

1 Annette W. Jarvis, Utah Bar No. 1649
 Steven C. Strong, Utah Bar No. 6340
 2 RAY QUINNEY & NEBEKER P.C.
 36 South State Street, Suite 1400
 3 P.O. Box 45385
 Salt Lake City, Utah 84145-0385
 4 Telephone: (801) 532-1500
 Facsimile: (801) 532-7543
 5 Email: ajarvis@rqn.com

 6 Lenard E. Schwartzer, Nevada Bar No. 0399
 Jeanette E. McPherson, Nevada Bar No. 5423
 7 SCHWARTZER & MCPHERSON LAW FIRM
 2850 South Jones Boulevard, Suite 1
 8 Las Vegas, Nevada 89146-5308
 Telephone: (702) 228-7590
 9 Facsimile: (702) 892-0122
 E-Mail: bkfilings@s-mlaw.com

10 Attorneys for Debtors and Debtors-in-Possession

11
 12 **UNITED STATES BANKRUPTCY COURT**
 13 **DISTRICT OF NEVADA**

14 In re: USA COMMERCIAL MORTGAGE COMPANY, <div style="text-align: right;">Debtor.</div>	Case No. BK-S-06-10725 LBR Case No. BK-S-06-10726 LBR Case No. BK-S-06-10727 LBR Case No. BK-S-06-10728 LBR Case No. BK-S-06-10729 LBR
15 In re: USA CAPITAL REALTY ADVISORS, LLC, <div style="text-align: right;">Debtor.</div>	Chapter 11
16 In re: USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC, <div style="text-align: right;">Debtor.</div>	Jointly Administered Under Case No. BK-S-06-10725 LBR
17 In re: USA CAPITAL FIRST TRUST DEED FUND, LLC, <div style="text-align: right;">Debtor.</div>	Disclosure Statement Hearing Date: November 13, 2006 Time: 9:30 a.m.
18 In re: USA SECURITIES, LLC, <div style="text-align: right;">Debtor.</div>	Confirmation Hearing Date: December 15, 2006 Time: 9:30 a.m.
19 Affects: <input checked="" type="checkbox"/> All Debtors <input type="checkbox"/> USA Commercial Mortgage Company <input type="checkbox"/> USA Securities, LLC <input type="checkbox"/> USA Capital Realty Advisors, LLC <input type="checkbox"/> USA Capital Diversified Trust Deed Fund, LLC <input type="checkbox"/> USA Capital First Trust Deed Fund, LLC	Disclosure Statement Hearing Date: November 13, 2006 Time: 9:30 a.m.

DISCLOSURE STATEMENT FOR
DEBTORS' SECOND AMENDED JOINT
PLAN OF REORGANIZATION
DATED NOVEMBER 6, 2006
(AFFECTS ALL DEBTORS)

1 **I. INTRODUCTION**

2 This Disclosure Statement provides information about the Debtors' Second Amended Joint
3 Plan of Reorganization Dated November 6, 2006 (the "Plan"). The "Debtors" are the five related
4 entities that filed petitions for relief under Chapter 11 of the United States Bankruptcy Code on
5 April 13, 2006 (the "Petition Date") in the U.S. Bankruptcy Court for the District of Nevada (the
6 "Court"), namely: USA Commercial Mortgage Company ("USACM"), USA Capital Realty
7 Advisors, LLC ("USA Realty"), USA Capital Diversified Trust Deed Fund, LLC ("DTDF"), USA
8 Capital First Trust Deed Fund, LLC ("FTDF" and together with DTDF, the "Funds"), and USA
9 Securities, LLC ("USA Securities"). The Debtors jointly prepared this Disclosure Statement to
10 help creditors (including direct lenders who may be creditors) as well as equity interest holders
11 who are entitled to vote (i.e., the members of the Funds) to evaluate the Plan and to encourage
12 them to vote to accept the Plan.

13 Current management of the Debtors was appointed as of the Petition Date and has
14 expended great efforts to carefully reconstruct the records of the Debtors to enable the Debtors to
15 present information contained in this Disclosure Statement that is as accurate as is reasonably
16 possible. Nonetheless, because current management has no historical connection with the
17 Debtors, current management cannot verify that the information contained herein that is outside of
18 its personal knowledge is accurate or correct.

19 The Court's approval of this Disclosure Statement constitutes neither a certification that
20 the factual information contained in this Disclosure Statement is accurate, nor an endorsement of
21 the Plan. Certain materials in this Disclosure Statement are taken from other readily available
22 documents or are digests of such documents. Although efforts have been made to convey
23 accurately the contents of such documents, you are urged to examine the documents themselves
24 and to use the descriptions of documents contained in this Disclosure Statement only after having
25 conducted such an examination.

26 The purpose of this Disclosure Statement is to assist those who vote on the Plan to make an
27 informed decision whether to vote to accept or reject the Plan. This Disclosure Statement is not
28 the Plan. The Plan is summarized in this Disclosure Statement, but the summary is qualified by

1 the terms of the Plan itself. If there are any inconsistencies between the Plan and the summary of
2 the Plan contained in this Disclosure Statement, the Plan controls. The Plan should be read in its
3 entirety in conjunction with this Disclosure Statement. No representations are made concerning
4 the Debtors, their business operations, the value of their property, or the value of benefits offered
5 to creditors or other parties in interest in connection with the Plan other than as set forth in this
6 Disclosure Statement. You should not rely on any representations or inducements made to obtain
7 your acceptance or rejection of the Plan that are contrary to the information contained in this
8 Disclosure Statement.

9 The Debtors believe that the Plan provides a comprehensive, workable solution to the
10 many complex issues that resulted from the pre-petition irregularities that occurred in the Debtors'
11 businesses – a solution that is in the best interests of the Debtors' creditors, members of the Funds
12 (the "Fund Members"), direct lenders on the loans serviced by USACM (the "Direct Lenders"),
13 and other parties in interest. The Plan effectuates a sale of substantially all of the assets of FTDF
14 and the loan servicing assets and business of USACM, puts in place a mechanism for maximizing
15 the recovery on other assets and claims held by the Debtors, provides for the ongoing servicing
16 and collection of the loans of the Direct Lenders by a reputable and experienced loan servicer,
17 provides for the recovery of the "Prepaid Interest" (defined below) as property of the estate, and
18 provides for an equitable distribution of the proceeds of the Debtors' assets to creditors and Fund
19 Members. The four official committees appointed by the United States Trustee in the Debtors'
20 cases (the "Committees") also support the Plan and encourage you to vote in favor of the Plan.

21 **A. Where to Find a Discussion of the Treatment of Your Claim Within This**
22 **Disclosure Statement**

23 If you are a Direct Lender, treatment of your claims are discussed on pages ____ of this
24 Disclosure Statement. If you are a creditor of USACM, other than a Direct Lender, treatment of
25 your claim can be found on pages ____ of this Disclosure Statement.

26 If you are a Fund Member having a membership interest in DTDF, treatment of your
27 interest is discussed on pages ____ of this Disclosure Statement. If you are a creditor of DTDF,
28 treatment of your claim is discussed on pages ____ of this Disclosure Statement.

If you are a Fund Member having a membership interest in FTDF, treatment of your interest is discussed on pages ____ of this Disclosure Statement. If you are a creditor of FTDF, treatment of your claim is discussed on pages ____ of this Disclosure Statement.

If you are a creditor of USA Realty, treatment of your claim is discussed on pages ____ of this Disclosure Statement.

If you are a creditor of USA Securities, treatment of your claim is discussed on pages ____ of this Disclosure Statement.

B. Summary of the Treatment of Each Claim and Interest

The following chart summarizes the classification and treatment of unclassified claims and classified claims and interests as to each of the Debtors:

Claims Name	Description and Treatment	Estimated Distribution Percentages
USACM Claims and Equity Interests		
Unclassified Claims		
Administrative Expense Claims	Holders of Allowed Administrative Expense Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Priority Tax Claims	Holders of Allowed Priority Tax Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Classified Claims		
A-1: Secured Tax Claims	Holders of Allowed Secured Tax Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Secured Tax Claim becomes an Allowed Claim.	100%
A-2: Other Secured Claims	Holders of Allowed Other Secured Claims are to be treated pursuant to Option A or Option B below, at the discretion of USACM: Option A: Holders of Allowed Other Secured Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; or Option B: USACM shall surrender the property securing the Allowed Other Secured Claim to the holder of such Claim by making the property reasonably available to such	100%

Claims Name	Description and Treatment	Estimated Distribution Percentages
	holder on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; if the property securing an Allowed Other Secured Claim has been lost or destroyed, USACM shall provide notice of such fact to the holder of the Allowed Other Secured Claim, the delivery of which notice shall constitute "surrender" of the property securing the Allowed Other Secured Claim for purposes of this Option B.	
A-3: Priority Unsecured Claims	Holders of Allowed Priority Unsecured Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
A-4: General Unsecured Claims	Holders of Allowed General Unsecured Claims, including the Unremitted Principal Claims, Allowed FTDF Unsecured Claims, the Allowed Direct Lender Unsecured Claims and the Allowed DTDF Unsecured Claim, shall receive a beneficial interest in the USACM Trust, and on account of their Allowed Claim may receive a Pro Rata Share of the assets of the USACM Trust after satisfaction of all Allowed unclassified Claims, Allowed Class A-1, A-2 and A-3 Claims, and all post-Effective Date fees, costs, and expenses of implementation of the USACM Plan and USACM Trust. Allowed Penalty Claims shall be subordinated in payment to the payment of the full amount of all Allowed General Unsecured Claims.	[]
A-5: Direct Lender Compromise Claims	The Direct Lenders will be released by USACM, FTDF, USA Realty and USA Securities from all Claims including but not limited to surcharge, recharacterization of Direct Lender Loans, and the collection of pre-petition accrued but unpaid fees due under Loan Servicing Agreements. In exchange (and as a compromise), Direct Lenders acknowledge and agree that the Prepaid Interest constitutes an asset of the USACM Estate or transfer their ownership rights, if any, in Prepaid Interest to the USACM estate, that USACM retains the maximum amount for servicing fees allowed and that \$605,000 of the 2% Holdback can and will be used to reimburse USACM for the Allowed Professional fees and costs of the Direct Lender Committee.	N/A
A-6: Subordinated Claims	All Subordinated Claims shall receive no distribution under the Plan.	0%
A-7: Equity	All Equity Interests in USACM, regardless of form, shall be cancelled and the holders of Equity Interests in USACM	0%

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Claims Name	Description and Treatment	Estimated Distribution Percentages
Interests	shall receive no distribution under the Plan.	
FTDF Claims and Interests		
Unclassified Claims		
Administrative Expense Claims	Holders of Allowed Administrative Expense Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Priority Tax Claims	Holders of Allowed Priority Tax Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Classified Claims		
B-1: Secured Tax Claims	Holders of Allowed Secured Tax Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Secured Tax Claim becomes an Allowed Claim.	100%
B-2: Other Secured Claims	<p>Holders of Allowed Other Secured Claims are to be treated pursuant to Option A or Option B below, at the discretion of FTDF:</p> <p>Option A: Holders of Allowed Other Secured Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; or</p> <p>Option B: FTDF shall surrender the property securing the Allowed Other Secured Claim to the holder of such Claim by making the property reasonably available to such holder on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; if the property securing an Allowed Other Secured Claim has been lost or destroyed, FTDF shall provide notice of such fact to the holder of the Allowed Other Secured Claim, the delivery of which notice shall constitute "surrender" of the property securing the Allowed Other Secured Claim for purposes of this Option B.</p>	100%
B-3: Priority Unsecured Claims	Holders of Allowed Priority Unsecured Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
B-4: General Unsecured Claims	Holders of Allowed General Unsecured Claims shall be paid in full on the Effective Date out of assets of the Estate, plus Postpetition Interest.	100%

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Claims Name	Description and Treatment	Estimated Distribution Percentages
B-5: Equity Interests	After the FTDF Payment has been made, holders of Allowed Equity Interests shall retain all distributions received after the Petition Date and receive the remaining Allocated Net Sale Proceeds after satisfaction of all Allowed unclassified Claims, Allowed Class B-1, B-2, B-3 and B-4 Claims, and post-Effective Date fees, costs, and expenses of implementation of the Plan for FTDF. Allowed Equity Interests shall receive a Pro Rata Share of the USACM Trust recoveries on account of the Allowed FTDF Unsecured Claim.	[]
DTDF Claims and Interests		
Unclassified Claims		
Administrative Expense Claims	Holders of Allowed Administrative Expense Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Priority Tax Claims	Holders of Allowed Priority Tax Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Classified Claims		
C-1: Secured Tax Claims	Holders of Allowed Secured Tax Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Secured Tax Claim becomes an Allowed Claim.	100%
C-2: Other Secured Claims	Holders of Allowed Other Secured Claims are to be treated pursuant to Option A or Option B below, at the discretion of Post-Effective Date DTDF: Option A: Holders of Allowed Other Secured Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; or Option B: Post-Effective Date DTDF shall surrender the property securing the Allowed Other Secured Claim to the holder of such Claim by making the property reasonably available to such holder on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; if the property securing an Allowed Other Secured Claim has been lost or destroyed, Post-Effective Date DTDF shall provide notice of such fact to the holder of the Allowed Other Secured Claim, the delivery of which notice shall constitute "surrender" of the	100%

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Claims Name	Description and Treatment	Estimated Distribution Percentages
	property securing the Allowed Other Secured Claim for purposes of this Option B.	
C-3: Priority Unsecured Claims	Holders of Allowed Priority Unsecured Claims paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
C-4: General Unsecured Claims	Holders of Allowed General Unsecured Claims shall be paid in full on the Effective Date out of the assets of the Estate, plus Postpetition Interest.	100%
C-5: Equity Interests	Holders of Allowed Equity Interests shall retain their Equity Interests in DTDF and distributions received from the Petition Date, and after satisfaction of all Allowed unclassified Claims, Allowed Class C-1, C-2, C-3 and C-4 Claims, and all post-Effective Date fees, costs and expenses of implementation of Plan for DTDF, shall receive shall receive a Pro Rata Share of the assets of Post-Effective Date DTDF and the USACM Trust recoveries on account of the Allowed DTDF Unsecured Claim.	[]
USA Realty Claims and Interests		
Unclassified Claims		
Administrative Expense Claims	Holders of Allowed Administrative Expense Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Priority Tax Claims	Holders of Allowed Priority Tax Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Classified Claims		
D-1: Secured Tax Claims	Holders of Allowed Secured Tax Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Secured Tax Claim becomes an Allowed Claim.	100%
D-2: Other Secured Claims	Holders of Allowed Other Secured Claims are to be treated pursuant to Option A or Option B below, at the discretion of USA Realty: Option A: Allowed Other Secured Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; or Option B: USA Realty shall surrender the property securing the Allowed Other Secured Claim to the holder of	100%

Claims Name	Description and Treatment	Estimated Distribution Percentages
	such Claim by making the property reasonably available to such holder on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; if the property securing an Allowed Other Secured Claim has been lost or destroyed, USA Realty shall provide notice of such fact to the holder of the Allowed Other Secured Claim, the delivery of which notice shall constitute "surrender" of the property securing the Allowed Other Secured Claim for purposes of this Option B.	
D-3: Priority Unsecured Claims	Holders of Allowed Priority Unsecured Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
D-4: General Unsecured Claims	Holders of Allowed General Unsecured Claims shall be paid a Pro Rata Share of assets of the Estate available after payment in full of Allowed unclassified Claims and Allowed Class D-1, D-2 and D-3 Claims.	0%
D-5: Equity Interests	All Equity Interests in USA Realty, regardless of form, shall be cancelled and the holders of Equity Interests in USA Realty shall receive no distribution under the Plan.	0%
USA Securities Claims and Interests		
Unclassified Claims		
Administrative Expense Claims	Holders of Allowed Administrative Expense Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Priority Tax Claims	Holders of Allowed Priority Tax Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
Classified Claims		
E-1: Secured Tax Claims	Holders of Allowed Secured Tax Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Secured Tax Claim becomes an Allowed Claim.	100%
E-2: Other Secured Claims	Holders of Allowed Other Secured Claims are to be treated pursuant to Option A or Option B below, at the discretion of USA Securities: Option A: Allowed Other Secured Claims shall be paid in full on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; or	100%

Claims Name	Description and Treatment	Estimated Distribution Percentages
	Option B: USA Securities shall surrender the property securing the Allowed Other USA Securities Claim to the holder of such Claim by making the property reasonably available to such holder on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) Business Days after the date the Other Secured Claim becomes an Allowed Claim; if the property securing an Allowed Other Secured Claim has been lost or destroyed, USA Securities shall provide notice of such fact to the holder of the Allowed Other Secured Claim, the delivery of which notice shall constitute "surrender" of the property securing the Allowed Other Secured Claim for purposes of this Option B.	
E-3: Priority Unsecured Claims	Holders of Allowed Priority Unsecured Claims shall be paid in full on the Effective Date, unless the holder of the Claim agrees otherwise.	100%
E-4: General Unsecured Claims	Holders of Allowed General Unsecured Claims shall be paid a Pro Rata Share of assets of the Estate available after payment in full of Allowed unclassified Claims and Allowed Class E-1, E-2 and E-3 Claims.	[]
E-5: Equity Interests	All Equity Interests in USA Securities, regardless of form, shall be cancelled and the holders of Equity Interests in USA Securities shall receive no distribution under the Plan.	0%

II. VOTING

A. Deadline for Receipt of Ballots, and Admonition to Vote If Eligible

ALL BALLOTS MUST BE RECEIVED BY [December ____], 2006, OR THEY WILL NOT BE COUNTED. As delays in the delivery of mail can occur, the Debtors urge you to mail or deliver your ballots well in advance of the voting deadline.

