

April 2008

Investors of Placer County Land Speculators, LLC – 1<sup>ST</sup> Lien

Dear Investors:

This letter is written to each holder of an interest in the Loan to Placer County Land Speculators, LLC (“*Borrower*”) secured by the 1<sup>st</sup> lien. In this letter, we will call that Loan the *Placer 1 Loan*.

We are the USACM Liquidating Trust, called in this letter the *Trust*. Geoffrey L. Berman is the Trustee. Lewis and Roca, LLP is counsel to Mr. Berman and the Trust.

The Trust is the successor servicing agent for the Placer 1 Loan on account of confirmation of the Debtors’ Third Amended Joint Plan of Reorganization in the USACM bankruptcy cases. The Trust has been the servicer since March 12, 2007.

We write this letter in light of the recent developments regarding the Placer Vineyards property so as to insure that you receive from the Trust the facts so that you can make reasoned decisions, and so that you can put events into context.

## 1. What is the Debt?

The Placer 1 Loan was a promissory note made by the Borrower in December 2004. No payments have been made on the debt. The loan matured by its terms in June 2006.

Today, the unpaid principal balance of the Placer 1 Loan is \$31,500,000. The interest that accrued on the Note, and has not been paid, through March 31, 2008, is \$11,055,830. This does not include default interest or other late fees that are also due.

## 2. What is the Collateral?

The Borrower assembled two non-contiguous parcels of property totaling approximately 338 acres within a master development of about 3,000 acres near the edge of Placer County, California, next to Sacramento County, near Sacramento. The entire development will be a master plan of residences, businesses, employment and other uses. Presently, all of the owners of the entire development are members of the Placer Vineyards Development Group LLC, which we will call the *Owners Association*. That Association is spending time and money trying to get the property developed. Those

efforts include defending lawsuits by environmentalists and Sacramento County, among others opposed to the development. The costs also include engineering and other professional fees involved in developing the property. Without development, the project is essentially unimproved land.

Your collateral is, as we said, about 338 acres. It is presently incurring annual real property taxes of about \$400,000. There are now unpaid real estate taxes. The Owners Association bills the Borrower for its share of the development expenses. The unpaid bills due the Owners Association as of today are about \$108,072 and the average quarterly bill is \$52,713. There is also \$264,805 plus interest owed under a prior settlement. At such time as the entire Project is developed and land can be sold for home or other development, then your collateral may not benefit as part of the development, at least until the Owners Association bills are paid, with interest.

Between the taxes and Owners Association bills, the Trust estimates the annual “carrying cost” to own your collateral is about \$900,000.

### **3. What is the Collateral Worth?**

Before you made your loan, USACM obtained an appraisal of your collateral as of December 2004. That appraised value was \$67.6 million.

Another appraisal in mid-2006 valued the collateral at between \$40 and \$42 million.

Last year, the bankruptcy-appointed trustee for the majority owner of the Borrower (the trustee for USA Investment Partners, LLC) had an appraisal done. As of the fall of 2007, the appraised value was about \$35 million. After that appraisal was prepared, the sub-prime loan and housing crisis expanded nationally, and in the vicinity of the development. We do not have a current appraisal. However, it seems unlikely that the value of your collateral is as was appraised last year; but no one knows what the value is today.

### **4. Why Foreclose the Placer 1 Loan?**

Your loan has been matured since 2006, and no payments were ever received. The Borrower’s only asset is your collateral, and as stated above, is probably worth less than the principal amount of your debt. There is no means of obtaining payment from your collateral other than through foreclosure.

**5. Is the Trust Trying to Foreclose the Placer 1 Loan?**

As you know from monthly written reports provided to you by the Trustee, the Trust hired a law firm in Sacramento and Alliance Default Services as foreclosure trustee to foreclose the Placer 1 Loan. In January, 2008 we sent you a letter advising you that the Trust would retain the foreclosure trustee unless you objected. No one objected and the foreclosure trustee commenced the foreclosure sale process.

The foreclosure sale was eventually scheduled for April 9, 2008.

