

To: USA Commercial Mortgage  
Unsecured Creditors

From: Counsel for USA Commercial  
Mortgage Unsecured Creditors  
Committee

Re: Case Status Update

**Interim Report  
October 23, 2006**

**Proofs of Claim:**

By now you should have received a proof of claim or proof of interest form from one or multiple Debtors. Please review the form(s) carefully, along with the enclosed instructions on how and when to file the form(s). The bar date to file a proof of claim or proof of interest is **November 13, 2006**. The proof of claim or proof of form must be received by the claims processing center no later than **5:00 p.m. (Pacific Time)** or the Clerk of the United States Bankruptcy Court no later than **4:00 p.m. (Pacific Time)**. (The relevant addresses are provided at the website listed below.) Failure to file a proof of claim or proof of interest before the deadline will likely result in the loss of that claim or interest.

A list of frequently-asked questions about proofs of claim, proofs of interest and the bar date, is available at the Debtors' website at:

[http://www.usacapitalcorp.com/news/092706\\_answers.php](http://www.usacapitalcorp.com/news/092706_answers.php).

In addition, we have answered individual creditor and lender's inquiries, and enclose those responses for your information.

**Sale:**

On September 22, 2006, the Debtors filed a Motion For Order Scheduling An Auction For the Sale of Certain Assets, Appointing SPCP Group, LLC, As Lead Bidder, and Approving Bid Procedures and Protections (the "Sale Motion"). The Sale Motion seeks an order authorizing the sale of USA Capital First Trust Deed Fund's ownership interest as a direct lender in 47 specifically identified loans, for a proposed purchase price of

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\$46.5 million, subject to certain adjustments and conditions as specified in the Sale Motion and exhibits. It also seeks authority to sell USA Commercial Mortgage's servicing rights in 80 specifically identified loans.

SPCP Group, LLC is the proposed "stalking horse" bidder for the sale, which means it has entered into a purchase agreement with the Debtors and will acquire the assets unless another party makes the Debtors a "higher and better" offer. The bidding process is controlled by strict guidelines that are subject to court approval at the October 17 hearing. Any party who becomes a "qualified bidder" under the guidelines can try to outbid SPCP Group, LLC at a future auction. The time and place of the auction will be determined at the October 17 hearing. Anyone interested in joining the bidding process, should contact William J. Fasel with Mesirow Financial. His phone number is (312) 595-8504 and his e-mail address is [bfasel@mesirofinancial.com](mailto:bfasel@mesirofinancial.com).

The Committee has been actively involved in the sale negotiations with the Debtors and SPCP Group, LLC. It supports the Sale Motion. At a hearing on October 19, 2006, Judge Riegler expressed concerns about the process and the substance of the proposed transaction. The hearing was continued to Wednesday, October 25, 2006 at 9:30 a.m.

**Disclosure Statement and Plan of Reorganization:**

The Debtors filed their Disclosure Statement and Plan of Reorganization on September 15, 2006. Unfortunately, until the Disclosure Statement is approved by the court, the Committee cannot comment on the Disclosure Statement or the Plan of Reorganization except in court pleadings that address the adequacy of the Disclosure Statement.

We can report to you that the Committee has been working closely with the Debtors and the other committees in formulating a consensual Plan of Reorganization. Those negotiations are ongoing.

Debtors filed a motion seeking an extension of the exclusive period of time within which only the Debtors may file a plan of reorganization. That motion was granted on an interim basis until the hearing on October 19, 2006. The motion seeks that extension through the end of 2006. The Committee has not opposed this request.

The Court granted the extension of exclusivity at the hearing on October 19, 2006.

Debtors filed an amended Plan of Reorganization on October 18, 2006. The amended Plan can be obtained through the BMC website at document no. 1576.

Each of the official Committees in this case has been negotiating concerning the terms of a potential, consensual joint plan of reorganization. Those negotiation are ongoing. Before distributions the end of the sentence is not being touched, pending further order of the Court.

**Fee Applications:**

The professionals employed by the various Debtors and committees filed fee applications at the end of August for fees and costs incurred through July 31, 2006. The Committee counsel's (Lewis and Roca) fee application sought fees in the amount of \$227,901.25 and expenses in the amount of \$40,900.51. The Committee objected to the applications of the Debtors' professionals, Ray Quinney & Nebeker, Schwartz & McPherson, and Mesirow Financial, addressing both a substantive issue as well as how the fees and expenses of the Debtors' professionals would be allocated among the several estates.

At a hearing on September 28, 2006, the court addressed the fee applications and the related objections. All of the fees were allowed on a temporary basis, with a few minor exceptions. In response to the Committee's objection, the Debtors' professionals did agree to allocate their fees among the bankruptcy estates to more accurately reflect the entities for which services were rendered. The Committee has agreed with Ray Quinney & Nebeker on the allocation of its fees, and expects to reach an agreement with Mesirow and Schwartz & McPherson as well. The committees for the two Funds want more time to evaluate the charging of additional fees to their estates, however. Only a portion of the fees allowed from the USA Commercial Mortgage estate will be paid at this time, with the rest to be paid later when the Debtors have sufficient funds. The money from the USA Commercial Mortgage estate used to pay professional fee awards is derived only from servicing fee income. The prepaid interest money retained by the Debtors from potential distributions to Direct Lenders is not being touched.

**Distributions:**

USACM has commenced making distributions on certain performing loans. The distributions have been made pursuant to the bankruptcy court's orders dated August 24, 2006 and October 2, 2006. For more information about the distributions, please visit <http://www.usacapitalcorp.com/>. The initial order related to collections through June 2006, and the second order related to collections in July and thereafter.

Debtors circulated the information concerning proposed distribution of funds collected in July and August. The Committee has approved the proposed distribution and Debtors indicated the interim payments will be mailed during the week of October 23, 2006. The Court has entered an interim order authorizing monthly distribution of collections thereafter, after Debtors circulate a monthly proposed statement of the sums to be distributed. The Court's order authorizing interim distributions and certain holdbacks is available from the BMC website at document no. 1424. Other than the 1% servicing fee due under the applicable loan servicing agreements, and default interest or other fees payable to the servicing agent under the pre-petition agreements, all such holdbacks are interim in nature and will not be transferred from the collection trust account without further order of the Court

**Inter-Company Claims:**

Debtors have filed a motion asking the court for guidance with respect to presentation of claims between or among the Debtors. That motion is set for hearing on October 30, 2006. The four official Committees have filed a joint response that suggests that Debtor should excused from the deadline to file inter-company claims; but if the Court is inclined to require such a filing, then the Committees should be authorized to file such claims, in an unknown amount, rather than Debtors authorized to employ additional sets of lawyers known as "special counsel" just for this purpose.