IT IS IMPORTANT THAT YOU VOTE. VOTING ON THE PLAN WILL AFFECT YOUR RIGHTS. DETERMINING THE OUTCOME OF BALLOTING ON THE PLAN REQUIRES A CALCULATION THAT CONSIDERS THE VOTES OF THOSE CREDITORS AND EQUITY INTEREST HOLDERS (IF ENTITLED TO VOTE) WHO ACTUALLY VOTED ON THE PLAN. FURTHER, IF THE PLAN IS CONFIRMED, IT IS BINDING ON ALL CREDITORS AND EQUITY INTEREST HOLDERS, WHETHER OR NOT YOU VOTED OR

1 WHETHER OR NOT YOU VOTED FOR OR AGAINST THE PLAN. THUS, YOUR RIGHTS
2 MAY BE AFFECTED EVEN IF YOU DO NOT VOTE ON THE PLAN. YOUR
3 OPPORTUNITY TO HAVE THE OUTCOME YOU DESIRE WILL LIKELY BE ENHANCED
4 IF YOU VOTE. THE DEBTORS REQUEST, THEREFORE, THAT YOU VOTE IF YOU ARE
5 ENTITLED TO DO SO AND THAT YOU TAKE STEPS TO ENSURE THAT YOUR BALLOT
6 IS RECEIVED IN TIME TO BE COUNTED.

7 **B. Entities Entitled to Vote**

8 Only creditors and equity interest holders whose claims or interests have been allowed for
9 purposes of voting and are “impaired” by the Plan are entitled to vote on the Plan. For a claim to
10 be allowed for voting purposes, the claim must be listed in the Debtors’ Schedules of Assets and
11 Liabilities (“Schedules”), or you must have filed a proof of claim describing the claim by the
12 “Voting Record Date” (defined below), or the claim must be a “Direct Lender Compromise
13 Claim” (defined below) in Class A-5 under the Plan. A scheduled claim is allowed for voting
14 purposes if it is listed on the Schedules but is not listed as “disputed,” “contingent” or
15 “unliquidated.” If a claim in the Schedules is listed as “disputed,” “contingent” or “unliquidated,”
16 the holder of the claim will not be entitled to vote absent the timely filing of a proof of claim.

17 If a claim is not listed in the Schedules, or is listed as “disputed,” “contingent” or
18 “unliquidated,” the holder of the claim is not entitled to vote unless the holder files a proof of
19 claim on or before [the “Voting Record Date” set by the Court, which is November ____, 2006],
20 or unless the claim is a “Direct Lender Compromise Claim,” which is a type of claim that all
21 Direct Lenders are deemed to hold in order to allow them to vote in Class A-5 under the Plan.
22 Moreover, no holder of a claim will be entitled to vote if any party in interest objects to that claim
23 before balloting on the Plan (or any amended Plan) occurs, unless the Court enters an order
24 allowing the claim for voting purposes notwithstanding the objection.

25 For an equity interest to be allowed, the equity interest holder’s asserted interest must
26 appear on the lists of Fund Members in DTDF and FTDF maintained by the Debtors that were
27 deemed to be filed with the Court pursuant to the Stipulated Order entered September 15, 2006
28 (docket no. 1293) and from which an individual notice was mailed to each Fund Member

1 specifying the amount of the Fund Member’s interest per the Debtors’ records, or the holder of the
2 equity interest must have filed a proof of interest before [the Voting Record Date, which is
3 November ____, 2006]. In addition, no entity claiming to hold an equity interest may vote if any
4 party in interest has objected to the allowance of the asserted interest before balloting on the Plan
5 (or any amended Plan) occurs, unless the Court enters an order allowing the interest for voting
6 purposes notwithstanding the objection.

7 In addition to the foregoing criteria for voting eligibility, only classes in which the claims
8 or interests of creditors and equity interest holders are “impaired” by the Plan (i.e., those whose
9 claims or interests are altered or who will not receive the full allowed amount of their claims in
10 cash pursuant to the original terms of their agreements) are entitled to vote to accept or reject the
11 Plan. Holders of claims that are not “impaired” are deemed to have accepted the Plan as a matter
12 of law. The Plan designates which classes are “impaired” under, and thus entitled to vote on, the
13 Plan.

14 If the claim or interest you hold has been classified in one of the impaired classes of claims
15 or interests created by the Plan (and that class is not deemed to have rejected the Plan), it is
16 important that you vote. The classes of claims impaired under the Plan and entitled to vote to
17 accept or reject the Plan are Classes A-4, A-5, D-4, and E-4. The classes of interests that are
18 impaired, but that are not deemed to have rejected the Plan, are Classes B-5 and C-5. In addition,
19 if you hold more than one claim or interest classified as “impaired” and entitled to vote under the
20 Plan, it is important that you vote with respect to each such claim or interest.

21 Allowance or disallowance of a claim or interest for voting purposes will not be
22 determinative of the allowable amount, if any, of such claim or interest for purposes of distribution
23 under the Plan.

24 C. Voting Instructions

25 1. The Voting Record Date

26 The Court has approved [November ____], 2006, as the record date for purposes of
27 determining which creditors and equity interest holders are entitled to vote on the Plan (the
28 “Voting Record Date”).

1 2. The Voting Deadline

2 **The Court has approved [December ____], 2006 at 4:00 p.m. prevailing Pacific Time**
3 **as the voting deadline (the “Voting Deadline”).** To be counted as votes to accept or reject the
4 Plan, all ballots must be properly executed, completed and delivered by (a) first class mail; (b)
5 overnight courier; or (c) personal delivery, **so that they are actually received**, in any case, by the
6 Debtors’ solicitation agent, BMC Group, Inc. (the “Solicitation Agent”), at the appropriate address
7 below, no later than the Voting Deadline:

8 If by first class mail:

9 BMC Group
10 Attn: USACM Solicitation Agent
11 P. O. Box 911
12 El Segundo, CA 90245-0911
13 BMC Group

14 If by overnight courier or personal delivery:

15 BMC Group
16 Attn: USACM Solicitation Agent
17 1330 East Franklin Avenue
18 El Segundo, CA 90245

19 AS MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THAT THE BALLOT OR BALLOTS
20 BE MAILED OR DELIVERED WELL IN ADVANCE OF THE DEADLINE SPECIFIED
21 ABOVE. BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE
22 COUNTED.

23 Each creditor or equity interest holder entitled to vote should receive a ballot for each
24 separately classified, impaired claim or interest held. If you do not receive the required number of
25 ballots with your copy of the Court-approved Disclosure Statement, immediately notify the
26 Solicitation Agent for the Debtors by contacting BMC Group by telephone, toll-free at 888-909-
27 0100.

28 **D. Results of Balloting Determined by Class**

 Claimants and interest holders vote by class. In general, a class of claimants accepts the
Plan if those creditors who vote to accept it hold at least two-thirds (2/3) in dollar amount and

1 more than one-half (1/2) in number of the allowed claims in the class that actually vote on the
2 Plan. In general, a class of equity interest holders accepts the Plan if it is accepted by those who
3 hold at least two-thirds (2/3) in amount of the allowed interests in the class that actually voted on
4 the Plan. A class that is not “impaired” under the Plan is “conclusively presumed” to have
5 accepted the Plan under section 1126(f) of the Bankruptcy Code. This means that each holder of a
6 claim or interest in a class that is not impaired is presumed to have accepted the Plan. Conversely,
7 a class in which the holders of a claim or interest will not receive or retain any property under the
8 Plan on account of their claim or interest is deemed to have rejected the Plan under section
9 1126(g) of the Bankruptcy Code.

10 **E. Confirmation Based Upon Acceptance of Plan by All Impaired Classes**

11 One of the statutory requirements that must be met for the Plan to be confirmed is that
12 under section 1129 of the Bankruptcy Code each of the impaired classes of claims or interests
13 must have accepted the Plan. Alternatively, if all impaired classes do not accept the Plan, and
14 certain additional requirements are met including that at least one impaired class of claims as to
15 each of the Debtors accepts the Plan, then section 1129 of the Bankruptcy Code allows the
16 Debtors to seek to confirm the Plan over the negative vote of one or more classes of claims or
17 interests. Further, because the Plan consists of a plan of reorganization for each of the five
18 separate Debtors, the Debtors reserve the right to request confirmation of the Plan for one or more
19 but less than all the Debtors under section 1129(b) of the Bankruptcy Code.

20 **F. Confirmation Over the Objections of One or More Impaired Classes**

21
22 If an impaired class rejects the Plan but at least one other impaired class of each of the
23 Debtors has accepted it, the Plan may still be confirmed by the Court at the request of the Debtors.
24 To grant such a request, the Court must find, among other things, that the Plan does not
25 “discriminate unfairly” and that it is “fair and equitable” with respect to each impaired class that
26 rejected the Plan.

27 The phrases “discriminate unfairly” and “fair and equitable” are defined in section 1129(b)
28 of the Bankruptcy Code and by the case law interpreting that statute. In other words, those

1 phrases are “terms of art” and denote specific criteria for confirmation that the Plan must satisfy to
2 be confirmed by the Court if any impaired class rejects the Plan.

3 The Debtors believe the Plan satisfies the statutory criteria required by section 1129(b) of
4 the Code, and they intend to request confirmation of the Plan in the event it is rejected by any
5 impaired class. Further, in accordance with section 1127 of the Bankruptcy Code, the Debtors
6 reserve the right to alter, amend, modify, revoke or withdraw the Plan or any Plan exhibit or
7 schedule, including to amend or modify it to satisfy the requirements of section 1129(b) of the
8 Bankruptcy Code for one or more of the Debtors.

9 **III. DEADLINE FOR FILING APPLICATIONS OR OTHER REQUESTS FOR**
10 **PAYMENT OF ADMINISTRATIVE EXPENSES**

11 The Plan establishes deadlines for the filing of applications or other requests for payment
12 of administrative expenses. Generally, administrative expenses are certain types of claims that
13 arise only after the Petition Date and do not include claims that existed as of the Petition Date. If
14 you have a claim for the payment of administrative expenses under sections 503(b) and 507(a)(2)
15 of the Bankruptcy Code, you must file with the Court an application or request for payment of
16 such administrative expense on or before the applicable bar date. For professionals employed by
17 the Debtors or the Committees, this bar date is 45 days after the Plan become effective (the
18 “Effective Date”). For all other claims for administrative expenses, the bar date is 30 days after
19 the Effective Date. If you do not timely file an application or request for payment of an
20 administrative expense claim before the applicable deadline, your administrative expense claim
21 will not receive any distribution under the Plan and will be forever barred.

22 Consequently, if you have a claim for payment of an administrative expense, review the
23 provisions of the Plan and this Disclosure Statement and timely file an application or request for
24 payment of such administrative expense to which you may be entitled with the Clerk of the Court
25 at the following address, or your claim will be forever barred:

26 U.S. Bankruptcy Court
27 Foley Federal Building
28 300 Las Vegas Boulevard South
Las Vegas, NV 89101

1 In addition, send a copy of the application or request to attorneys for the Debtors at the following
2 address:

3 Annette W. Jarvis
4 Steven C. Strong
5 RAY QUINNEY & NEBEKER P.C.
6 36 South State Street, Suite 1400
7 P.O. Box 45385
8 Salt Lake City, Utah 84145-0385

9 **IV. DEADLINE FOR FILING PROOFS OF CLAIM ARISING FROM REJECTION**
10 **OF UNEXPIRED LEASES AND EXECUTORY CONTRACTS**

11 **A. Deadline for Filing Proofs of Claims**

12 As soon as practicable after the Court approves this Disclosure Statement but in no event
13 later than twenty (20) days prior to the commencement of the Confirmation Hearing (defined
14 below), the Debtors will file a schedule with the Court setting forth all unexpired leases or
15 executory contracts, if any, that they intend to assume. At this time, the Debtors do not anticipate
16 assuming any unexpired leases or executory contracts but reserve their right to do so. The Plan
17 provides that all remaining unexpired leases or executory contracts not previously rejected that are
18 not listed on the schedule are rejected, as permitted by sections 365 and 1123 of the Bankruptcy
19 Code. The Debtors do not consider the various loan servicing agreements USACM entered into
20 with Direct Lenders to service loans (“Loan Servicing Agreements”) to be executory contracts.
21 Claims relating to USACM’s services under the Loan Servicing Agreements are not deemed to be
22 executory contract related claims but are treated as Class A-4 claims, as described below.

23 If you have an unexpired lease or an unfulfilled executory contract with any of the Debtors
24 that has been or will be thus rejected, you have until thirty days after the date that the order
25 confirming the Plan (“Confirmation Order”) is entered (“Confirmation Date”) to file with the
26 Court a claim for damages arising from the rejection of the unexpired lease or executory contract.
27 If you do not timely file a claim within this time period, you will not receive any distribution on
28 your claim under the Plan, and your claim will be forever barred. Any claim arising out of the
rejection of an unexpired lease or executory contract will be treated as a general unsecured claim.

1 If you have an unexpired lease or executory contract with one of the Debtors that has been
2 or will be rejected, review the provisions of the Plan and this Disclosure Statement and timely file
3 a proof of any claim to which you may be entitled or your claim will be forever barred. File your
4 proof of claim with the Clerk of the Court at the following address:

5 U.S. Bankruptcy Court
6 Foley Federal Building
7 300 Las Vegas Boulevard South
8 Las Vegas, NV 89101

8 In addition, send a copy of the proof of claim to attorneys for the Debtors at the following address:

9 Annette W. Jarvis
10 Steven C. Strong
11 RAY QUINNEY & NEBEKER P.C.
12 36 South State Street, Suite 1400
13 P.O. Box 45385
14 Salt Lake City, Utah 84145-0385

13 **B. USACM's Unexpired Non-Residential Real Property Leases**

14 As of the Petition Date, USACM was the lessee under unexpired, non-residential real
15 property leases with the following lessors (collectively, the "Leases"):

16 <u>Lessor</u>	17 <u>Premises</u>
18 1) Pecos Professional Park 19 Limited Partnership ("Pecos Lease")	4484 South Pecos Road, Las 20 Vegas, Nevada 89121
21 2) P&P Enterprises LLC ("P&P" Lease)	940 Southwood Boulevard, 22 Incline Village, Nevada 23 known as Timber Ridge 24 Plaza, Suite 103
25 3) S&J Enterprise Investments, Inc. ("S&J" Lease")	488 Reno Corporate Drive, 26 Suite 100, Reno, Nevada 89511
27 4) Haspinov, LLC ("Haspinov Lease")	4480 South Pecos Road, Las 28 Vegas, Nevada 89121

25 Other than USACM, none of the other Debtors were or are parties to any non-residential real
26 property leases.

27 USACM has rejected the P&P Lease, and the order approving the rejection of this lease
28 was entered on May 22, 2006. USACM has also rejected the S&J Lease, and the order approving

1 the rejection of this lease was entered on August 1, 2006. The P&P Lease and the S&J Lease were
2 rejected because USACM was no longer operating out of these leased premises.

3 USACM has entered into a stipulation and order to extend the time for it to assume or
4 reject the Pecos Lease and the Haspinov Lease until November 11, 2006. USACM is working
5 towards obtaining another stipulation and order to further extend the time for it to assume or reject
6 the Pecos Lease and the Haspinov Lease. USACM is currently operating out of the Pecos Lease
7 and Haspinov Lease premises, but has not yet determined whether to assume and assign, or to
8 reject those leases.

9 **V. DATE AND TIME OF HEARING ON CONFIRMATION OF THE PLAN**

10 A copy of the Plan is attached as *Exhibit 1* to this Disclosure Statement. The Court has
11 scheduled a hearing to consider confirmation of the Plan on December 15, 2006, at 9:30 a.m. PST
12 in the courtroom of the Honorable Linda Riegle (“Confirmation Hearing”). The Court has ordered
13 that objections, if any, to confirmation of the Plan must be filed on or before [December ____],
14 2006, and served on the attorneys for the Debtors at the following address:

15 Annette W. Jarvis
16 Steven C. Strong
17 RAY QUINNEY & NEBEKER P.C.
18 36 South State Street, Suite 1400
19 P.O. Box 45385
20 Salt Lake City, Utah 84145-0385

21 If you object to the confirmation of the Plan you must file a timely objection to confirmation,
22 whether or not you vote to accept or reject the Plan. You may vote to accept or reject the Plan (if
23 you are entitled to vote) whether or not you file an objection to confirmation of the Plan. The date
24 of the Confirmation Hearing may be continued to such later time(s) as the Court may announce
25 during the Confirmation Hearing without further written notice.

26 **VI. DESCRIPTION OF THE DEBTORS AND THEIR BUSINESSES**

27 **A. USA Commercial Mortgage Company**

28 USACM, which sometimes did business under the trade name “USA Capital,” is a Nevada
corporation with its sole remaining offices located in Las Vegas at the Pecos Road addresses given
above. Public records of the Nevada Secretary of State indicate that USACM was organized as of

1 February 28, 1989. Prior to the Petition Date, USACM was in the business of underwriting,
2 originating, brokering, funding and servicing commercial loans primarily secured by residential
3 and commercial developments, both on behalf of investors and for its own account. USACM has
4 been licensed as a mortgage broker by the State of Nevada since January 11, 1990, although its
5 license was limited by the Mortgage Lending Division of the State of Nevada after the Petition
6 Date to exclude raising investment funds from individual investors.