**6. Does the Trust Have Authority to Foreclose the Placer 1 Loan?**

Each of you made a loan originated by USACM. All of you were identified as creditors and parties in interest in the USACM bankruptcy case and received notice of, among other things, the USACM Plan. Under that Plan of Reorganization, the Trust succeeded to USACM's rights to service your interests in this Loan.

In March of this year, the foreclosure trustee asked the Trust to provide a copy of the signed loan servicing agreement for each of the Placer 1 Lenders. In reviewing USACM's files provided to the Trust, the Trust discovered that it was missing a number of signed loan servicing agreements. Accordingly, in late March, the law firm representing the Trust sent out a two-page form asking those lenders for whom the Trust did not have a signed loan servicing agreement to consent to the foreclosure. The consents began to come in promptly.

**7. What is the Placer 2 Loan?**

USACM originated a second loan to the Borrower in the principal amount of \$6,500,000. Repayment of that Loan is secured by a lien on the same collateral as the Placer 1 Loan, but the loan is junior, that is recorded after, the lien securing the Placer 1 Loan.

The Trust is also the servicer for the Placer 2 Loan pursuant to the confirmed bankruptcy Plan.

The Placer 2 Loan is in default because the Borrower made no payments and the loan matured. As the Borrower has no assets other than the collateral, which secures the Placer 1 Loan and then the Placer 2 Loan, and because the value of the collateral appears to be less than the amount owed on the Placer 1 Loan, the Trust as servicing agent believes there is no value in the collateral for the Placer 2 Loan. Consequently, the Trust has not elected to foreclose the junior deed of trust.

**8. What are the Limited Liability Companies and Their Relationship to These Loans?**

Donna Cangelosi and other lenders involved in the USACM bankruptcy case apparently formed a limited liability company for each of the direct loans originated and serviced by USACM. This apparently includes limited liability companies known as Placer Vineyards 1<sup>st</sup> Lenders LLC and Placer Vineyards 2<sup>nd</sup> Lenders LLC. Ms. Cangelosi and her associates have asked direct lenders to join these LLCs. The Trust is not a party to any of the LLCs, or to any agreements with them.

Persons who say that they are on the board of the LLCs and Ms. Cangelosi through an entity called FDH Management have been sending lenders communications regarding their investment in these loans. Recently, they asked each of you to send statements to the Trust. We address these arguments now.

**9. Is the Trust Authorized to Service Your Interest in the Loan?**

Each of you that signed a loan servicing agreement with USACM now have the Trust as the servicer of your loan.

If you did not sign a servicing agreement, but USACM and now the Trust have been servicing your loan, please understand that the Trust believes it has the authority to enforce the loan on your behalf, including to foreclose the Placer 1 Lien.

Many of you were asked to send a communication to the Trust suggesting that the Trust is not authorized to service your loan. For those of you who had a signed loan servicing agreement, the Trust disagrees.

If the Trust has breached your loan servicing agreement, and if 51% of the direct lenders elect to replace the servicing agent, then they can do so. No one has proposed that the Trust has failed to act on your behalf and in the best manner possible to collect the Placer 1 Loan.

Ms. Cangelosi asked you to tell the Trust that the power of attorney granted in the loan servicing agreement is not valid. Her argument is that the power of attorney expired when the loan matured. If that is true, then no one services the loan for you. There are over 340 direct lenders in the Placer 1 Loan. If the Trust does not service the loan, then all of the direct lenders must unanimously agree in order to take action to collect the loan.

**10. Can the Foreclosure Result in Someone Other Than You Owning an Interest in the Property?**

At the foreclosure sale of the Placer 1 Loan, we do not believe anyone will bid the full amount of principal and interest owed on the Loan. Accordingly the foreclosure trustee will credit a portion of the debt and take title to the property for all of the lenders.

The loan servicing agreement allows the foreclosure trustee to take title “in the name of the lenders.” So, if you own \$50,000 of the \$31.5 million loan, you would own the same proportionate interest in the property after foreclosure.

