

***Direct Lender Hearing Summary for October 1 and 2, 2007
from Donna Cangelosi***

Monday and Tuesday, we spent 2 days in court for the purpose of moving the Direct Lender issues forward in connection with Compass Partners termination.

When the hearing concluded on Tuesday afternoon, I called my husband to tell him the Direct Lenders gained a lot of traction and we had many victories in the court sessions over the past 2 days. We felt that we had succeeded in turning the ship with the judge. My husband asked me if Compass was terminated? I said "not yet". He said "well then – you didn't win."

I am sure this is the sentiment of many of the Direct Lenders. Most are anxious for Compass to be terminated and don't understand what is taking so long. I'm in the middle of it and it's hard for me to understand. Many are frustrated with the process, believing the attorneys are taking us on the slow road for the purpose of earning fees, etc. Certainly, for our side, that is not true.

So for those who have not been in the court room, watching this saga unfold, let me set the stage for you and give you the missing insight of these very arduous proceedings. It is important to understand Compass's strategy to retain the servicing rights and once you do, you will understand why this is taking so long. Also, this is very complex subject matter and it will take some time to educate the judge

Let's start by going back to the Bankruptcy.

Compass paid about \$45.3 Million for the servicing rights and the 1st Trust Deed Fund, even though they keep stating they paid \$67 Million. Now we must logically look at what they bought:

1. The First Trust Deed Fund – which at the time was valued at approximately \$43 Million in Principal not including accrued past due interest.
2. The right to collect accrued service fees prior to Feb 15, 2007 of 1% - 3%.
3. The right to collect any "at risk" accrued default fees and late fees prior to Feb 15, 2007. These fees are always "at risk" until collected "from the borrower." So in essence Compass, being "an experienced loan servicer," should have understood that collection of these fees are always at risk until it is actually remitted. Also prior to purchasing our servicing assets, Compass was presented with all the promissory notes for review as part of their due diligence package and the lenders' rights are clearly defined in connection to default interest.
4. The right to serve as our agent "post bankruptcy" to service our loans and "earn" fees from their work. We are the Principals, they are the Agent. Compass agreed, by becoming our agent, to serve us in the highest fiduciary manner under agency law.

What are our issues with Compass? Items 3 and 4 above. We lenders (Principals) believe the servicer(Agent) has put its own compensation goals in front of its fiduciary duty to the lenders to collect known at risk fees, violating our agreements and delaying payoffs. In addition, Compass asserts that it is due these fees from our collateral in the event of a short payoff. We allege that Compass has grossly breached their fiduciary duty in their failure to act and disclose. Compass's acts have caused tremendous harm to the Direct Lenders as borrower financing has crashed and collateral values have plummeted under their self-serving delays.

It is no secret that Compass does not want to lose the servicing rights to our portfolio. Where else could you earn 20% or more on other people's money? Where else can you get a guaranteed return, as Compass feels they are entitled to? They are fighting us, their principals to whom they owe the

highest fiduciary duty, to retain the right to take, in some cases, a significant portion of our money. And we are duking it out with them in and out of court., Compass are employing the dirtiest tactics imaginable. This case will probably go down in law text books under “things an agent must not due to its principals.” These very concepts we are fighting Compass over may redefine and in fact crater the entire loan servicing industry.

Now let’s look at Compass’ multifaceted strategy to retain the servicing:

Compass Attempts to Poison the Judicial Well

From the outset, and for obvious reasons, Compass has sought to deflect the court’s attention away from its own deplorable conduct by casting aspersions against me personally, trying to portray me as a greed-motivated individual who has single-handedly sought to steal, or “usurp,” the servicing rights for which Compass paid good money in good faith. This campaign began in Judge Riegle’s court with Compass’s filing of a motion for sanctions and contempt against me personally when our termination and declaratory relief motion was filed against them. Compass’s motion also sought to block forever the efforts of the Direct Lenders to exercise their rights under the LSAs to terminate Compass as servicer. Judge Riegle, the bankruptcy judge, recognized that she did not possess jurisdiction over these matters, as they related to post-bankruptcy activities, so she recommended that a federal district Judge assume control of the case. Judge Jones was assigned. But Compass’s baseless allegations initially served their intended effect, and as the battle took shape in Judge Jones’ court Compass enjoyed what appeared to be early success by “spinning” the hearing on Compass’s motion to anyone who would listen as the “criminal trial of Donna Cangelosi.”