7 The primary shareholders of USACM are Thomas A. Hantges, Joseph D. Milanowski and
8 Paul S. Hamilton (either in their own names or through trusts they control) who also managed
9 USACM as officers and directors prior to the Petition Date. As of the Petition Date, they
10 relinquished management authority to Thomas J. Allison of Mesirow Financial Interim
11 Management, LLC (“MFIM”), who became the President and Chief Restructuring Officer of
12 USACM on that date. Mr. Allison continues to serve in those capacities to the present. Other
13 management employees of USACM appointed after the Petition Date were Mark L. Olson, Vice
14 President and Chief Operating Officer; Robert A. Hilson, Treasurer and Chief Financial Officer;
15 and A. Faisal Siddiqui, Vice President and Chief Technology Officer. Mr. Hilson’s employment
16 was terminated in September 2006.

17 As of the Petition Date, the loan portfolio that USACM was servicing consisted of
18 approximately 115 loans having a combined outstanding balance of approximately \$960 million.
19 Since the Petition Date, USACM’s new management has aggressively engaged in efforts to collect
20 outstanding loan amounts. As of September 30, 2006, the total outstanding balance of the
21 serviced loans was approximately \$791 million. A loan summary spreadsheet created by MFIM
22 providing information as of September 30, 2006, concerning each of the serviced loans is attached
23 hereto as *Exhibit 2*. Similar loan summaries created by MFIM as of earlier dates, including April
24 26, 2006, May 26, 2006, June 30, 2006, July 31, 2006, and August 31, 2006, are available for
25 review on USACM’s website at usacapitalcorp.com.

26 Prior to the Petition Date, USACM’s business included soliciting individual investors to
27 purchase fractional interest in loans, as well as originating and servicing the loans. As of the
28 Petition Date, there were approximately 3,600 investors whose names appear as a “Lender” in the

1 documents for one or more of the serviced loans. In the Debtors' bankruptcy cases and in this
2 Disclosure Statement, the loan investors have been referred to as "Direct Lenders." Many of the
3 Direct Lenders invested in more than one of the serviced loans, with the average being
4 approximately 3 to 4 loans for each Direct Lender. Along with being the servicer, USACM is
5 itself a Direct Lender having an aggregate investment of approximately \$2 million as of June 30,
6 2006, in the serviced loans. Two of the other Debtors, DTDF and FTDF, are also Direct Lenders
7 having interests in certain of the serviced loans, as explained below.

8 **B. USA Capital Diversified Trust Deed Fund, LLC**

9 DTDF is a Nevada limited liability company organized as of February 3, 2000. A copy of
10 DTDF's Operating Agreement is on file with the Court at Docket # 1590. It appears that the
11 purpose of DTDF was to allow USACM to offer investors (in Nevada only) the opportunity to
12 invest in loans that USACM originated by purchasing membership interests in a fund (i.e., DTDF)
13 that then invested in various loans, rather than (or in addition to) the investor investing directly in
14 the loans. Because DTDF was not a fund registered with the U.S. Securities and Exchange
15 Commission ("SEC"), it could not solicit investors beyond the State of Nevada. DTDF's stated
16 purpose was to make or purchase entire or fractional interests in acquisition, development,
17 construction, bridge or interim loans that were secured by first deeds of trust on, among other
18 things, undeveloped land and residential and commercial developments located primarily in the
19 United States. There was a continuous offering of membership interests (known as "units") in
20 DTDF from May 2000 to July 2004. In July 2004, DTDF stopped offering the sale of membership
21 units, and on September 27, 2005, the investors were notified that DTDF would be liquidating.
22 DTDF had approximately 1,350 members as of the Petition Date. The aggregate outstanding
23 balance owed to DTDF on its loan investments as of July 31, 2006, was \$117,742,343, consisting
24 of 21 loans (excluding the former Epic and Sheraton loans) in which DTDF invested as a Direct
25 Lender. The loans were all originated by USACM. As explained in further detail below, although
26 DTDF loans were supposed to be secured by first deeds of trust and have other protections for
27 DTDF investors, those protections were not generally provided by USACM.

28 Prior to the Petition Date, the sole manager of DTDF was nominally another of the

1 Debtors, USA Realty (described below), however, all management services were actually
2 provided by USACM and USACM received all of the management fees collected from DTDF.
3 Pursuant to an order of the Court entered shortly after the Petition Date, Mr. Allison is serving as
4 the chief restructuring officer of DTDF as well as the four other Debtors.

5 **C. USA Capital First Trust Deed Fund, LLC**

6 FTDF is a Nevada limited liability company organized as of February 16, 2001. A copy of
7 the FTDF Operating Agreement is on file with the Court at Docket # 1591. It appears that the
8 purpose of FTDF was to allow USACM to offer investors throughout the United States (not just in
9 Nevada, as was the case with DTDF) the opportunity to invest in loans that USACM originated by
10 purchasing membership interests in a fund (FTDF) that invested in various loans, rather than (or in
11 addition to) the investor investing directly in the loans. Prior to the Petition Date, FTDF filed
12 reports and disclosures with the SEC. FTDF's stated purpose was to make or purchase entire or
13 fractional interests in acquisition, development, construction, bridge or interim loans that were
14 secured by first deeds of trust on, among other things, undeveloped land and residential and
15 commercial developments located primarily in the United States. FTDF had approximately 950
16 members as of the Petition Date. The aggregate outstanding balance owed to FTDF on its loan
17 investments as of July 31, 2006, was \$62,653,825, consisting of 47 loans in which FTDF invested
18 as a Direct Lender. The loans were all originated by USACM.

19 FTDF offered four classes of membership, Class A, B, C and D. Class A members agreed
20 to commit their capital contributions for a period of twelve (12) months and were to receive the
21 "Class A Preferred Return" defined as "nine percent (9%) per annum, or such other percentage
22 determined by the manager from time to time, in its sole and absolute discretion, without
23 reinvesting." See Second Amended and Restated Operating Agreement of FTDF, dated as of June
24 1, 2003, ("FTDF Operating Agreement") ¶¶ 1.13, 1.14, & 1.15. Class B members agreed to
25 commit their capital contributions for a period of twenty-four (24) months and were to receive the
26 "Class B Preferred Return" defined as "ten percent (10%) per annum, or such other percentage
27 determined by the manager from time to time, in its sole and absolute discretion, without
28 reinvesting." See FTDF Operating Agreement ¶¶ 1.16, 1.17, & 1.18. Class C members agreed to

1 commit their capital contributions for a period of thirty-six (36) months and were to receive the
2 “Class C Preferred Return” defined as “eleven percent (11%) per annum, or such other percentage
3 determined by the manager from time to time, in its sole and absolute discretion, without
4 reinvesting.” See FTDF Operating Agreement ¶¶ 1.19, 1.20, & 1.21. The Class D member of
5 FTDF is USA Securities (see below), and does not receive the returns described above for Class A
6 members, Class B members, or Class C members.

7 Prior to the Petition Date, the manager of FTDF was USA Realty (described below), and
8 another of the Debtors, USACM, acted as the loan servicer. USA Realty’s management duties
9 included investing funds, hiring and paying professionals, preparing tax returns, and other duties.
10 Pursuant to an order of the Court entered shortly after the Petition Date, Mr. Allison is serving as
11 the chief restructuring officer of FTDF as well as the four other Debtors.

12 **D. USA Securities, LLC**

13 USA Securities is a Nevada limited liability company organized as of March 3, 1999. The
14 Company is a registered broker-dealer under SEC Rule 15c3-1(a)(2)(vi) and was a member of the
15 National Association of Securities Dealers (NASD). It appears that the primary business of USA
16 Securities was to sell membership interests in FDTF. USA Securities is dormant and has
17 conducted no business on or after the Petition Date.

18 Prior to the Petition Date, the sole members and co-managers of USA Securities were
19 Joseph Milanowski and Paul Hamilton. On and after the Petition Date, and pursuant to resolutions
20 filed with USA Securities’ bankruptcy petition, Thomas J. Allison of MFIM became the sole
21 manager of USA Securities. Pursuant to an order of the Court, Mr. Allison is also serving as the
22 chief restructuring officer of USA Securities as well as the four other Debtors.

23 **E. USA Capital Realty Advisors LLC**

24 USA Realty is a Nevada limited liability company organized as of January 18, 2001. It is
25 the manager of FTDF and DTDF. USA Realty is owned by USA Investment Partners LLC
26 (“USAIP”), and prior to the Petition Date USA Realty’s sole managing member was Joseph
27 Milanowski. (Based on records in possession of the Debtors, USAIP is owned by Thomas
28 Hantges, Joseph Milanowski, and Paul Hamilton, either directly or through trusts controlled by

1 these individuals.)

2 On and after the Petition Date, and pursuant to resolutions filed with USA Realty's
3 bankruptcy petition, Thomas J. Allison of MFIM became the sole manager of USA Realty.
4 Pursuant to an order of the Court, Mr. Allison is also serving as the chief restructuring officer of
5 USA Realty as well as the four other Debtors.

6 **F. Other Related Entities**

7 Attached hereto as *Exhibit 3* is a chart showing relationships among the five Debtors, the
8 non-debtor entity USAIP, and certain related non-debtor entities.

9 **G. Factors Precipitating Debtors' Bankruptcy Filings**

10 Prior to April 2006, it appears that USACM regularly made monthly interest payments to
11 Direct Lenders regardless of whether the borrowers of the particular loans in which the Direct
12 Lenders had an interest were paying USACM. For example, during the first three months of 2006,
13 USACM collected on average approximately \$5.3 million per month in interest payments on the
14 serviced loans from the borrowers but paid out on average approximately \$9.7 million per month
15 to the Direct Lenders, using, among other sources, principal paid on loans from other borrowers to
16 make these interest payments. MFIM has determined that as of the Petition Date, USACM made
17 approximately \$39.5 million in such "prepaid" interest payments to Direct Lenders (defined in the
18 Plan as "Prepaid Interest"). USACM did not have sufficient funds to make monthly interest
19 payments to all Direct Lenders in April 2006, and therefore did not make any March 2006
20 payments (which were due in April) to any of the Direct Lenders. USACM's inability to continue
21 making monthly payments to all Direct Lenders was a significant contributing factor to the
22 Debtors' decision to file for bankruptcy protection.

23 Another significant contributing factor was an investigation by the SEC. Prior to the
24 Petition Date, USACM and FTDF received notice from the SEC that they were the subject of a
25 regulatory investigation. FTDF and USACM believe that reorganization under Chapter 11 of the
26 Bankruptcy Code would result in a greater return to creditors of their estates, FTDF investors and
27 to Direct Lenders than would a potential receivership by the SEC.

28 ///

1 **VII. POST-PETITION DEVELOPMENTS**

2 **A. Investigating and Restating Debtors' Loan Records**

3 On April 13, 2006, the Debtors filed for bankruptcy protection. As explained, Thomas J.
4 Allison of MFIM was appointed by the Board of Directors as the President, Chief Executive
5 Officer, and Chief Restructuring Officer of USACM, and as the Manager and Chief Restructuring
6 Officer of the other four Debtors (which are limited liability companies). Mr. Allison's first action
7 was to terminate the employment of Joseph Milanowski and Thomas Hantges as the principal
8 officers and management of USACM. Mr. Allison and MFIM next began an intensive review and
9 investigation of the books and records of USACM and the four other related Debtors. As
10 explained, USACM was the loan servicer for the portfolios of the Direct Lenders, including FTDF
11 and DTDF. To date, the post-petition investigation of the Debtors, which is ongoing, indicates
12 that USACM made monthly payments to the Direct Lenders, DTDF, and FTDF regardless of
13 whether the borrower had paid the interest due. Further, full principal repayments by at least four
14 borrowers were collected by USACM but not disbursed to the appropriate Direct Lenders (referred
15 to in the Plan as "Unremitted Principal"). Evidence of other irregularities includes a lack of any
16 attempt to obtain collateral to secure at least four loans, loans without properly perfected security
17 interests, loans secured by second liens, and other potential violations of the Nevada mortgage
18 lending statutes. In addition, many of the loans appear to have been extended to borrowers who
19 were affiliated or otherwise related to USACM's pre-petition management, such that the borrower
20 entities were partially owned by the owners and officers of USACM through one or more of their
21 various entities (including USAIP). Many of these loans were non-performing loans in that the
22 underlying borrower had not paid the interest due. Further investigation and analysis has
23 continued. To date, the history of fundings, assignments of fractional interests in an out of loans,
24 interest paid and received, and principal payments has been reconstructed for 110 of the 115 loans
25 in the USACM portfolio. Five loans are still under investigation due to lack of records,
26 foreclosure, litigation, or other special situations. This reconstruction identified over 25 loans
27 which were seriously delinquent (meaning they were over 6 months past due). Collection efforts
28 have focused on these 25 loans and other past due loans.

1 **B. Significant Post-petition Motions and Other Court Filings**

2 Many significant motions and other papers have been filed with and ruled on by the Court
3 in the Debtors' jointly administered bankruptcy cases. As of November 3, 2006, the Court's
4 docket in the jointly administered case (Bankruptcy Case No. 06-10725) contains 1,725 entries.
5 The full docket and copies of all of the significant filings and orders in the Debtors' bankruptcy
6 cases are publicly available free of charge through the Debtors' website, usacapitalcorp.com (click
7 on "Filings"). Several of the most significant Court rulings to date are detailed below.

8 1. Orders Approving Debtors' Use of Cash. If the Debtors were not able to
9 use the cash in the Debtors' bankruptcy estates, the Debtors would be unable to collect amounts
10 owed from borrowers on outstanding loans and unable to continue other business operations
11 essential in attempting to maximize the return to creditors, Direct Lenders, and Fund Members in
12 these bankruptcy cases. In response to periodic motions made by the Debtors requesting
13 permission to continue using cash for the essential operations and administrative expenses of the
14 Debtors, the Court entered orders on April 19 [docket no. 32], May 9, May 22 [docket no. 315],
15 July 25 [docket no. 974], and September 14, 2006 [docket no. 1282], allowing Debtors to continue
16 using cash in the bankruptcy estates pursuant to proposed cash budgets prepared by MFIM. On
17 October 5, 2006, Debtors filed a Motion for Order Approving Continued Use of Cash Through
18 January 31, 2007 Pursuant to Fourth Revised Budget [docket no. 1451]. This Motion was
19 approved by the Court at the October 30, 2006 hearing, although a written order has not yet been
20 entered by the Court.

21 2. Orders Approving Debtors' Employment of Professionals. The Debtors
22 filed applications requesting authority to retain Thomas J. Allison as chief restructuring officer,
23 MFIM as restructuring and financial advisors [docket no. 6], Ray Quinney & Nebeker P.C. as
24 general bankruptcy counsel [docket no. 23], and Schwartzer-McPherson Law Firm as local
25 Nevada bankruptcy counsel [docket no. 21]. On April 19, 2006, the Court entered an order
26 granting interim approval through July 27, 2006, for the Debtors to employ Mr. Allison and
27 MFIM [docket no. 26]. On June 5, 2006, the Court entered an order granting interim approval
28 through July 27, 2006, for the Debtors to employ the two law firms mentioned above as legal

1 counsel [docket nos. 474 and 475]. On August 11, 2006, the Court entered its order extending the
2 approval for the Debtors to continue employing the above-named professionals through October 2,
3 2006 [docket no. 1137]. On October 31, 2006, the Court entered a further order granting approval
4 for the continued retention of all these professionals through December 15, 2006 [docket no.
5 1708].

6 3. Four Official Committees and Their Professionals. On May 10, 2006, the
7 U.S. Trustee's office filed notices indicating that four committees had been formed in the Debtors'
8 cases: (a) the Official Committee of Unsecured Creditors of USA Commercial Mortgage
9 Company [docket no. 201]; (b) the Official Committee of Holders of Executory Contract Rights
10 Through USA Commercial Mortgage Company [docket no. 202]; (c) the Official Committee of
11 Equity Security Holders of USA Capital Diversified Trust Deed Fund, LLC [docket no. 203]; and
12 (d) the Official Committee of Equity Security Holders of USA Capital First Trust Deed Fund,
13 LLC [docket no. 204]. Shortly thereafter, the Court approved applications by each of the
14 committees to employ legal counsel and the applications of three of the four committees to employ
15 financial advisors (the Executory Contract Rights Committee has not employed a financial
16 advisor). Each of the committees has established a website containing further information that is
17 available through a link on the usacapitalcorp.com website.

18 4. Approval of Motion to Hold Funds. On May 8, 2006, USACM filed a
19 motion requesting permission to temporarily hold funds pending a determination of the proper
20 recipients and proper holdback amounts [docket no. 173]. USACM filed this motion, as directed
21 by the Court, to obtain permission from the Court to continue holding funds in USACM's loan
22 servicing collection account until USACM could complete its review and restatement of the
23 Debtors' loan servicing records. After considering all of the responses and oppositions to the
24 motion, the Court granted USACM's motion in an order entered July 6, 2006 [docket no. 836].
25 Although the Court approved USACM's request to continue to hold the funds temporarily, the
26 Court did not make any final rulings respecting the rights of any party to the funds that were being
27 held.

28 5. Debtors' Bankruptcy Statements and Schedules. On June 15, 2006, each of

1 the Debtors filed its Statement of Financial Affairs (“Statements”) and its Schedules, as required
2 by the Bankruptcy Code [docket nos. 673-682], and on June 23, 2006, certain amendments to the
3 Statements and Schedules were filed [docket no. 784]. Given the pre-petition loan servicing
4 irregularities and problems with the Debtors’ accounting records, the preparation and filing of the
5 Statements and Schedules represented a major effort by the Debtors’ new management and MFIM.