Ms. Cangelosi argues that the Trust should not take title this way, because you would be a co-owner of the property. She argues that you would rather have the property owned by an entity, and you own the entity. That way there would be no direct ownership of the property.

Each of you owns the loan in a vesting name. No one, certainly not the servicing agent, can take your interest in the loan and convey it to an entity, even an entity that you own an interest in. So, the foreclosure trustee advised the Trust that title to the property should be taken the way the servicing agreement is written – in the name of the lenders.

Because the Trust believes that exchanging your interest in the loan for an interest in a new entity violates state and federal securities laws, the Trust is not prepared to obligate the lenders to such a course of action. Whether you wish to contribute your interest to such an entity is between you and whomever creates such an entity, along with whatever terms are established for the management of that entity.

More importantly, you would need to make important decisions before you decide to put your ownership interests of the property into a new entity.

- Who would manage the entity? How would that manager be compensated?
- Who would make decisions and would investor approval be required?
- Could a majority decide to take an action that a minority objected to, or would all decisions have to be unanimous?
- Should the property be held and wait for the market to recover or sold?
- Should money be borrowed to pay for expenses and carrying costs?

None of these questions are simple and the answers are not obvious. Each would have to be addressed in creating an entity to hold the property, and you would have to consider those issues with disclosures approved by federal and state securities regulators.

**11. What About the Bankruptcy Filing I Heard About?**

Several months ago, the Trust asked you for permission to fund a bankruptcy filing by the Borrower for the purpose of obtaining the sale of your collateral. The cost of that bankruptcy filing was estimated at \$300,000 to \$400,000. Many of you objected to having a portion of the sale proceeds used to fund a bankruptcy filing by the Borrower and so that did not happen.

On April 8, 2008, the LLC that says it is owned by some of the Placer 2 Lenders filed a chapter 11 bankruptcy petition in Reno, Nevada. It did so for the purpose of stopping the foreclosure sale, which the Trustee had already directed be continued to June 9, 2008. That bankruptcy filing will be addressed in due course. The Trust does not believe that the bankruptcy case will remain pending for any appreciable length of time.

**12. Please Explain the Receivership Alternative.**

The Trust has consulted with holders of several million dollars of the Placer 1 Loan. Their consensus is that a lawsuit should be filed in California in order to obtain the appointment of a receiver for the property, under the jurisdiction of the California state court. The receiver would be directed by the court to make recommendations concerning holding the property in the name of the lenders after foreclosure, whether to borrow money to pay carrying costs, whether to list the property for sale, and if an acceptable offer is obtained, whether to sell the property for the benefit of the lenders. The Trust and these lenders believe that such a receivership action, in which each of the direct lenders would be a party, entitled to notice and an opportunity to make positions known to the court, is a fair way to protect the lenders' interests in seeing repayment of the loan after foreclosure.

The Trust's counsel has asked the direct lenders to receive proposals for persons or companies who want to serve as the receiver. Those proposals should be evaluated to be sure that the proposed receiver is competent, that any compensation is fair, and that decisions are made for the benefit of all lenders, and not for the benefit of any particular lender or groups of lenders. The selection of the receiver, like other decisions of the receiver, would have to be approved by the court, with notice.

### 13. What Happens Now?

The Trust is presently addressing the bankruptcy filing in Reno. At such time as that bankruptcy is dismissed or relief from the automatic stay is granted to the Trust, as servicer, the Trust will proceed with foreclosure of the collateral for the Placer 1 Loan. The Trust and certain direct lenders will file the lawsuit seeking the appointment of a receiver, ask you to accept service of that complaint so that you can be a participant in the lawsuit, and then turn over decision making for the property after foreclosure to the receiver.

This will take a period of weeks or months. We will update reports monthly in correspondence to you and as development arise on the Trust's website at:  
<http://usacmcucc.bmcgroup.com.default.aspx>.

**For More Information.** As always, if you have any questions about your statement or about the Loans, please feel free to contact the Trust at the following contact information:

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