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### Judge says she's decider

#### Justice says she has authority to settle USA Capital dispute

By JOHN G. EDWARDS  
REVIEW-JOURNAL

In a hearing marked by interruptions and arguments, a bankruptcy judge ruled late Wednesday that she had the authority to decide a dispute between a dissident group of investors in failed USA Capital and Compass Partners, a New York equity firm.

At one point, Christina Knoles, an investor representing herself, repeatedly challenged Judge Linda Reigle to rule on a power of attorney issue. Reigle said the issue wasn't on the calendar for the hearing.

"I'm sorry. I have the power to speak," Knoles said.

"Ms. Knoles please," Reigle said several times.

The judge ended the interruption by calling a recess.

Some of the 60 investors attending laughed earlier during arguments by Compass attorney George Davis.

"Listen, I'm not going to have any of this town hall (reaction)," Reigle told people in the audience. "You're in a court room. Behave."

The legal dispute stems from the April 2006 collapse of USA Capital, which was holding \$962 million in short-term loans secured by real estate for 6,000 investors around the country.

Investors bought fractional interests in loans originated by USA Capital so that they could earn double-digit interest rates. The bankruptcy judge, however, learned that many of the loans were past-due when USA Capital failed. In other cases, the borrower had repaid all that was owed and USA Capital had not returned the repaid money to investors.

To resolve the bankruptcy, Judge Linda Reigle in January sold the right to service 55 USA Capital loans to Compass Partners for \$67 million. The payment also gave Compass ownership interests in short-term mortgage loans held by a USA Capital investor fund.

As a loan servicing firm, Compass is paid for collecting interest and principal payments on loans and foreclosing on borrowers who did not pay.

In May, however, the Lenders Protection Group, which claims to represent many of the investors who hold fractional interests in loans, sent out letters telling borrowers in 55 loans to stop paying Compass. The group said they had the right to take over loan servicing, in part because of allegations Compass was not paying out all of the money owed to investors.

In the hearing Wednesday, Reigle said that she had authority to settle some if not all of the disputes between Compass and the Lenders Protection Group. Later Wednesday, Reigle was discussing terms of her order, which would maintain Compass as the loan servicer pending a final ruling.

In a related development, Lender 2 Lender, a company offshoot of the Lenders

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Protection Group, may have violated Nevada law by failing to obtain a license to service mortgage loans, Deputy Attorney General Richard Dreitzer told Reigle.

Dreitzer later said he believes the Nevada Mortgage Lending Division has enough evidence to issue a cease and desist against Lender 2 Lender.

The state agency already has issued a cease and desist order against Compass Partners servicing loans without a license, but Compass claims it services loans out of New York and does not need a Nevada license.

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