6 6. Investor Statements Mailed to All Direct Lenders and Fund Members.

7 Although not filed with the Court, investor statements as of the Petition Date were prepared and
8 mailed to all Direct Lenders and Fund Members on July 10, 2006, which was another major
9 milestone in the Debtors’ cases. After completing the accounting investigations and restatements
10 necessary to produce and file the Statements and Schedules, the Debtors were then able to prepare
11 and mail these investor statements to each Direct Lender indicating what their position was with
12 respect to each loan that they had an interest in as of the Petition Date. Investor statements were
13 also prepared and mailed to the Fund Members indicating what their respective interests were in
14 DTDF and FTDF. Shortly thereafter, the Debtors were able to update the loan accounting records
15 for each Direct Lender through June 30, 2006, and an updated investor statement was mailed to
16 each Direct Lender on July 27, 2006. Additional investor statements were mailed out to Direct
17 Lenders on August 25, 2006, and October 20, 2006.

18 7. \$64 Million Distribution Approved by Court and Mailed to Investors. One

19 of the primary goals of Debtors’ new, post-petition management was to distribute to investors, as
20 promptly as possible after the initial accounting work and reconstruction of the loan records was
21 completed, a significant portion of the funds USACM had collected and was holding. The
22 Debtors accomplished this goal through their Motion to Distribute Funds [docket no. 847], which
23 elicited numerous responses and oppositions but which the Court approved at a hearing held on
24 August 4, 2006. The Court’s order granting the motion was entered on August 24, 2006 [docket
25 no. 1184], and the distributions, totaling approximately \$64.3 million and representing approved
26 distributions on loan collections through June 2006 (after Court-approved holdbacks), were mailed
27 to Direct Lenders on August 25, 2006. Shortly thereafter, FTDF distributed the approved portion
28 of the payments it received (after an appropriate reserve for claims) to its Fund Members.

1 8. Order Granting Proposed Procedures for Distributions on a Monthly Basis.
2 On August 29, 2006, Debtors filed their Modification to Motion to Distribute Funds and Proposed
3 Procedures for Ongoing Distributions [docket no. 1203] in which they sought to extend and
4 modify the relief requested in the Motion to Distribute Funds and to propose specific procedures
5 by which future interim distributions could be made to direct lenders and fund members on a
6 monthly basis. On October 2, 2006, the Court entered a Modified Order Authorizing Interim
7 Distributions and Holdbacks [docket no. 1424] setting forth the procedures for future monthly
8 distributions less certain holdbacks. Pursuant to this order, a second interim distribution of
9 approximately \$61.3 million from the USACM collection account was mailed to Direct Lenders
10 on or about October 20, 2006, representing approved distributions on loan collections during July
11 and August 2006. Shortly thereafter, FTDF distributed the approved portion of the payments it
12 received (after an appropriate reserve for claims) to its Fund Members. A distribution on account
13 of loan collections received during September 2006 is expected to be made in November 2006. A
14 distribution for October 2006 collections should be made in late November 2006.

15 9. Order Scheduling Auction and Establishing Bid Procedures. Over the
16 course of the last few months, a primary focus of the Debtors has been to negotiate the terms of
17 the Asset Purchase Agreement with SPCP Group, LLC (“Silver Point”) to establish a lead bid for
18 the purchase of certain assets of FTDF and USACM which bid would then be subjected to an
19 auction process to determine if the assets could be sold for a higher and better offer. Accordingly,
20 on September 22, 2006, after extensive discussions with counsel for the Committees and Silver
21 Point, Debtors filed a Motion for Order Scheduling an Auction for the Sale of Certain Assets,
22 Appointing SPCP Group, LLC, as Lead Bidder, and Approving Bid Procedures and Protections
23 (the “Bid Procedures Motion”) [docket no. 1352]. On October 26, 2006, the Bid Procedures
24 Motion was approved by the Court subject to some minor modifications, and the order relating
25 thereto is expected to be entered on or prior to November 8, 2006.

26 10. Approval of Motion for Retention of Employees. On October 3, 2006, a
27 Motion for Order Approving Retention Plan of Debtors’ Remaining Employees (the “Retention
28 Motion”) [docket no. 1429] was filed. Since the Petition Date, most of the Debtors’ pre-petition

1 employees were terminated by Debtors' current management or left voluntarily for other work.
2 The Retention Motion was filed to request approval of certain incentives to encourage the
3 remaining eleven employees to stay until confirmation of the Plan. The Debtors believed that the
4 cost of the incentives would be less expensive than if the Debtors had to replace those employees
5 with professional consultants or temporary employees. The Court approved the Retention Motion
6 at the October 30, 2006 hearing, and entry of the written order is pending.

7 11. Order Denying Motion to Convert Case to a Chapter 7. On October 24,
8 2006 the United States Trustee ("UST") filed a Motion to Convert Case to Chapter 7 (the
9 "Conversion Motion") [docket no. 1661]. The UST argued that the requirements were met for the
10 case to be converted under 11 U.S.C. § 1112(b). The Conversion Motion was strongly opposed by
11 the Debtors and all four of the Committees appointed by the UST who argued that conversion to a
12 liquidating Chapter 7 at this point would be disastrous and not in the best interest of creditors and
13 the estates. At a hearing on October 30, 2006, the Court denied the Conversion Motion, and the
14 written order denying the motion was entered November 1, 2006 (docket no. 1711).

15 12. Fixing of Claims Bar Date. The Court set November 13, 2006, as the
16 deadline (the "Bar Date") for all creditors and equity security holders to file proofs of claim and
17 proofs of interest. The Court recently extended the Bar Date, but only as to the filing of claims by
18 Direct Lenders, to January 13, 2007.

19 **VIII. DESCRIPTION OF POST-PETITION OPERATIONS**

20 Thomas J. Allison and the MFIM staff investigated the allegations of improper accounting
21 for the loans USACM serviced ("Serviced Loans") to reconstruct the books and records of the
22 USACM loan portfolio in order to properly account for the payments and disbursements made
23 with respect to each loan in the portfolio. The reconstruction effort focused on accounting for
24 each loan on a separate basis. This effort necessarily included an analysis of the position of each
25 Direct Lender in each specific loan. Under Mr. Allison's direction, USACM prepared a loan
26 summary as of the Petition Date containing various data respecting the 115 loans that constitute
27 the Serviced Loans. To obtain the information necessary for the loan summary, as well as for the
28 Debtors' Schedules and Statements and the investor statements prepared as of the Petition Date, it

1 was first necessary to obtain, analyze and reconstruct the loan data. This process began with
2 analyzing the existing USACM database containing data from 2004-2006.

3 MFIM determined, as of the Petition Date, that USACM's loan servicing database
4 contained substantial errors, including but not limited to the following: (a) some borrower
5 payments were not entered into the system; (b) most interest payments from borrowers were not
6 posted in a timely manner; (c) payments were not applied according to the governing loan
7 documents, which required that that payments be applied first to outstanding interest and then
8 principal; (d) the amount of interest owed by borrowers was not calculated with the correct
9 number of days outstanding or correct amount of principal owing; (e) check numbers used were
10 not in sequence or were used multiple times; and (f) servicing fees were not charged, or were
11 calculated incorrectly using an interest rate "spread" rather than the loan service fee allowed
12 pursuant to the loan servicing agreements. The research of USACM's books and records also
13 revealed that the historical data prior to 2004 was kept in Access or Excel electronic files that were
14 overwritten as they were updated, leaving no historical data or audit trail. In addition, there was
15 no reliable system for tracking the numerous assignments in and out of various loans. Thus, in
16 order to reconstruct the accounting for each loan, it was necessary to review and analyze the
17 source documentation of Direct Lenders' deposits of investment funds, fundings to the borrowers,
18 and assignments of Direct Lenders in or out of a loan. Bank deposits, deposit or clear dates from
19 bank statements, and assignments were reviewed and documented. A loan general ledger was
20 prepared for each of the Serviced Loans by using the source data and applying the correct interest
21 rate and days outstanding; applying payments first to outstanding interest then to principal;
22 correcting to use actual dates for the receipt of interest payments; calculating the amount of unpaid
23 interest owed to Direct Lenders as the promissory note interest rate less the loan servicing fee
24 allowed under the servicing agreements; tracking assignments in and out of various loans; and
25 recharacterizing payments made to Direct Lenders on a particular loan after the borrower had
26 repaid the loan as principal repayments, not interest payments (because interest was no longer due
27 from the borrower).

28 USACM, as directed by Mr. Allison, has also focused its efforts on collecting the loans in

1 its portfolio. USACM determined that there were loans that had matured as well as loans with
2 uncollected interest. A team consisting of USACM staff and MFIM staff has worked diligently to
3 collect the monies due to the Direct Lenders, including DTDF and FTDF. As of October 30,
4 2006, the team has collected approximately \$185 million, consisting of \$38 million in interest and
5 \$146 million in principal. In addition, MFIM estimates that 10 loans should be collected in the
6 next 90 days including at least 3 with substantial amounts of past due interest.

7

8 *[remainder of page intentionally left blank]*

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

1 The total USACM has collected from borrowers after the Petition Date through September
 2 30, 2006, on the serviced loans is \$184,528.383.89, which includes the amounts collected on the
 3 following loans that were repaid substantially or in full:

4	Loan	Date	Principal	Interest
5	5252 Orange LLC	6/9/2006	\$ 3,800,000.00	\$ 62,965.56
6	Ashby Financial Company LLC	9/1/2006	\$ 7,200,000.00	\$ 2,010,137.25
7	Boise Gowan 93 LLC	8/29/2006	\$ 2,425,000.00	\$ 48,984.97
8	Copper Sage Commerce Center LLC	6/22/2006	\$ 179,105.65	\$ 14,508.78
9	Del Valle Isleton	5/23/2006	\$ 6,420,000.00	\$ 123,604.23
10	Fiesta Beaumont	7/21/2006	\$ 2,400,000.00	\$ 17,499.93
11	Glendale Tower Partners, LP	8/31/2006	\$ 6,500,000.00	\$ 288,580.07
12	Golden State Investments LP	6/5/2006	\$ 2,850,000.00	\$ 173,041.84
13	HFA- North Yonkers	5/26/2006	\$ 24,000,000.00	\$ 4,168,402.75
14	HFA-Riviera	5/26/2006	\$ 5,000,000.00	\$ 767,361.09
15	HFA- Riviera 2nd	5/26/2006	\$ 8,000,000.00	\$ 2,698,080.00
16	J. Jireh Corporation	8/31/2006	\$ 8,825,000.00	\$ 198,037.00
17	LCG Gilroy LLC	6/30/2006	\$ 4,950,000.00	\$ 444,747.79
18	Midvale Marketplace LLC	7/14/2006	\$ 4,075,000.00	\$ 366,232.33
19	Opaque Land Development LLC	4/28/2006	\$ 4,827,970.00	\$ 856,614.77
20	Preserve at Galleria, LLC	9/27/2006	\$ 3,591,750.00	\$ 88,938.12
21	Roam Development Group	8/2/2006	\$ 25,042,250.00	\$ 7,637.26
22	Urban Housing Alliance LLC	8/21/2006	\$ 8,150,000.00	\$ 261,473.25
23	Total		\$128,236,075.65	\$ 12,594,747.09

1 **IX. SUMMARY OF THE PLAN**

2 This part of the Disclosure Statement summarizes the provisions of the Plan. The Plan,
3 after it has been confirmed, will constitute a contract between the Debtors and their creditors,
4 equity interest holders, and Direct Lenders. If confirmed, the Plan will be binding on all parties in
5 interest in the case including all creditors, equity interest holders, and Direct Lenders, whether or
6 not they voted for the Plan. This summary is a broad outline of the Plan and is qualified in its
7 entirety by reference to the Plan. It is therefore advisable, as mentioned above, that you review the
8 Plan carefully for the full details of the treatment of creditors and equity interest holders and seek
9 the assistance of your own counsel and other professionals as you may deem appropriate to ensure
10 you adequately understand the Plan and its consequences.

11 **A. General Plan Summary**

12 The Plan contemplates the liquidation of each Debtor's estate and the distribution of the
13 liquidation proceeds to each such Debtor's creditors and equity interest holders, as applicable. The
14 Plan will be implemented, in part, through a proposed asset sale transaction, in which substantially
15 all of the assets of FTDF (primarily its interests in a portfolio of loans) and certain assets of
16 USACM (primarily those used to conduct its loan servicing business) will be transferred to a third
17 party purchaser. The Plan will also be implemented through the settlement of several disputes
18 among the various parties in interest in these cases.

19 Specifically, the Plan will be implemented through the following transactions:

- 20 • the sale of substantially all of the assets of FTDF and certain assets of USACM, and
21 disbursement of related proceeds and certain other cash of the estates in accordance with
22 the Plan;
- 23 • the transfer of most Loan Servicing Agreements to the purchaser of the FTDF and
24 USACM sale assets, which will be or be affiliated with a qualified third-party servicing
25 agent;
- 26 • the transfer of the remaining USACM assets, principally including (a) recovered Prepaid
27 Interest; (b) the \$58 million secured note payable by IP; (c) USACM's interests in
28 certain notes; (d) USACM's right to collect origination, extension, or other success fees

1 and default interest premiums; and (e) lawsuits to be brought against Hantges,
2 Milanowski, USAIP and other non-Debtor insiders, aiders and abettors of wrongdoing
3 that led to the bankruptcy case, to a USACM Trust in which all unsecured creditors will
4 share as beneficiaries;

- 5 • the retention by DTDF after the effective date of the Plan of its assets, principally
6 including (a) its 10-90 secured note payable by IP; (b) lawsuits against the same
7 wrongdoers; (c) its interest in the \$58 million secured note payable by IP; and (d) its
8 claims against USACM;
- 9 • the transfer of certain assets of FTDF to DTDF as part of its settlement of all claims and
10 disputes between FTDF and DTDF, which will be used to pay DTDF's administrative
11 expense and creditor claims, and begin funding its litigation;
- 12 • the liquidation of the DTDF assets and USACM Trust assets, including through
13 coordinated litigation against the wrongdoers;
- 14 • distribution of the net proceeds of the DTDF assets to holders of allowed equity interests
15 in DTDF (and any remaining creditor claims), and distribution of the net proceeds of
16 USACM Trust assets to the USACM unsecured creditors as Trust beneficiaries, in
17 accordance with the Plan, followed by the dissolution of those entities;
- 18 • the distribution of FTDF's share of the proceeds from the sale of its assets to equity
19 interest holders in FTDF after satisfaction of all allowed claims against FTDF, followed
20 by the dissolution of FTDF; and
- 21 • the liquidation of any assets of the USA Realty estate and the USA Securities estate,
22 distribution of cash to holders of allowed claims against USA Realty and USA
23 Securities, respectively, in accordance with the Plan, and the dissolution of USA Realty
24 and USA Securities.

25
26
27
28 **B. Classification and Treatment of Claims and Interests**

1 While this Disclosure Statement provides a brief description of the types of potential
2 Claims to receive treatment under the Plan, NOTHING IN THIS DISCLOSURE STATEMENT
3 OR IN THE PLAN IS INTENDED TO, NOR DOES IT, CONSTITUTE AN ADMISSION THAT
4 ANY CLAIM OR EQUITY INTEREST IS OR SHOULD BE ALLOWED. THE DEBTORS
5 RESERVE ALL RIGHTS TO OBJECT TO ANY AND ALL CLAIMS OF ANY CREDITOR OR
6 EQUITY INTEREST HOLDER UNDER THE PLAN.

7 **i. Unclassified Claims.**

8 The Plan addresses certain unclassified claims for which treatment is mandated under the
9 Bankruptcy Code. These include administrative expense claims under sections 503(b) and
10 507(a)(1), and priority tax claims under section 507(a)(8) of the Bankruptcy Code. These
11 unclassified claims are not considered impaired and they do not vote on the Plan because they are
12 automatically entitled to specific treatment provided for them in the Bankruptcy Code. As such,
13 the Debtors have not placed the following claims in a class. The respective treatments for these
14 claims are provided below.

15 **a. Administrative Expenses for Each Debtor**

16 **1. General**

17 Administrative expenses are claims for costs or expenses of administering the Debtors'
18 Chapter 11 Cases which are allowed under Bankruptcy Code section 503(b), and referred to in
19 Bankruptcy Code section 507(a)(1). These claims include, without limitation, (i) any actual and
20 necessary postpetition expenses of preserving the estates, (ii) any actual and necessary postpetition
21 expenses of operating the businesses of the debtors, (iii) all compensation or reimbursement of
22 expenses to the extent allowed by the Court under Bankruptcy Code sections 330, 331, or 503, and
23 (iv) any fees or charges assessed against the estates under 1930 of title 28 of the United States
24 Code.

25 Each holder of an allowed administrative expense in a particular estate will be paid in full
26 in cash out of such estate. Payment will be made on the later of, or as soon as practicable
27 thereafter: (a) the Effective Date, or (b) the date the expense becomes an allowed administrative
28 expense except to the extent that the holder of an allowed administrative expense agrees to a

1 different treatment. The Direct Lender Committee professional fees and costs are an
2 administrative expense of USACM, a portion of which shall be reimbursed pursuant to the
3 compromise set forth in the Plan.