So the only way to refocus the case for the court to the central issue – Compass’s fitness as loan servicer – was to do away with Compass’s claims against me and against the formation and existence of the LLCs. That was the purpose of the October 1-2 hearing, which my personal attorney specifically requested. Somehow, we had to get the judge to read our declarations – 40 + Direct Lenders and borrowers submitted allegations against Compass. We had to get Judge Jones to see that we had cause to terminate Compass for what they have done to us in post BK servicing issues. Our intent has never been to steal Compass’ servicing. We just want to protect our property and our money. In light of our inability to find a quality replacement servicer, setting up our own structure to resolve our loans was the best execution. And now, given the delicate condition of our loans, this may prove to be the best strategy.

Prior to the October 1-2 hearing, Judge Jones had read many, if not all, of the 40-some odd declarations of Direct Lenders that we submitted last month outlining a number of Compass’s many alleged breaches of the LSAs and their fiduciary duty to the lenders. So, on October 1, at the beginning of what Compass insists was to be my “criminal trial,” Judge Jones began the proceedings by announcing that he had read a number of the lenders’ declarations and was highly “excited,” or agitated, by the evidence he read about concerning Compass’s behavior. Judge Jones stated that this evidence suggests seriously wrongful conduct on the part of Compass for which there may be substantial damages, including treble (or triple) damages, available to the Direct Lenders. In fact, he warned Compass not to assign any of their rights or assets. He does not want the Direct Lenders facing a bankrupt Compass when judgment day comes. Compass’s response to this declaratory evidence? At the September 10 hearing, Compass’s attorneys said that everyone of your fellow Direct Lenders declarations were “untrue” and “obtained maliciously”. Imagine – all 40+ declarations – all untrue! Compass is not only calling me a liar, they are saying so are your fellow Direct Lenders who filed declarations. Nice. That’s your loan servicer, folks – your agent, your fiduciary

Now that Judge Jones is starting to see the whole picture, not just what Compass wants him to see, the water in the well is less poisoned for us, the Direct Lenders. But it has taken quite a bit of effort and pain to get to this point there is still a great distance to go. But at least we are all in the same game now.

Compass attempts to take off the head of the leader and fragment the Direct Lenders.

Since we commenced the termination process, Compass's strategy has been to try to bully me into backing down. In the Las Vegas L2L/LLC rollout seminar back in May, Compass served me with a lawsuit, trying to make a public staging. Immediately thereafter, threats started happening at my home, with people crashing through my community's security gates to gain access to my home. Fortunately, these people were chased out on each occurrence by the security guards. Threatening notes were left on the door to my restaurant. When I visited Compass in New York in June, I told them of these happenings, that the police chief is a personal friend and had assigned police to watch my home, and magically, the threats stopped.

While Judge Jones did find me in contempt of Judge Riegles' bankruptcy orders, he did not issue sanctions against me. Oddly, the Tuesday morning court session started out with the Judge stating he had heard enough evidence to find that I was *not* in contempt. Then on Tuesday afternoon, he issued a contempt finding but without sanctions. So this was very confusing and the attorneys still cannot explain what happened. He did make clear, however, there was no criminal charge and no sanctions. Obviously I am upset at such a ruling, and am hopeful that as the Compass' bad act are unveiled, there will be an opportunity for reconsideration on these issues. I will cover more on the SEC issues below.

You must understand that Compass has been trying to get me to back off for months using every strong arm tactic they can employ. They think if there is no Donna, then they can have their way with the Direct Lenders collateral. They are trying to discredit me in your eyes, hoping the Direct Lenders become fragmented. Compass' most recent communications filled with half truths is the most compelling evidence of this

Compass never counted on us uniting to protect our money. They thought we were too stupid to find each other and ban together. Blatt has told me he never counted on us forming a united front. What these Compass guys don't understand is this is not just me bringing you together. There is an army of Direct Lenders unifying us. There are many people who would continue the fight in my absence.

So united we stand folks. And as painful as this last week's hearings may have been, I am happy to say we are making traction in the court. Judge Jones is tuned in to some of the issues and now understands a little more about the plight of the Direct Lenders. And we have put to bed the fiction that the Direct Lenders are trying to steal from Compass. The judge now sees that Compass is harming us. This was essential to moving forward.

Compass attempts to eliminate our litigation financing.

Why would Compass care if we created LLCs, and assigned our interests into the LLCs as lenders? The LLCs actually create less of a servicing headache for them. First, the LLC streamlines the issues of loan resolution as the lenders in the LLCs speak with one voice. Let me make clear that the LLC does not interfere with the lenders' rights, no matter what Compass may try to tell you.

Secondly, Compass can deal with a unified body instead of many desperate lenders. Compass ideally should like the Loan Specific LLC concept. And according to Boris Piskun, they “love it”.

However, the LLC also provides for a powerful tool - the ability to get financing so that we have the legal money to protect our assets from Compass and to have money to address any issues that may otherwise force us out of our trust deeds. And Compass does not like this.

