ML Manager with the option of becoming long term speculators on the future values of real estate. Significant carrying costs, including interest accruing at 17.5%, unpaid property taxes accruing interest at 16% and loan fees of $600,000 or more every six months, require ML Manager to attempt to sell the properties for the best possible prices in the short term.

ML Manager Board has tried to be open and transparent to the investors throughout this process. The newsletters, ballots and other email communications have provided detailed information as appropriate for the circumstance. The pleadings and newsletters are all posted on the website for investors to review whenever they want (www.mtgltd.com).
Throughout the process to transfer into the Loan LLCs, the Allocation Model process, the process to transfer into a Roth IRA, we or our professionals held numerous meetings and telephone conferences with investors. We have made an effort to communicate with the investors on a regular basis and to provide the best available information possible. However, as you are well aware some information needs to be kept confidential and cannot be shared with borrowers and buyers of assets. Thus some of the information has been handled in a manner consistent with those requirements.

For example, with the Allocation Model, in September 2010 we had the Bankruptcy Court approve a confidentiality agreement and enter an order to protect the information from dissemination yet meet the need for investors to see it and review it with the accountant and lawyer who assisted in its preparation. The reason that this needed to be done was because the Allocation Model contains very conservative assumptions as to what the various properties might sell for. Because the purpose of the Allocation Model was to make sure that enough money could be collected to pay the necessary costs, it was important that those assumptions were very conservative. So obviously we do not want buyers to know what those assumptions are. Many investors signed confidentiality agreements and came to

review the information. Once properties are sold we have made the model as it applies to that sold property available for inspection on the website to the investors. This process is working because when we actually are ready to sell and have potential buyers interested, we have been able to negotiate in almost every case a substantially higher sale price than the initial conservative assumptions provided.

As you know from prior emails, the issues tend not to be simple but are complex and require resourceful resolutions. As we all now know, Mortgages Ltd. was a hard money lender and made risky loans. Also most of the loans were concentrated with 9 borrowers who were themselves known for being difficult borrowers. By the time we took over from the Debtor all but 5 loans were in default. We have had to make demand for payment, schedule trustees sales, sue on guaranties, fight for your rights in borrower bankruptcies, and list and negotiate sales of the properties. At least 6 of the projects were partially completed and had numerous mechanics liens. Many of the borrowers have tried to delay foreclosure and raised lender liability allegations. This has required the ML Manager Board to have to hire legal and accounting professionals. We try to be prudent in incurring fees and will continue to review them and be cost conscience.

A few investors including Mr. Hawkins keep bringing up issues that were determined as a part of the Plan process in May 2009 and issues which have been brought to the Bankruptcy Court's attention and overruled by the Bankruptcy Court. All decisions relating to the Plan are settled law of the case. For example, the VTL Fund settlement and treatment was a part of the Plan and Disclosure Statement and the Bankruptcy Court expressly approved it in May 2009. The VTL modification documents were signed by Mortgages Ltd. prior to ML Manager taking over. Similarly, the Exit Financing was a part of the Plan process and was expressly approved by the Bankruptcy Court in May 2009. The Confirmation Order expressly approves the financing and authorizes ML Manager and the ML Liquidating Trust to enter into the financing and execute the documents. It was necessary as a part of the Plan process to obtain financing to exit the bankruptcy in which Mortgages Ltd. was incurring fees at the rate of $1 million a month. To end the process and exit from bankruptcy, the exit financing had to be obtained. It is expensive money (like Mortgages Ltd.'s rates to its borrowers) and needs to be paid off through the sale of properties. While various parties have tried to find less expensive financing, no one has been able to obtain any financing to take out the existing lender on more favorable terms. The Plan which contemplates the sale of the properties and payoff of the exit financing is a liquidation. It is not a surprise to anyone. The Plan contemplated that it would take 3 to 5 years to accomplish this. We are almost 2 years into this process.

Another important issue for investors to keep in mind as you hear complaints from Mr. Hawkins and a few other investors, is that the Rev Op group, made up of Mr. Hawkins' 8 entities and 5 other Rev Op investors, does not want to pay or be responsible for any of the exit financing and operating costs of ML Manager. They want all the other investors to pay it and they take the legal position that they are not responsible for any of it. From their perspective they think they can afford to hold properties and not pay the interest or principal on the exit financing and the operating costs. They expect it will come out of all the other investors' pockets. The Bankruptcy Court expressly stated that all investors shall be assessed their proportionate share of the costs and expenses (including exit financing) in a fair, equitable and non-discriminatory manner and shall be reimbursed in the same manner as all other investors. We are trying to enforce this mandate and make sure all investors equally will share the burden. At every opportunity the Rev Op group has objected and tried to force the costs on to the other investors and the Bankruptcy Court has consistently upheld the ML Manager on this issue.

Mr. Hawkins is not on the ML Manager Board because he was removed from the Board by a vote in February 2010 for various reasons which were provided to him in writing. The fact that he sent us a letter of "resignation" a few weeks later does not change the reason he is no longer on the Board.

Lastly, Mr. Hawkins and the Rev-Op group while originally objecting to the Plan of Reorganization withdrew their objection during the Confirmation hearings and voted in favor of the Plan of Reorganization. It is incongruous that they now disparage the Plan that they approved. Nevertheless, within several months they started objecting to and attacking the actions of the Board. ML Manager has had to incur about $350,000 over a year and a half in defending against all the Rev-Op group attacks on the Plan and the Board.

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.

Best regards,

Elliott Pollack
Chairman
ML Manager LLC Board