4 **2. Bar Date For Administrative Claims**

5 **(i). General Provisions**

6 Except as provided below for professionals or entities requesting compensation providing
7 services on behalf of the Debtors' estates, , requests for payment of Administrative Expenses must
8 be filed no later than thirty (30) days after the Effective Date.

9 The Plan establishes a bar date by which all final fee applications, to the extent not
10 previously filed, for the compensation of professionals for services rendered and for
11 reimbursement of expenses incurred on or before the Effective Date pursuant to Bankruptcy Code
12 sections 327, 328, 503(b), 1103, and/or 1106 and all other requests for payment of administrative
13 expenses incurred before the Effective Date under Bankruptcy Code sections 507(a)(1) or 507(b)
14 must be filed with the Court or be forever barred.

15 The holders of administrative expenses (including without limitation, professionals
16 requesting compensation or reimbursement of expenses and any governmental units asserting
17 claims for federal, state or local taxes) who are required to file a request for payment of such
18 claims but that do not do so by the applicable bar date will be forever barred from asserting their
19 claims for administrative expenses against the Debtors, the estates, the USACM Trust, DTDF any
20 other person or entity, or any of their respective property.

21 **(ii). Professionals**

22 All professionals or other entities requesting compensation or reimbursement of expenses
23 under sections 327, 328, 330, 331, 503(b) and 1103 of the Bankruptcy Code for services rendered
24 before the Effective Date (including any compensation requested by any professional or any other
25 entity for making a substantial contribution in the Chapter 11 Cases) will need to file and serve on
26 the Debtors, the USACM Trust, and DTDF an application for final allowance of compensation
27 and reimbursement of expenses. This application must be filed no later than forty-five (45) days
28

1 after the Effective Date. Any objection to such applications must be timely filed and served in
2 accordance with Nevada District Court Local Rule 9014.

3
4 **(iii). Ordinary Course Liabilities**

5 The holders of claims for administrative expenses based on liabilities incurred in the
6 ordinary course of the Debtors' businesses prior to the Effective Date (other than professionals or
7 other entities described in subparagraph (2), above, and governmental units that hold claims for
8 taxes or claims and/or penalties related to such taxes) are not be required to file any request for
9 payment of these claims. Each administrative expense shall be assumed and paid by the obligated
10 estate under the terms and conditions of the particular transaction giving rise to that administrative
11 expense, without any further action by the holder of such administrative expense.

12 **3. Priority Tax Claims**

13 A priority tax claim is that portion of any general unsecured claim for unpaid taxes which
14 is entitled to priority under section 507(a)(7) of the Bankruptcy Code. Each holder of an allowed
15 priority tax claim in a particular estate will be paid in full, in cash from such estate. This payment
16 will be made on the later of, or as soon as practicable thereafter, the: (a) Effective Date, or (b) the
17 date such priority tax claim becomes an allowed priority tax claim, except to the extent that the
18 holder of an allowed priority tax claim agrees to a different treatment.

19 **ii. Classified Claims and Equity Interests.**

20 The following describes the Plan's classification of claims against and equity interests in
21 the Debtors and the treatment that holders of allowed claims and allowed equity interests will
22 receive under the Plan. The Plan provides that holders of such allowed claims can agree to accept
23 less favorable treatment by settlement or otherwise.

24 If the Plan is confirmed by the Court, each holder of a claim in a particular class will
25 receive the same treatment as the other holders in the same class of claims or equity interests
26 whether or not such holder voted to accept the Plan. Moreover, upon confirmation, the Plan will
27 be binding on all creditors and interest holders of the Debtors and the Direct Lenders, regardless of
28 whether such creditors, interest holders or Direct Lenders voted to accept the Plan. Such treatment

1 will be in full satisfaction, release and discharge of such holder's respective claims against and
2 equity interests in the Debtors, except as otherwise provided in the Plan.

3 **a. USACM – (Classes A-1 through A-7)**

4 **1. Class A-1: Secured Tax Claims**

5 Class A-1 consists of all allowed secured tax claims against USACM. A secured tax claim
6 in Class A-1 is a claim of a governmental unit against USACM to the extent of the value of any
7 interest in property of USACM's estate securing such claim.

8 These claims will be paid in full. Payment on these claims will be made on or before the
9 later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the date
10 the claim becomes an allowed claim. This class is unimpaired so the holders of claims in this
11 class are presumed to vote in favor of the Plan.

12 **2. Class A-2: Other Secured Claims**

13 Class A-2 consists of all other allowed secured claims against USACM. These are claims
14 against USACM to the extent of the value of any interest in property of USACM's estate securing
15 such claim, other than a secured tax claim.

16 The holders these claims will either have their claim paid in full or USACM will surrender
17 the property securing the claim in full satisfaction of the claim. USACM has the discretion to
18 choose either option. If USACM elects to pay the claim in full, payment will be made on or
19 before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after
20 the date the claim becomes an allowed claim. If USACM elects to surrender the property, it shall
21 do so by making the property reasonably available to the holder before the later of (i) sixty (60)
22 days after the Effective Date, or (ii) fifteen (15) business days after the date the claim becomes an
23 allowed claim. In the event that the property securing the claim has been lost or destroyed,
24 USACM will provide notice to the holder of this fact. The delivery of this notice will constitute a
25 “surrender” of the property. This class is unimpaired so the holders of claims in this class are
26 presumed to vote in favor of the Plan.

1 **3. Class A-3: Priority Unsecured Claims**

2 Class A-3 consists of all allowed claims against USACM entitled to priority in right of
3 payment under Bankruptcy Code section 507(a) except priority tax claims and claims for
4 administrative expenses. These claims are primarily for employee wages, vacation pay, severance
5 pay, contributions to benefit plans and other similar amounts.

6 These claims will be paid in full on the Effective Date unless USACM and the creditor
7 agree to different treatment. This class is unimpaired so the holders of claims in this class are
8 presumed to vote in favor of the Plan.

9 **4. Class A-4: General Unsecured Claims**

10 Class A-4 consists of all allowed general unsecured claims against USACM. This class
11 includes allowed unsecured claims, including claims of trade creditors, claims for loan payments
12 received by USACM but not paid over to applicable lenders prior to the Petition Date
13 ("Unremitted Principal Claims"), all unsecured claims (whether under contract, tort, or other legal
14 theory) of Direct Lenders against USACM, and the unsecured claims of FTDF and DTDF against
15 USACM.

16 The holders of these claims will receive a pro-rata share of the assets that are recovered by
17 the USACM Trust (see section below). This class is impaired and the holders of claims in this
18 class will have the opportunity to vote to accept or reject the Plan. The Debtors and Committees
19 expect that objections will be filed to unsecured claims against USACM asserting losses on
20 account of a deficit between the amount of a Direct Lender's or fund investor's loan or
21 investment, and the amount received from the Debtors pre-petition and postpetition. The Debtors
22 and Committees anticipate that only holders of unsecured claims that prove breach of the Loan
23 Servicing Agreements or prove damages proximately caused by some act or failure to act by
24 USACM in violation of a contractual or statutory duty or fraud will be allowed.

25 **5. Class A-5: Direct Lender Compromise Claims**

26 Class A-5 consists of all Direct Lenders of USACM. In exchange (and as a compromise)
27 for a release by USACM, FTDF, USA Realty, and USA Securities for all claims and causes of
28 actions against the Direct Lenders, including claims relating to surcharge, recharacterization of

1 Direct Lender loans, fraudulent conveyance, and the collection of prepetition accrued but unpaid
2 servicing, success and other fees and default interest due under the Loan Servicing Agreements,
3 the Direct Lenders acknowledge that the Prepaid Interest constitutes an asset of the USACM
4 estate, or will otherwise transfer their ownership rights, if any, in Prepaid Interest to the USACM
5 estate. As part of the overall settlement, and release of claims for surcharge, and for allocation of
6 a portion of the Debtors' professional fees and costs along with professional fees and costs of
7 counsel for the Direct Lenders Committee, the Direct Lenders further agree that up to \$605,000 of
8 the 2% Holdback (as defined in the Plan) will be used to reimburse USACM for the allowed
9 professional fees and costs of the Direct Lender Committee. That amount will be allocated among
10 the Holdbacks from Direct Lenders pro rata based on the principal amount of their loans on the
11 Petition Date. USACM will retain the maximum amount for its contractual servicing fee due
12 under the respective Loan Servicing Agreements (whether 1% or more), and the balance of the 2%
13 Holdback will be refunded to the applicable Direct Lender. Those Direct Lenders with loan
14 servicing fees of in excess of 1% will not be charged for both a portion of the \$605,000 and the
15 maximum contractual loan servicing fee. Instead, their share of the \$605,000 will be recovered
16 from the loan servicing fees paid to USACM. It is anticipated that as of the Effective Date of the
17 Plan, most of the Prepaid Interest has been recovered and retained by the USACM estate through
18 netting of holdbacks during the bankruptcy case. It is further anticipated that the remainder should
19 be recovered either (a) after transfer of servicing rights under the sale to Silver Point or approved
20 overbidder through netting of additional holdbacks or (b) through setoff against Claims before
21 allowance. The statute of limitations for recovery of the Prepaid Interest will be tolled for two
22 years, to enable recovery by holdbacks and netting, but in the unlikely event that Prepaid Interest
23 has not been recovered after two years, thereafter such Direct Lenders may be sued for any
24 unrecovered Prepaid Interest. This class is impaired and the holders of these claims will have the
25 opportunity to vote to accept or reject the Plan.

26 Please note that if you are a Direct Lender and you object to the proposed compromises set
27 forth above, you must file and pursue an objection to confirmation of the Plan to preserve your
28 objection. Voting to reject the Plan will not be sufficient to preserve your objection.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

6. Class A-6: Subordinated Claims

Class A-6 consists of all subordinated claims against USACM. Claims in Class A-6 are claims against USACM asserted by a non-debtor insider. A holder of a Class A-6 claim will receive no distribution under the Plan. This class is impaired and since no payment will be made on these claims the holders of these claims are deemed to have rejected the Plan.

7. Class A-7: Equity Interests

Class A-7 consists of all equity interests in USACM. These equity interests, in every form, will be cancelled and no payment will be made on their account. This class is impaired and since no payment will be made on these interests the holders of these interests are deemed to have rejected the Plan.

b. FTDF – (Classes B-1 through B-5)

1. Class B-1: Secured Tax Claims

Class B-1 consists of all allowed secured tax claims against FTDF. A secured tax claim in Class B-1 is a claim of a governmental unit against FTDF to the extent of the value of any interest in property of FTDF's estate securing such claim.

These claims will be paid in full. Payment on these claims will be made on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the date the claim becomes an allowed claim. This class is unimpaired so the holders of claims in this class are presumed to vote in favor of the Plan.

2. Class B-2: Other Secured Claims

Class B-2 consists of all other allowed secured claims against FTDF. Claims in Class B-2 are claims against FTDF to the extent of the value of any interest in property of FTDF's estate securing such claim, other than a secured tax claim.

The holders of these claims will either have their claim paid in full or FTDF will surrender the property securing the claim in full satisfaction of the claim. FTDF has the discretion to choose either option. If FTDF elects to pay the claim in full, payment will be made on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the date the claim becomes an allowed claim. If FTDF elects to surrender the property, it shall do so by

1 making the property reasonably available to the holder before the later of (i) sixty (60) days after
2 the Effective Date, or (ii) fifteen (15) business days after the date the claim becomes an allowed
3 claim. In the event that the property securing the claim has been lost or destroyed, FTDF will
4 provide notice to the holder of this fact. The delivery of this notice will constitute a “surrender” of
5 the property. This class is unimpaired so the holders of claims in this class are presumed to vote
6 in favor of the Plan.

7 **3. Class B-3: Priority Unsecured Claims**

8 Class B-3 consists of all allowed claims against FTDF entitled to priority in right of
9 payment under Bankruptcy Code section 507(a) except priority tax claims and claims for
10 administrative expenses. Generally, these claims include employee wages, vacation pay,
11 severance pay, contributions to benefit plans and other similar amounts.

12 These claims will be paid in full on the Effective Date unless FTDF and the creditor agree
13 to different treatment. This class is unimpaired so the holders of claims in this class are presumed
14 to vote in favor of the Plan.

15 **4. Class B-4: General Unsecured Claims**

16 Class B-4 consists of all allowed general unsecured claims against FTDF. This class
17 includes unsecured claims, including claims of trade creditors or professionals who rendered
18 services to FTDF prior to the Petition Date. These claims will be paid in full on the Effective
19 Date. The holders of these claims will also receive statutory post-petition interest on their claim.
20 This class is unimpaired so the holders of claims in this class are presumed to vote in favor of the
21 Plan.

22 **5. Class B-5: Equity Interests**

23 Class B-5 consists of all allowed equity interests in FTDF. The holders of these equity
24 interests will retain their pro-rata share of all distributions that were received after the Petition
25 Date. They will also receive their pro rate share of the net sale proceeds from the sale of the
26 FTDF assets to Silver Point, after the satisfaction of all classified and unclassified claims of
27 FTDF, as well as their pro rata share of and beneficial interest in all assets recovered by the
28

1 USACM Trust (subject to the compromise with DTDF as set forth below). This class is impaired
2 and the holders of claims in this class will have the opportunity to vote to accept or reject the Plan.

3 **c. DTDF – (Classes C-1 through C-5)**

4 **1. Class C-1: Secured Tax Claims**

5 Class C-1 consists of all allowed secured tax claims against DTDF. A secured tax claim in
6 Class C-1 is a claim of a governmental unit against DTDF to the extent of the value of any interest
7 in property of DTDF's estate securing such claim.

8 These claims will be paid in full. Payment on these claims will be made on or before the
9 later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the date
10 the claim becomes an allowed claim. This class is unimpaired so the holders of claims in this
11 class are presumed to vote in favor of the Plan.

12 **2. Class C-2: Other Secured Claims**

13 Class C-2 consists of all other allowed secured claims against DTDF. Claims in Class A-2
14 are claims against USACM to the extent of the value of any interest in property of USACM's
15 estate securing such claim, other than a Secured Tax Claim.

16 The holders of these claims will either have their claim paid in full or DTDF will surrender
17 the property securing the claim in full satisfaction of the claim. DTDF has the discretion to
18 choose either option. If DTDF elects to pay the claim in full, payment will be made on or before
19 the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the
20 date the claim becomes an allowed claim. If DTDF elects to surrender the property, it shall do so
21 by making the property reasonably available to the holder before the later of (i) sixty (60) days
22 after the Effective Date, or (ii) fifteen (15) business days after the date the claim becomes an
23 allowed claim. In the event that the property securing the claim has been lost or destroyed, DTDF
24 will provide notice to the holder of this fact. The delivery of this notice will constitute a
25 “surrender” of the property. This class is unimpaired so the holders of claims in this class are
26 presumed to vote in favor of the Plan.

1 Class D-4 consists of all allowed general unsecured claims against USA Realty. This class
2 includes unsecured claims, including claims of trade creditors or professionals who rendered
3 services to USA Realty prior to the Petition Date.

4 The holders of these claims will receive a pro rata share of the remaining USA Realty
5 assets after the payment in full of all USA Realty unclassified claims and the claims in Classes D-
6 1 to D-3, unless the creditor and USA Realty agree to different treatment. This class is impaired
7 and the holders of claims in this class will have the opportunity to vote to accept or reject the Plan.

8 **5. Class D-5: Equity Interests**

9 Class D-5 consists of all equity interests in USA Realty. These equity interests, in every
10 form, will be cancelled and no payment will be made on their account. This class is impaired and
11 since no payment will be made on these interests the holders of these interests are deemed to have
12 rejected the Plan.

13 **e. USA Securities – (Classes E-1 through E-5)**

14 **1. Class E-1: Secured Tax Claims**

15 Class E-1 consists of all allowed secured tax claims against USA Securities. A secured tax
16 claim in Class E-1 is a claim of a governmental unit against USA Securities to the extent of the
17 value of any interest in property of USA Securities' estate securing such claim.

18 These claims will be paid in full. Payment on these claims will be made on or before the
19 later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after the date
20 the claim becomes an allowed claim. This class is unimpaired so the holders of claims in this
21 class are presumed to vote in favor of the Plan.

22 **2. Class E-2: Other Secured Claims**

23 Class E-2 consists of all other allowed secured claims against USA Securities. Claims in
24 Class E-2 are claims against USA Securities to the extent of the value of any interest in property
25 of USA Securities' estate securing such claim, other than a secured tax claim.

26 The holders of these claims will either have their claim paid in full or USA Securities will
27 surrender the property securing the claim in full satisfaction of the claim. USA Securities has the
28 discretion to choose either option. If USA Securities elects to pay the claim in full, payment will

1 be made on or before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15)
2 business days after the date the claim becomes an allowed claim. If USA Securities elects to
3 surrender the property, it shall do so by making the property reasonably available to the holder
4 before the later of (i) sixty (60) days after the Effective Date, or (ii) fifteen (15) business days after
5 the date the claim becomes an allowed claim. In the event that the property securing the claim has
6 been lost or destroyed, USA Securities will provide notice to the holder of this fact. The delivery
7 of this notice will constitute a “surrender” of the property. This class is unimpaired so the holders
8 of claims in this class are presumed to vote in favor of the Plan.

9 **3. Class E-3: Priority Unsecured Claims**

10 Class E-3 consists of all allowed claims against USA Securities entitled to priority in right
11 of payment under Bankruptcy Code section 507(a) except priority tax claims and claims for
12 administrative expenses. Generally, these claims include employee wages, vacation pay,
13 severance pay, contributions to benefit plans and other similar amounts.