So what did Compass do? They raised a stink in court that the LLCs should be dis-banned. And Judge Jones seriously considered this matter, expressing concerns over possible securities law violations in the formation of the LLCs. Compass well understands that without litigation funding, the court battles stop and Compass can interpret our agreements in any self serving manner they wish. You decide how good Compass will be to the Direct Lenders left unchecked and without the eyes of the court on them.

When we first formed the LLCs, we examined securities laws. We did not find any violations. From September 11 to present, our new attorneys, Fulbright & Jaworski, one of the top 5 law firms in the country, researched securities laws extensively, spending in excess of 70 hours and conferring with their SEC specialists. Although their research is not done, to date they have either found no securities violations. We will spend a little more work researching SEC obscure issues then put it to bed, although Judge Jones has not mandated clarification. We are doing so for your comfort. Judge Jones gets the fact that the LLCs are our litigation financing vehicle and has ruled that they remain intact as is. By doing so, he is acknowledging we need the legal funding to protect ourselves from Compass. The big fight last week was really about if we could keep the LLCs intact. And the judge found that we could – unchanged. **This was a major victory for us.** Compass is clearly trying to stomp on our ability to raise litigation financing. Of course they don't want the lenders to have financing to protect their money.

So what happened next? John Edwards, a reporter for the *Las Vegas Review Journal*, published very near mistruths in the newspaper that the Judge found that I violated SEC laws in forming the LLCs. That is not what happened. Compass lost this battle and is trying to scare away any financing partners by getting half truths published. They are trying to scare your desire to participate in the LLCs also. Compass then posted the most ridiculous communication on their web site, and this or some form of that communication has probably been mailed to you. Many of you have already received this via email. The whole purpose again is to discredit me, turn me into the villain in your eyes, and hope you give up this fight. Compass knows the judge has already told them they have a serious problem if the breeches we allege are true.

In fact, since the Judge's positive rulings, many folks sitting on the sidelines have asked to join the LLCs. The LLCs have already been a successful vehicle for two loans, creating more recovery value for its members than individual Direct Lenders could achieve on their own. One example is the Copper Sage loan. Independent Direct Lenders who sold their interest in that note got as much as \$.30 **less** on the dollar than the buyout we negotiated for members in the Copper Sage LLC. The Direct Lender/ Members in the LLCs received \$.90 on the dollar while those not in the LLC received as little as \$.60 on the dollar. This shows the power of a united front. We have other asset protection and enhancing plans for loan specific LLC members as the need arises. The Loan LLC provide its members those protections, regardless of who is servicer. The Boards are now in place and your fellow lenders are now working to protect your assets.

Compass attempts to take us sideways through diversionary tactics to forestall termination accruing more default fees, while they try to run us out of defense money.

For Compass, the longer they can delay termination, the more they believe they are entitled to collect default and late fees – from the borrower or the collateral. Therefore, they are using every sideways tact they can and thus far, it has been working. Hopefully, now the judge will start to see through this and cut the nonsense out. Judge Jones stated he will move forward to give us declaratory relief and has mandated the appropriate reports from Compass.

Judge Jones clearly and finally said that he believes we, the Direct Lenders, have serious issues with Compass. But everything we do with Compass is a struggle. Their attorneys are well suited to them. Every tactic is being employed to waste our time and money. It's all so frustrating day to day. But we have to stay the course. The consequences are too dire.

Let the terminations begin.

Judge Jones has now defined a termination process. We hope we can convince him to refine his process to incorporate certain efficiencies, however a clear process now exists. I will go no further than to say we are moving on this strategy.

The bottom line is we finally made some traction in court last week. Judge Jones is starting to see Compass for who they are and what they are trying to do to us. The spotlight is now on Compass. The one thing Judge Jones cannot believe is that folks like me are spending all their efforts to protect the Direct Lenders without any compensation. He cannot believe that someone would do that.

The crazy, wonderful and horrible thing is there are a bunch of us working nights, days and weekends to protect your assets without any compensation. We are doing it because it needs to be done and it is just the right thing to do. All the Direct Lender volunteers I work with are great, great people. They are foster moms and dads, they have adopted kids, they do missionary work in third world countries. These are your volunteers folks. They are givers, not takers. And to understand why we are doing what we are doing, you have to be a giver.

So let's stay the course. United we stand. If we stand together, stay tough and on course, justice must prevail. Now see the attached summary from Fulbright and Jaworski.

And one more thing. My communications these days must be very guarded. Sadly, we have confirmed at least 4 Direct Lender moles, and there are a few more. We will keep you updated as much as possible without compromising our strategies. LLC members can expect frequent communications through your boards.

Until next time, please keep the faith and remain healthy.

Donna