14 These claims will be paid in full on the Effective Date unless USA Realty and the creditor
15 agree to different treatment. This class is unimpaired so the holders of claims in this class are
16 presumed to vote in favor of the Plan.

17 **4. Class E-4: General Unsecured Claims**

18 Class E-4 consists of all allowed general unsecured claims against USA Securities. This
19 class includes unsecured claims, including claims of trade creditors or professionals who rendered
20 services to USA Securities prior to the Petition Date.

21 The holders of these claims will receive a pro rata share of the remaining USA Securities
22 assets after the payment in full of all USA Securities unclassified claims and the claims in Classes
23 E-1 to E-3, unless the creditor and USA Securities agree to different treatment. This class is
24 impaired and the holders of claims in this class will have the opportunity to vote to accept or reject
25 the Plan.

26 **5. Class E-5: Equity Interests**

27 Class D-5 consists of all equity interests in USA Securities. These equity interests, in
28 every form, will be cancelled and no payment will be made on their account. This class is

1 impaired and since no payment will be made on these interests the holders of these interests are
2 deemed to have rejected the Plan.

3 **C. No Substantive Consolidation**

4 On the Effective Date, all of the assets of each Debtor shall be sold, transferred, distributed
5 or retained by the Debtors' estate or the USACM Trust with all proceeds of sold, transferred, or
6 liquidated assets of each Debtor being retained by the Debtors' estates or the USACM Trust. All
7 claims against and equity interests in the Debtors and their respective estates shall be retained by
8 the holders of allowed claims and allowed equity interests against and in the respective estates,
9 except as otherwise provided for under the Plan. The allowance, voting, treatment and
10 distributions on account of allowed claims and allowed equity interests shall be as set forth in the
11 Plan on an individual estate basis. Notwithstanding any inference to the contrary in this section,
12 the equity interests in USACM, USA Securities and USA Realty shall be retained only until the
13 Effective Date, at which date, these equity interests shall be cancelled on an individual estate basis
14 under the Plan.

15 **D. Sale of USACM Assets and FTDF Assets**

16 On the Effective Date, USACM will sell its loan servicing assets and FTDF will sell
17 substantially all of its assets, free and clear of liens and interests through an auction process.
18 Although another bidder may submit a higher bid, currently the highest bid for the assets to be
19 sold of USACM and FTDF is that of a company called SPCP Group, LLC (aka "Silver Point").¹
20 Silver Point is a U.S.-based investment fund that is unaffiliated with any of the Debtors. The
21 Debtors and the Committees have negotiated an agreement that will dictate the terms of sale to
22
23
24

25 ¹ The Debtors are aware that certain sensitive personally identifiable information is being transferred to Silver Point
26 in connection with the sale. The Debtors have taken and will continue to take reasonable efforts to protect such
27 personally identifiable. The appointment of a "consumer privacy ombudsman," as contemplated under the October
28 2005 amendments to the Bankruptcy Code, is not required, however, because as of the Petition Date, the Debtors did
not have any formal policy regarding the privacy of personally identifiable information about individuals. 11 U.S.C.
§363(b)(1)

1 Silver Point (the "Asset Purchase Agreement"), and that will be used as a model for potentially
2 higher and better offers. Silver Point's loan servicing capabilities are described below.

3 Pursuant to the Asset Purchase Agreement, USACM and FTDF are selling the following
4 assets:

- 5 • FTDF's proportional interest in 44 different loans² (the "FTDF Assets") for cash
6 consideration of \$46 million, subject to certain adjustments (the "FTDF Price"); and
- 7 • USACM's post-closing rights to service loans pursuant to the Loan Servicing
8 Agreements for the USACM portfolio and related personal property (the "USACM
9 Assets") for cash consideration based on the future (i) collection of servicing fees, (ii)
10 collection of default rate interest and (iii) other payments and obligations set forth in
11 the Asset Purchase Agreement (the "USACM Price").

12 **1. FTDF Price**

13 The Asset Purchase Agreement provides for a purchase price for the FTDF Assets of \$46
14 million, subject to certain adjustments. Based on the current aggregate principal balance of
15 \$63,539,756 for the FTDF Assets, the base FTDF Price will yield a 72.4% return to the FTDF. Of
16 course, actual distributions to the FTDF Fund Members will be reduced by allowed administrative
17 expenses, allowed claims, and settlements.

18 The Asset Purchase Agreement contemplates different price adjustments with respect to
19 the FTDF Price. First, the Asset Purchase Agreement has built-in price adjustments that enhance
20 the recovery to the FTDF to the extent that principal payments on FTDF loans are received after
21 July 31, 2006, (the "Cut-Off Date") and the closing of the Asset Purchase Agreement. These
22 adjustments provide for a partial reduction in the purchase price (ranging from 65% to 95% of the
23 principal collected) for each dollar of principal collected prior to the close of the sale. As the
24 FTDF Price will be reduced by less than the amount of the principal actually received by FTDF,
25

26 _____
27 2 The APA lists 46 loans, but two of the loans listed paid off subsequent to July 31, 2006.
28

1 the net effect of any principal pay downs on the FTDF Assets after the Cut Off Date will be an
2 increase on the overall return to FTDF.³

3 Second, the Asset Purchase Agreement has another price adjustment mechanism in the
4 event the reported principal balance of the FTDF Assets as of the Cut Off Date proves to be
5 inaccurate.⁴ These adjustments will not be made on a dollar-for-dollar basis, but rather, will be
6 made according to the same "buckets" that are used to account for principal payments (i.e.,
7 ranging from 65% to 95%). These downward adjustments in the FTDF Price will be netted
8 against any amounts by which the reported principal balance of the FTDF Assets as of the Cut Off
9 Date proves to be too low.⁵

10 Finally, all parties agree that there are certain title issues regarding one of the FTDF loans
11 that require further development and analysis. To the extent that the Debtors are able to resolve
12 these issues by delivering an appropriate title policy endorsement, the FTDF Price will be
13 increased by \$250,000.

14 2. USACM Price.

15 In consideration of the USACM Price, Silver Point will pay USACM approximately
16 \$550,000 over time for USACM's servicing business and related assets, including the right to
17 service the loans in the USACM portfolio as described in more detail below. Silver Point will pay
18 USACM out of the proceeds that Silver Point will receive from servicing these loans.
19 Specifically, USACM will pay \$500,000 out of the first \$1,000,000 it collects in interest
20 payments, net of their collecting and servicing fees. Silver Point will also pay \$50,000 out of the
21 first \$100,000 it collects on default rate interest payments on FTDF assets.

22
23 3 For example, assume that, between the Cut-Off Date and the close of the sale, the FTDF's proportionate share of
24 the principal collected is a hypothetical \$10 million, which falls within the 85% adjustment level contained in the
25 APA, instead of reducing the purchase price by the full \$10 million of principal collected, the purchase price
would be reduced by only \$8,500,000 (i.e., 85% of \$10 million). The FTDF would retain the \$10 million
collected, thereby increasing the recovery percentage from 72.4% to 74.75%.

26 4 All parties recognize that Debtors' new management has done all that it could in reconstructing the Debtors'
27 records, but, in the end, Debtors' new management, like a chapter 7 trustee, cannot guarantee any of the records
28 they have used in re-creating the Debtors' records.

1 Importantly, USACM elected to retain all pre-close accrued servicing fees and related fees.
2 Thus, after the closing of the Asset Purchase Agreement ("Closing"), Silver Point will collect and
3 pay over to USACM certain amounts, including (a) all servicing fees accrued but unpaid as of the
4 Closing and (b) all late charges and default interest due, but unpaid, from borrowers as of the
5 Closing, with the exception of the proportionate default interest in respect of the FTDF Assets. In
6 addition, Silver Point will also perform certain services on behalf of USACM's estate to assist
7 USACM in the collection of its other assets, which it has elected to retain, including exit fees,
8 extension fees, and deferred origination fees, among others.

9 **3. Auction.**

10 The sale of the USACM Assets and FTDF Assets to Silver Point is subject to an auction
11 process. The auction process allows other qualified bidders to make higher and better offers for
12 the USACM Assets and FTDF Assets. Thus, the price paid for the USACM Assets and FTDF
13 Assets may increase even more to the extent that overbidders participate in the auction process and
14 decide to pay more for these assets. It is anticipated that the auction for these assets will take
15 place on December 7, 2006.

16 **4. Transfer of the Loan Servicing Agreements**

17 As stated above, included among the USACM Assets are the Loan Servicing Agreements.
18 Pursuant to sections 363 and 1123(a)(5) of the Bankruptcy Code, these Loan Servicing
19 Agreements are not modified, and will be transferred to Silver Point (or the successful
20 overbidder), at the Court-supervised auction, free and clear of liens, claims, and interests including
21 any alleged claims under § 503(b) of the Bankruptcy Code. The Debtors and Committees believe
22 that the transfer of these Loan Servicing Agreements to the asset purchaser is not an assumption
23 and assignment of the agreements because they are not executory contracts and thus no
24 assumption or assignment is required to transfer them as assets of the USACM estate.

25 **a. Summary of Silver Point's Loan Servicing Capability**

26
27
28 5 Because the netting occurs on a "bucket by bucket" basis, the mechanic to implement this concept became
admittedly complicated and lengthy.

1 Silver Point is a private investment firm specializing in credit-related investments, with
2 approximately \$6 billion of capital under management. Silver Point’s middle market investment
3 group is well-qualified to manage and service portfolios of troubled loans. Silver Point’s middle
4 market troubled loan investment model is focused on the acquisition, management and resolution
5 of sub-performing and non-performing loan assets, emphasizing current income potential, with
6 near- to long-term capital appreciation. Silver Point, working in conjunction with its third-party
7 loan servicing provider, Laureate Capital, LLC (“Laureate”), monitors collections through mid-
8 month and month-end delinquency reports, and trail balance reporting emphasizing delinquent
9 credits.

10 Laureate has been working as a loan services for Silver Point since May 2004. Laureate
11 has serviced approximately 150 loans for Silver Point, totaling approximately \$300 million of
12 outstanding debt. Laureate has been servicing loans since 1994. Today, Laureate services
13 approximately 2,170 loans, totaling approximately \$9 billion dollars of outstanding debt, for
14 approximately 60 lenders. Standard & Poors recently gave Laureate a very favorable rating and
15 stated that Laureate is effectively positioned “as a highly capable commercial primary loan
16 servicer” in its service evaluation dated July 20, 2006. In addition, Laureate is audited annually by
17 the audit department of its parent BB&T Corp., a financial holding company with almost \$100
18 billion in assets. The audit staff has documented Laureate’s compliance with the minimum
19 servicing standards identified by the Mortgage Bankers’ Association Uniform Single Attestation
20 Program for Mortgage Bankers.

21 Laureate handles all administrative and financial aspects of managing performing, sub-
22 performing and non-performing loans within Silver Point’s portfolio. Specifically, Laureate issues
23 billing notices, collects the payments from Borrowers, remits collections directly to lenders (or,
24 where applicable, investors), and issues reports on payments to Silver Point. In addition, Laureate
25 also is responsible for tracing UCC expirations, real estate tax delinquencies, and insurance
26 coverage for each improved collateral property. As mentioned above, Silver Point actively
27 monitors collections through mid-month and month-end delinquency reports, as well as trial-
28 balance reporting emphasizing delinquent credits, produced by Laureate.

1 The Debtors and Committees expect that any successful bidder, if other than Silver Point,
2 will have similar loan servicing capabilities, and overbidders will provide evidence of their
3 capabilities and experience in conjunction with sale procedures.

4 **5. The Sale of the FTDF Assets is in the Best Interests of the**
5 **FTDF Estate**

6
7 FTDF believes that the proposed sale of the FTDF Assets and USACM Assets, subject to
8 an auction process, is in the best interests of the FTDF estate and provides for the best
9 mechanism to maximize the recovery to the FTDF investors. In order to gain comfort as to the
10 purchase price of the FTDF Assets, the professionals of FTDF and the FTDF Committee spent
11 considerable time and effort evaluating the ultimate recovery on the FTDF assets on a standalone
12 basis, the timing and cost of such recovery and the myriad of risks and uncertainties inherent in
13 achieving such recovery. After evaluating the potential range of recovery values to FTDF
14 relative to the risks, costs and uncertainties associated with such potential recovery values, FTDF
15 supported the FTDF Price agreed to by the Debtors for several reasons. First, the sale process
16 eliminates the timing and collection risk inherent in the continued workout of the FTDF loans.
17 Second, the sale process removes the dilution of recoveries to investors from the continued
18 administrative burden associated with administering these Chapter 11 Cases and the costs of
19 collection and work out of the FTDF loan portfolio. Third, the auction process and purchase
20 price adjustments for principal collections prior to the close of the sale is likely to provide a
21 higher recovery than that contained in the Asset Purchase Agreement. Accordingly, FTDF
22 believes that the proposed Asset Sale Transaction, subject to the auction process, provides the
23 best means to maximize the value to the FTDF investors.

24 **6. The Sale of the USACM Assets is in the Best Interests of the USACM**
25 **Estate and Direct Lenders**

26 USACM is transferring its servicing rights in 80 specifically identified loans, including
27 rights to collect servicing fees and other fees, as well as limited personal property related to loan
28

1 servicing. The proposed purchase price is \$500,000 out of the first \$1,000,000 it collects in
2 servicing fees, after reimbursement of Silver Point's expenses. Silver Point will also pay \$50,000
3 out of the first \$100,000 it collects on default rate interest payments on FTDF Assets.
4 Importantly, USACM elected to retain all pre-close accrued servicing fees and related fees.
5 Thus, after the closing of the Asset Purchase Agreement (“Closing”), Silver Point will collect
6 and pay over to USACM certain amounts, including (a) all servicing fees accrued but unpaid as
7 of the Closing and (b) all late charges and default interest due, but unpaid, from borrowers as of
8 the Closing, with the exception of the proportionate default interest in respect of the FTDF
9 Assets. In addition, Silver Point will also perform certain services on behalf of USACM’s estate
10 to assist USACM in the collection of its other assets, which it has elected to retain, including exit
11 fees, extension fees, and deferred origination fees, and including collecting and remitting Prepaid
12 Interest to the USACM Trust, among others.

13 This transaction creates a mechanism for collection and servicing of Loans by an
14 experienced, well-capitalized loan servicer. The new servicer will allow Direct Lenders a means
15 for collection of their Loans. The new servicer will collect post-Closing servicing fees in
16 consideration of those efforts.

17 The sale of the servicing assets was linked to the sale of the FTDF Assets for two
18 reasons. First, given that the servicing portfolio is comprised of a substantial number of non-
19 performing loans it became apparent that substitute loan servicers were not willing to service the
20 portfolio without modification of the existing loan service agreements or Lenders paying (out of
21 pocket) collection costs including foreclosure and attorney fees and costs. Linking the sale of
22 servicing rights to the sale of the FTDF Assets expanded the market for available loan servicers
23 to include parties (like Silver Point) who are willing to perform loan servicing as a condition of
24 purchasing the FTDF Assets at a discount to its face value. Second, buyers wanted a known,
25 substantial amount of loans to be included in the servicing portfolio. Without that critical mass,
26 a servicer would not know what Loans might be available for servicing after the Closing. This
27 synergy caused the FTDF Committee to agree to an allocation of the potential Overbid that
28

1 recognizes the value contributed for the servicing assets that is not reflected in the present
2 allocation of the purchase price.

3 The practical alternative to the sale from the perspective of the USACM creditors was to
4 create a servicing entity, which would require staff, facilities, and capitalization. One issue for
5 creditors is whether such a new servicing entity would be profitable. An even more difficult
6 issue is how the funds to operate such an entity would be obtained.

7 Balancing the alternatives, USACM's current management decided that a sale of the
8 servicing assets was in the best interests of creditors, and the Unsecured Committee concurred.
9

10
11
12
13 **E. Intercompany Compromises.**

14
15 **1. Settlement Between USACM and Direct Lenders**

16 As discussed below, USACM, FTDF, USA Securities, USA Realty and the Direct
17 Lenders Committee have reached a resolution of certain disputes between them. In order to
18 avoid the time and costs involved in litigation of the disputes, as well as to provide more
19 certainty to the Direct Lenders, the Direct Lenders Committee believes that it is in the best
20 interest of the Direct Lenders to approve the compromise as incorporated in the Plan. Please
21 note that if you are a Direct Lender and you object to the proposed compromise in the Plan
22 regarding Prepaid Interest, as discussed below, you must file and pursue an objection to
23 confirmation of the Plan to preserve your objection. Voting to reject the Plan will not be
24 sufficient to preserve your objection.

25 **a. Prepaid Interest**

26 Prior to the Petition Date, USACM's former management regularly made monthly
27 interest payments to certain Direct Lenders regardless of whether those Direct Lenders respective
28

1 loans were performing. In the case of nonperforming loans (where borrowers failed to make
2 timely interest payments), USACM used other funds in its collection account to make interest
3 payments to certain of the Direct Lenders (“Prepaid Interest”). The Debtors believe that the
4 accumulated funds in its collection account came from multiple sources, including, but not
5 limited to, the diversion of principal payments from borrowers (“Unremitted Principal”);
6 deferred loan fees payable to USACM that were collected as part of the payments made by
7 borrowers on certain loans; and transfers from DTDF that were otherwise payable to certain
8 Direct Lenders. Therefore, since approximately January 2003, there were a variety of funds
9 commingled in the collection account that were used to make Prepaid Interest payments to
10 certain Direct Lenders on nonperforming loans being serviced by USACM, as well as to pay
11 interest on direct loans to USACM or to insiders.

12 Since the Petition Date, USACM through MFIM has continued to service loans and
13 collect interest and principal payments from borrowers. Some previously non-performing loans
14 have become performing. As a result, USACM is now receiving interest payments despite
15 having already transferred funds to Direct Lenders in the form of Prepaid Interest. The Direct
16 Lenders that previously received the Prepaid Interest are not entitled to receive their loan interest
17 twice, which would result if interest payments on now-performing loans were passed on to those
18 Direct Lenders. As of September 30, 2006, USACM has collected approximately \$14 million in
19 recovered Prepaid Interest. As additional interest payments are collected, the amount of
20 recovered Prepaid Interest held by USACM should continue to rise.

21 As part of its post-petition operations, USACM has continued to collect interest and
22 principal payments on performing loans held by certain Direct Lenders. Unrelated to such
23 performing loans, individual Direct Lenders, prior to bankruptcy, received Prepaid Interest on
24 account of non-performing loans. Pursuant to Court orders, USACM has retained funds on
25 account of Prepaid Interest from the otherwise performing loans (this process has sometimes
26 been referred to as “Netting”). As of September 30, 2006, USACM has collected approximately
27
28

1 \$14 million in recovered Prepaid Interest, as additional payments are collected from borrowers,
2 that amount may continue to rise.

3 Debtors contend that the recovered Prepaid Interest constitutes property of USACM's
4 bankruptcy estate under Section 541(a) of the Bankruptcy Code. First, by making Prepaid
5 Interest payments to Direct Lenders without receiving the underlying payments from borrower,
6 the borrower became indebted to USACM for the amount it advanced. The excess funds
7 constitute payment of that debt, and thus, are property of the estate under sections 541(a)(1) and
8 (a)(7) of the Bankruptcy Code. Likewise, the withheld funds (from the Court-approved netting
9 process) are estate property because they constitute a valid recoupment and/or setoff and
10 recovery from investors who received improper payments of Prepaid Interest from USACM's
11 prior management. As such, the withheld funds are property of the estate under sections
12 541(a)(3) and (a)(7) of the Bankruptcy Code.

13 The Debtors further believe that individual Direct Lenders cannot trace their Unremitted
14 Principal to the excess funds or withheld funds, as required under applicable bankruptcy and
15 non-bankruptcy law. First, the Unremitted Principal funds in the collection account were used,
16 not only to make Prepaid Interest payments to other Direct Lenders but also to make interest
17 payments on other loans, including for USACM or USACM insiders. Second, the Unremitted
18 Principal was commingled in the collection account with other funds of USACM and DTDF.
19 Because money is fungible, Debtors believe it is impossible for individual Direct Lenders to
20 trace their Unremitted Principal to any particular payment of Prepaid Interest, as such, Direct
21 Lenders are unable to impose a trust upon recovered Prepaid Interest and such funds constitute
22 USACM estate property.

23
24 The Unsecured Creditors Committee has also asserted that Prepaid Interest transfers from
25 accounts in the name of USACM and in which it held an interest to Direct Lenders that were not
26 entitled to such funds (since not obtained from their respective borrowers on their Loans), may
27 be recovered from Direct Lender transferees as fraudulent conveyances, and has requested
28 authorization to pursue such litigation.

1 On the other hand, certain Direct Lenders have argued that recovered Prepaid Interest is
2 not property of the USACM bankruptcy estate. Rather, certain Direct Lenders have taken the
3 position (among other theories) that recovered Prepaid Interest should be held in a constructive
4 or other equitable trust for the Direct Lenders whose payments were diverted as Unremitted
5 Principal.

6 **b. Surcharge**

7 USACM has alleged that it is entitled to surcharge the Direct Lenders for payment of a
8 portion of its professional fees, including fees of its financial advisor, MFIM, as well as its
9 counsel, Ray, Quinney & Nebeker and Schwartzer & McPherson, for services specifically
10 related to the Direct Lenders. Additionally, USACM has alleged that it is entitled to surcharge
11 the Direct Lenders for payment of the fees and costs of counsel for the Direct Lenders
12 Committee, Gordon & Silver, Ltd. under Bankruptcy Code provisions and case law holding that
13 committee professionals should be paid from amounts distributed to their constituents. This
14 surcharge is alleged to be in addition to any servicing fees or collection costs charged under the
15 Loan Servicing Agreement. Throughout USACM's bankruptcy case, the Direct Lenders
16 Committee has vigorously asserted that the Direct Lenders' loans do not constitute property of
17 USACM's bankruptcy estate. As such, the Direct Lenders Committee has taken the position that
18 USACM has no authority to seek reimbursement of or surcharge the Direct Lenders' loans for
19 any of its professionals' fees and costs that are not otherwise authorized under the Loan Servicing
20 Agreements.

21 **c. Recharacterization and Substantive Consolidation**

22 Certain parties have threatened litigation seeking recharacterization of the Direct Lenders'
23 Claims as equity investments in USACM, or to substantively consolidate them with the
24 USACM, DTDF or FTDF estates and/or seeking substantive consolidation of the Debtors'
25 estates.
26

27 **d. Accrued and Unpaid Loan Servicing Fees**
28

1 USACM asserts that it is entitled to collect loan servicing fees that were accrued and
2 unpaid as of the Petition Date from Direct Lenders.

3 **e. Compromise and Settlement**

4 As a settlement and compromise of these and other disputes, the Plan provides that Direct
5 Lenders will be released by USACM, FTDF, USA Realty and USA Securities from all Claims
6 including but not limited to surcharge, recharacterization of Direct Lender Loans, and the
7 collection of pre-petition accrued but unpaid fees due under Loan Servicing Agreements. In
8 exchange for this release, Direct Lenders will acknowledge and agree that recovered Prepaid
9 Interest constitutes an asset of the USACM Estate or, to the extent necessary, will transfer their
10 ownership rights, if any, in recovered Prepaid Interest to the USACM estate. The netting of
11 Prepaid Interest from loan collections will be continued by any subsequent loan servicer. Any
12 Direct Lender who does not consent to being bound by this acknowledgement and agreement
13 must object to confirmation of the Plan and present sufficient evidence to trace any of its
14 Unremitted Principal to assets of the USACM estate.
15

16 All of the Debtors and their respective Estates agree under the settlement not to surcharge
17 the Direct Lenders for the administrative fees and costs of their professionals. USACM further
18 agrees to limit the amount of reimbursement it seeks for payment of the counsel for the Direct
19 Lenders Committee solely from the 2% Holdback to a maximum amount of \$605,000. All fees
20 and costs of counsel for the Direct Lenders Committee incurred above the \$605,000 amount shall
21 be paid by the estate of USACM and not the Direct Lenders. The \$605,000 shall be allocated
22 among the Holdbacks from Direct Lenders on a pro-rata basis based upon the unpaid principal
23 balance of their loans as of the Petition Date.

24 The compromise further provides that USACM retains the maximum amount of servicing
25 fees provided for in Loan Service Agreements. Lenders with “up to” x% in annual loan servicing
26 fees will be charged that x% amount, but the reimbursement of the Allowed Professional fees
27 and costs of the Direct Lender Committee comes out of those fees. Lenders with 1% or less
28 annual servicing fees will share in the reimbursement of the Allowed Professional fees and costs

1 of the Direct Lender Committee and the balance of their 2% Holdback will be returned. In
2 addition, USACM agrees that the Direct Lenders are not responsible for loan servicing fees
3 accrued and unpaid as of the Petition Date.

4 **2. Settlement Between FTDF and USACM.**

5 As described below, FTDF and USACM have reached a global settlement on the numerous
6 disputes between them. While each of these compromises is described separately, no one
7 compromise can be consummated without the other. In order to avoid the time and costs of
8 protracted litigation on one or more of these disputes, FTDF and USACM believe that it is in the
9 best interests of their respective estates for the Plan, which contemplates the settlements described
10 below, to be approved.

11 **a. Fees and Expenses Incurred by USACM as FTDF's Loan**
12 **Servicer**

13 USACM currently acts as FTDF's loan servicer under the terms of the FTDF Loan
14 Servicing Agreement, executed by and between USACM and FTDF. In exchange for USACM
15 servicing FTDF's loan portfolio, FTDF has the following obligations: (i) payment of a servicing
16 fee up to 3% per annum of the maximum principal amount of each of FTDF's Loans and (ii)
17 reimbursement for FTDF's proportionate share of USACM's out-of-pocket expenses incurred in
18 connection with foreclosure proceedings, including attorney's fees, trustee's fees and foreclosure
19 costs (collectively, the "Servicer Advances"). Under the terms of the loans serviced by USACM, it
20 is standard practice for the borrower to be responsible for all costs of foreclosure and for USACM
21 to seek reimbursement of Servicer Advances from such borrowers, which could then be remitted
22 to FTDF and other direct lenders.
23

24 Prior to the Petition Date, USACM, however, never collected more than a 1% servicing fee
25 from FTDF. From the Petition Date through June 2006, USACM continued to collect a 1%
26 servicing fee from FTDF. Thereafter, pursuant to the Modified Order Authorizing Interim
27 Distributions and Holdbacks [docket no. 1424], USACM has collected a 3% servicing fee from
28

1 FTDF. FTDF and USACM dispute the amount of the servicing fee that should be collected from
2 FTDF.

3 In connection with the Servicer Advances, while USACM did not seek the reimbursement
4 from FTDF of any such advances it incurred prior to the Petition Date, it has since sought
5 reimbursement from FTDF for certain Servicer Advances incurred after the Petition Date. Most
6 recently, FTDF has been charged with its proportionate share of real estate appraisals related to the
7 FTDF loan portfolio. In addition, USACM has put FTDF on notice that it intends to seek
8 reimbursement of other Servicer Advances associated with foreclosure proceedings, including the
9 fees and expenses incurred by certain professionals USACM has hired to handle such foreclosures.
10 As described below, FTDF questions whether it should be responsible for reimbursing Servicer
11 Advances when it is already paying its share of the Debtors' professional fees and expenses in
12 accordance with the FTDF Debtors' Professionals' Fee/Cost Allocation (see below).

13 As part of the parties' overall settlement, FTDF and USACM have reached an agreement
14 on the amount of FTDF's servicing fee and FTDF's obligation to reimburse Servicer Advances. In
15 connection with the servicing fee, FTDF shall be charged a 1% servicing fee for the period of the
16 Petition Date through June 30, 2006. Thereafter, commencing on July 1, 2006 and ending on the
17 earlier of January 31, 2007, or the Effective Date, FTDF shall be charged a 2.5% loan servicing
18 fee. Finally, to the extent any prepetition servicing fees remain outstanding, such fees shall be
19 waived in full by USACM.
20

21 Second, with respect to Servicer Advances, FTDF shall pay its proportionate share of all
22 Servicer Advances incurred by USACM prior to the close of the Asset Sale Transaction; provided,
23 however, that, if FTDF pays its Debtors' Professionals' Fee/Cost Allocation (described below),
24 FTDF shall not then be responsible for reimbursing Servicer Advances incurred by the Debtors'
25 professionals, except solely for Servicer Advances for those professionals who actually perform
26 foreclosure work, excluding USACM's bankruptcy professionals. Furthermore, should USACM
27 receive payment from any source for Servicer Advances that have been previously paid by FTDF,
28 then USACM shall reimburse FTDF for such Servicer Advances paid by FTDF. Both USACM

1 and FTDF believe that the compromise on FTDF's payment of the servicing fee and Servicer
2 Advances far outweigh the risks and costs of litigating these disputes.

3 **b. Management Fee**

4 USACM also acts as FTDF's de facto manager. As described above, USA Realty is the
5 manager of FTDF under the terms of the FTDF Operating Agreement. USA Realty, however, has
6 no employees of its own and simply passes the benefits and burdens under the FTDF Operating
7 Agreement through to USACM. Pursuant to the FTDF Operating Agreement, USA Realty is
8 entitled to collect the FTDF Management Fee equal to 1.5% per annum of FTDF's assets under
9 management. In practice, this management fee is paid to USA Realty and then directly transferred
10 to USACM. Since the Petition Date, FTDF has incurred approximately \$78,000 per month for the
11 FTDF Management Fee. As FTDF realizes little benefit from the FTDF Management Fee and is
12 already being allocated its share of the Debtors' professional fees and expenses, FTDF believes
13 that it should not be responsible for paying the FTDF Management Fee.

14 In consideration of the fees and expenses already charged to the FTDF estate, the parties
15 have agreed that the FTDF Management Fee shall be waived in full for both prepetition and
16 postpetition periods, through the earlier of January 31, 2007, or the Effective Date. Any
17 management fees paid by FTDF to USACM since the Petition Date shall be applied to reduce the
18 obligations of FTDF to USACM under the Plan, and any remaining management fees shall be
19 repaid by USACM to FTDF. Management fees from July 2006 until the Effective Date shall be
20 deposited in the USA Realty account and transferred to FTDF on the Effective Date.

21 **c. Debtors' Professional Fees and Expenses**

22 FTDF, as one of the Debtors, shares responsibility for the administrative costs of these
23 Chapter 11 Cases. Since the Petition Date, the Debtors' professionals have allocated their fees and
24 expenses among the five Debtors' estates. In September 2006, the Unsecured Creditors'
25 Committee objected to the allocation of the Debtors' professional fees and expenses through July
26 31, 2006, arguing that FTDF and DTDF should bear more of the burden. To resolve this dispute,
27 the parties have agreed that FTDF shall be responsible for a flat amount on a monthly basis for its
28

1 share of these fees and expenses. FTDF's Debtors' Professionals' Fee/Cost Allocation shall be
2 \$125,000 per month commencing on the Petition Date and ending on the earlier of January 31,
3 2007, or the Effective Date.

4
5 **d. Claims Asserted By and Between USACM and FTDF**

6 Like other Direct Lenders, FTDF was also a victim of USACM's pre-petition management
7 practices. First, USACM failed to remit \$347,775 from principal collected on FTDF's loans to
8 FTDF, resulting in a FTDF Unremitted Principal Claim in the amount of \$347,775. Second,
9 USACM paid to FTDF certain amounts that it had never collected from FTDF loan borrowers. In
10 fact, prior to the Petition Date, FTDF had received \$2,557,307 in "pre-paid interest" (the "FTDF
11 Prepaid Interest"). USACM has subsequently netted this pre-paid interest against amounts
12 collected post-petition in connection with the FTDF loan portfolio. The FTDF Prepaid Interest is
13 now being held in the USACM Collection Account. Third, FTDF asserts a general unsecured
14 claim against USACM for its failure to fulfill its fiduciary duties, among others, under its Loan
15 Servicing Agreement and FTDF Operating Agreement, which is referred to as the FTDF
16 Unsecured Claim.

17 As part of the global settlement between USACM and FTDF to avoid the costs and risks
18 associated with litigating these issues, the parties have agreed to recognize each of the above
19 claims, which will receive the following treatment under the Plan. The FTDF Unremitted
20 Principal Claim will be allowed as a USACM Unsecured Claim in the amount of \$347,775, which
21 FTDF will transfer to DTDF as part of its compromise with DTDF (see below). With respect to
22 the FTDF Prepaid Interest being held in the USACM Collection Account, USACM, on the
23 Effective Date of the Plan, shall be permitted to retain the FTDF Prepaid Interest as an
24 unencumbered asset of its estate. Finally, the amount of FTDF's general unsecured claim against
25 USACM (the "FTDF Unsecured Claim") shall be allowed in either (i) the amount as agreed to by
26 FTDF and USACM on or before the Confirmation Hearing, or (ii) if no agreement is reached by
27 such date, the amount determined by the Court after an evidentiary hearing.
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

e. Allocation of the Overbid, Break-Up Fee, and Expense Reimbursement

In order to maximize the value of their respective estates, USACM and FTDF agreed to jointly sell their assets, subject to an auction process, as described above. It is expected that the Court will soon enter an order approving certain protections for Silver Point, who agreed to become the lead bidder, and establishing certain guidelines for the suction. The anticipated Court order will provide that, under specified circumstances, the Silver Point will be entitled to the break-up fee of \$1,500,000 (less the amount of any expense reimbursement already paid) and an expense reimbursement of up to \$500,000.

The parties have agreed that only the estates of USACM and FTDF shall be liable for the break-up fee or expense reimbursement. Furthermore, USACM and FTDF have agreed that their estates shall share in any overbid in the same proportion or in the same manner as they share in the liability for the Break-Up Fee or the Expense Reimbursement. The allocation shall be 85% to FTDF and 15% to USACM for any overbid consideration, and any incurred break-up fee or expense reimbursement obligation (as those terms are used in the Asset Purchase Agreement) shall be allocated in the same percentages, except as otherwise provided in the Stipulation memorializing the agreement between USACM and FTDF on the overbid allocation filed by the USACM Committee and the FTDF Committee with the Court, under seal, and served on the Debtors as confidential information, no later than ten (10) days prior to the Auction.

f. January 31, 2007 as the Termination Date of the FTDF/USACM Compromise

USACM and FTDF both recognize that their overall compromise is very time sensitive and have agreed on an outside date by which their settlement agreement must be implemented. By entering into this settlement, the parties are not foregoing any of their respect rights in connection

1 with the compromises reached on FTDF's payment of servicing fees, Servicer Advances, the
2 FTDF Management Fee, or the FTDF's Debtors' Professionals Fee/Cost Allocation should the
3 Effective Date of the Plan not occur by January 31, 2007. In that event, the parties' settlement
4 regarding FTDF's payment of servicing fees, Servicer Advances, the FTDF Management Fee, and
5 the FTDF's Debtors' Professionals Fee/Cost Allocation shall no longer be enforceable as of
6 February 1, 2007, and USACM and FTDF shall have reserved all of their rights with respect
7 thereto for all periods after January 31, 2007, including the right of USACM seek a Court order to
8 compel FTDF's payments of such fees for all time periods after January 31, 2007.

3. Settlement Between FTDF and DTDF

12 As described below, FTDF and DTDF, through their respective committees, have reached
13 a settlement regarding DTDF's threatened litigation to seek the re-characterization of all loans
14 serviced by USACM, including the FTDF loan portfolio, as property of the Debtors' estates and
15 the substantive consolidation of the Debtors' estates.⁶

16 Under the re-characterization argument, DTDF seeks to pool all loans together into one
17 collective pot, from which all direct lenders, including the FTDF, would share, pro rata, based on
18 the amount of their respective original investment. In this scenario, FTDF, rather than looking
19 solely to the FTDF loan portfolio for recovery, would be just one of many direct lenders asserting
20 a claim against the common pool of loans. Thus, while FTDF would be able to seek recovery
21 from a larger asset pool, the number of claims against that asset pool would also be significantly
22 greater. On the other hand, if only the Debtors' estates were substantively consolidated together,
23 all assets and liabilities would become part of the same estate, resulting in all of the Debtors'
24 constituencies (excluding Direct Lenders) seeking recovery from a much smaller, single pot of
25

26
27 ⁶ DTDF first asserted its claims for re-characterization and substantive consolidation in opposing USACM's
28 Motion for Interim Distributions. In approving the Motion for Interim Distributions, the Court did so without

1 assets. As the Bankruptcy Code dictates that general unsecured claims must be paid before equity
2 interests, substantive consolidation would delay and potentially reduce recovery to holders of
3 FTDF Equity Interests.

4 In analyzing the ramifications of re-characterization with respect to FTDF's anticipated
5 recovery, the FTDF Committee believes that re-characterization, in and of itself, would only have
6 a minor negative impact on the expected recovery for holders of FTDF equity interests. While the
7 effect of substantive consolidation of only the Debtors' estates on the FTDF recovery is much
8 more meaningful, the Court is not likely to grant this relief. Litigation, however, is not without its
9 own costs. Litigation is very expensive and would increase the administrative burden of these
10 Chapter 11 Cases. Moreover, any litigation with respect to claims for re-characterization or
11 substantive consolidation would necessarily delay recovery to holders of FTDF equity interests.
12 Distributions could not be made to any of the Debtors' constituencies, let alone holders of FTDF
13 equity interests, until the litigation had been resolved. After taking into account the cost and delay
14 of DTDF litigating its claims for re-characterization and substantive consolidation, FTDF, with the
15 support of the FTDF Committee, believes it is in the best interests of the FTDF estate to settle this
16 threatened litigation. The terms of this settlement are described below. Like the FTDF/USACM
17 compromise, the parties negotiated this settlement as a whole, and no one compromise can be
18 consummated without the other.

19 **a. FTDF Payment to DTDF and Terms of Repayment.**

20
21 On the Effective Date, FTDF shall pay to DTDF \$500,000. In addition, FTDF shall also
22 pay an additional sum of up to \$500,000 from 50% of any overbid increment actually paid and
23 allocated to FTDF, after taking into consideration any break-up fee (including any expense
24 reimbursement) paid by FTDF (together with the \$500,000 payment, the "FTDF Payment"). In
25 other words, the minimum amount of the FTDF Payment is \$500,000, which can only be
26 increased to the extent that FTDF actually receives additional consideration from the sale of the
27

28 prejudice to the rights of any party in interest. As a result, DTDF has reserved all of its rights with respect to

1 FTDF Assets. FTDF will evenly split this potential "upside" with DTDF until DTDF receives an
2 additional \$500,000.

3 DTDF shall have no obligation to repay the FTDF Payment until holders of DTDF equity
4 interests have received the same recovery as holders of FTDF Equity Interests, which is defined as
5 the FTDF Base Recovery Percentage in the Plan. Upon achieving the FTDF Base Recovery
6 Percentage (not as adjusted below), DTDF shall repay \$500,000 of the FTDF Payment. The
7 repayment of the remaining amount of the FTDF Payment shall be based on the adjusted FTDF
8 Base Recovery Percentage, which shall be calculated as follows: on each anniversary of the
9 Effective Date, a further calculation shall be performed by increasing the dollar amount of the
10 recovery that DTDF must obtain in order for DTDF to achieve the adjusted FTDF Base Recovery
11 Percentage by adding \$5 million per year to such amount (the "Adjusted FTDF Base Recovery
12 Percentage"). Upon achieving the Adjusted FTDF Base Recovery Percentage, DTDF shall repay
13 the balance of the FTDF Payment.

14
15
16 **b. Transfer of FTDF Assets and Claims to DTDF**

17 As further consideration of the parties' settlement, FTDF will transfer to DTDF its interest
18 in the Bysynergy Loan, the FTDF Unremitted Principal Claim, and the proceeds of certain non-
19 assignable actions, which include FTDF's right to pursue certain tort actions against USA Realty,
20 USA Securities and USACM (the "FTDF Transferred Assets"). DTDF, not FTDF, shall bear the
21 costs of pursuing the recovery on the FTDF Transferred Assets.

22 **c. FTDF General Unsecured Claim Subordination**

23
24 Finally, FTDF will transfer its pro-rata share of recoveries from its interests as a
25 beneficiary in the USACM Trust to DTDF until the allowed DTDF equity interests receive a
26 recovery of 85% on their investment in DTDF from all sources of recovery allocated to the DTDF

27
28 asserting claims for re-characterization and substantive consolidation.

1 and DTDF Post-Effective Date Estate (the “DTDF 85% Recovery”). After the DTDF 85%
2 Recovery is reached, FTDF will retain its pro-rata share of recoveries from its interests as a
3 beneficiary in the USACM Trust.

4
5 **4. No Compromise of the Disputes Between USACM and DTDF.**

6
7 Despite substantial efforts among the USACM Committee and the DTDF Committee,
8 these two Committees have been unable to reach agreement on a resolution of the disputes
9 between USACM and DTDF. These disputes primarily consist of the following:

10 a. The allowed amount of the DTDF general unsecured claim against
11 USACM.

12
13 b. The allocation of the USAIP \$58 Million Promissory Note as
14 between USACM and DTDF.

15
16 c. The assignment of priority (i.e., first priority liens or second priority
17 liens) of the collateral pledged by USAIP for both the DTDF 10-90, Inc. Loan and the IP Security
18 Agreement. (The IP Security Agreement is dated May 31, 2006 and was made by USAIP in favor
19 of USACM, DTDF, FTDF, USA Securities and USA Realty as modified by the Order Approving
20 the Agreement with Investment Partners entered by the Bankruptcy Court on July 24, 2006.)

21
22 d. USACM's right to recovery from DTDF of \$4,641,402 in Prepaid
23 Interest, given DTDF's claims against USACM, including for Diverted (or Unremitted) Principal,
24 and the possibility of offsetting such claims.

25
26 e. DTDF's payment of the approximately \$124,000 per month
27 management fee to USA Realty, which management fee is then paid over by USA Realty to
28 USACM.

1 f. The refund of the 2% Holdback to DTDF and the payment by DTDF
2 of a one percent (1%) servicing fee to USACM for both the prepetition and postpetition periods.

3
4 g. The amount and payment of DTDF's share of the professional fees
5 and costs incurred by the Debtors' professionals in the USACM Estate commencing on the
6 Petition Date. The USACM Committee and the DTDF Committee will continue to work to settle
7 these disputes. If these Committees are unable to resolve these disputes in whole or in part, the
8 USACM Trust and the Post Effective Date DTDF will litigate these disputes after the Effective
9 Date.

10 **F. Post-Effective Date Entities**

11 **1. FTDF, USA Realty, and USA Securities After the Effective Date**

12 On and after the Effective Date, FTDF, USA Realty and USA Securities will have the
13 authority to effect all transactions and take all actions required by the Plan. In particular, FTDF
14 and the FTDF Committee shall each have authority to prosecute (a) claim objections in the FTDF
15 Estate, and (b) the non-assignable FTDF litigation claims on behalf of FTDF subject to the
16 compromise with DTDF discussed above. After the actions set forth in this paragraph are
17 completed, FTDF, USA Realty, and USA Securities shall be dissolved in accordance with the
18 Confirmation Order and applicable state law.

19
20 **2. The USACM Trust**

21 The USACM Trust will be created pursuant to a trust agreement, the form of which will be
22 submitted to the Court at least ten (10) days prior to the commencement of the Confirmation
23 Hearing. The USACM Trust will hold title to all assets of USACM not collected or not disposed
24 of prior to the Effective Date including such things as accounts, notes or receivables of USACM
25 (including USACM estate's share of the USAIP \$58 million Promissory Note), all litigation
26 claims including claims against non-debtor insiders belonging to or assertable by the USACM
27 Estate, and all servicing and related fees to be retained by USACM as set forth in the Asset
28 Purchase Agreement. The purpose of the USACM Trust is to realize assets that can be liquidated

1 with net proceeds disbursed to its beneficiaries. The beneficiaries will include all unsecured
2 claims against USACM that have been allowed, including allowed unremitted principal claims,
3 and the unsecured claims of DTDF, FTDF and the Direct Lenders.

4 **3. The Post-Effective Date DTDF**

5 The post-Effective Date DTDF will be created by an amendment to the current DTDF
6 operating agreement. This agreement will be amended to, among other things, reflect the
7 appointment of an officer to manage the affairs of DTDF after the Effective Date, to provide for
8 any oversight and replacement of such officer, and to reflect the fact that the charge of such officer
9 will be to liquidate the assets of DTDF for the benefit of the equity holders of DTDF. The form of
10 such amendment will be submitted to the Court at least ten (10) days prior to the commencement
11 of the Confirmation Hearing. The post-Effective Date DTDF will hold title to all assets of DTDF
12 not collected or not disposed of prior to the Effective Date including such things as the DTDF
13 loans, certain assets transferred by FTDF to DTDF, all litigation claims including non-debtor and
14 professional litigation held by or assertable by DTDF, and the DTDF estate's share of the USAIP
15 \$58 million Promissory Note. The purpose of DTDF after the Effective Date is to realize assets
16 that can be liquidated with net proceeds disbursed to its beneficiaries, which include all of the
17 equity interests in DTDF that have been allowed.

18 **4. The Litigation Against Non-Debtor Insiders**

19
20 The USACM, FTDF and DTDF bankruptcy estates have rights, claims and causes of
21 action among their assets, defined in the Plan as "Litigation Claims." The FTDF estate transfers
22 its non-assignable litigation claims to the DTDF estate under a settlement between them, and these
23 FTDF causes of action and DTDF causes of action are transferred by the plan to DTDF after the
24 Effective Date. A subcategory of litigation claims is the non-debtor insider and litigation, which
25 generally consists of all of the claims that exist against the insiders of the Debtors, including but
26 not limited to those that can be asserted against Joseph D. Milanowski, Thomas A. Hantges, Paul
27 S. Hamilton, USAIP, and all persons and entities related to or affiliated with those persons and
28 entities who may have improperly received direct or indirect transfers of property of the Debtors,

1 or aided and abetted such wrongdoing. The claims against these individuals and entities are
2 extensive, and may include, but are not necessarily limited to, the following causes of action: (1)
3 breach of contract, (2) breach of fiduciary duty, (3) usurpation or theft of business opportunities,
4 (4) conversion; (5) negligence, (6) mismanagement, (7) an accounting, (8) fraud, (9) fraudulent
5 inducement, (10) negligence misrepresentation, (11) fraudulent conveyance, (12) equitable
6 contribution, (13) equitable indemnity, and (14) securities violations. The Unsecured Committee
7 and DTDF Committee expect that the USACM Trust and DTDF will agree on terms of a joint
8 prosecution agreement to pursue these causes of action. The Plan provides for such a joint effort,
9 and that the net recoveries will be shared among the USACM Trust beneficiaries and DTDF
10 investors, without further court approval.

11 **5. Post-Effective Date Administrators and Advisory Committees.**

12 The USACM Trust and DTDF will each be separately managed by an estate administrator
13 and chief executive officer, respectively, and by an advisory committee, unless otherwise agreed
14 to by the DTDF Committee and the unsecured creditors of USACM. The estate administrator for
15 the USACM Trust will be also be its trustee, a person proposed by the Committee for the
16 unsecured creditors of USACM (the "USACM Trustee"). The chief executive officer for DTDF
17 will be a person proposed by the DTDF Committee (the "DTDF Administrator"). The retention of
18 both of the estate administrators must be approved by the Court at the Confirmation Hearing.

19 The advisory committees for the USACM Trust will be will be comprised of five persons,
20 who will be named in the Plan Supplement and available for review at least ten (10) days before
21 the deadline for Plan objections. The Committees for DTDF and the Direct Lenders will each
22 appoint one of the five, and the Committee for the unsecured creditors of USACM will appoint the
23 other three. In the event of a vacancy, the resigning member will appoint a replacement. The
24 advisory committee for DTDF will be named in a supplement to the Plan well.

25 In their capacity as estate administrators, the USACM Trustee and DTDF Administrator
26 will assume responsibility for administrative expense and claims objections, Plan distributions,
27 and other aspects of implementing the Plan for their respective bankruptcy estates. The USACM
28 Trustee may assume such responsibility for those duties for the USA Realty and USA Securities

1 estates as well. They will also be responsible for liquidating the assets transferred to the USACM
2 Trust and DTDF, which includes pursuing litigation claims, paying the costs of such litigation and
3 administration of the USACM Trust and DTDF, respectively, and distributing net proceeds in
4 accordance with the Plan. The USACM Trustee and DTDF Administrator may engage lawyers,
5 accountants and other professionals, who may be professionals for existing Committees. The
6 estate administrators and advisory committees will continue in their capacities until the assets of
7 the USACM Trust and Post-Effective Date DTDF, respectively, have been liquidated and all
8 distributions have been made in accordance with the Plan.

9 **G. USACM's Pension Plan**

10 USACM established and maintains a pension plan for certain of its employees known as
11 the USA Commercial Mortgage Company Defined Benefit Pension Plan (the "Pension Plan").
12 The Pension Plan is covered by Title IV of the Employee Retirement Income Security Act of
13 1974, as amended, ("ERISA"), (29 U.S.C. § 1301 et seq.). On October 20, 2006, the Court
14 entered an order freezing the Pension Plan and approving the appointment of USACM as the
15 successor trustee for the Pension Plan.

16 The Pension Benefit Guaranty Corporation ("PBGC"), a United States Government
17 corporation, guarantees the payment of certain pension benefits upon termination of a pension plan
18 covered by Title IV of ERISA. The PBGC asserts that USACM and all members of its controlled
19 group are obligated to contribute to the Pension Plan the amount necessary to satisfy ERISA's
20 minimum funding standards under ERISA section 302 and Internal Revenue Code section 412,
21 and that the Pension Plan may be terminated only if the statutory requirements of either ERISA
22 section 4041, 29 U.S.C. section 1341, or ERISA section 4042, 29 U.S.C. section 1342, are met.
23 The PBGC further asserts that if the Pension Plan terminates, USACM and all members of its
24 controlled group will be jointly and severally liable for the unpaid minimum funding
25 contributions, premiums, and unfunded benefit liabilities of the Pension Plan.

26 The PBGC has informed Debtors that it intends to file in the bankruptcy proceedings
27 estimated claims for unfunded benefit liabilities, contingent on plan termination, and claims for
28 unpaid minimum funding contributions and premiums under the Pension Plan. The PBGC also

1 asserts that it is entitled to administrative priority for certain amounts of its claims under 11 U.S.C.
2 sections 507(a)(2), 507(a)(5) and 507(a)(8). The Debtors currently do not know what amounts the
3 PBGC will claim as an administrative priority, but the Debtors contend the right of the PBGC to
4 an administrative priority claim is limited under applicable bankruptcy law. Further, the Debtors
5 are evaluating whether the PBGC has any claims against the estates, and do not know whether the
6 PBGC has valid claims.

7 The PBGC alleges that unless the Pension Plan has been terminated prior to the effective
8 date of the plan of reorganization, Debtors' liability to the Plan under ERISA, or their liability to
9 the PBGC with respect to the Plan, will not be affected in any way by this reorganization
10 proceeding, confirmation of the Plan of Reorganization, or discharge in bankruptcy. USACM
11 does not necessarily agree with the PBGC's assertion.

12 **H. Binding Nature of the Plan and Injunction Included in Plan**

13 As provided in section 1141(a) of the Bankruptcy Code, upon entry of the Confirmation
14 Order, the Plan shall bind the Debtors, all entities that are to acquire any property either directly or
15 indirectly under the Plan, and all holders of claims and interests, including the Direct Lenders,
16 whether or not their claims and/or interests are impaired under the Plan and whether or not they
17 have accepted the Plan.

18 Unless otherwise provided in the Plan or in the Confirmation Order, all injunctions or stays
19 provided for in the Chapter 11 cases under section 105 or 362 of the Bankruptcy Code or that are
20 otherwise existing on the Confirmation Date (excluding any injunctions or stays contained in the
21 Plan or the Confirmation Order), shall remain in full force and effect until the Effective Date of
22 the Plan.

23 While under section 1141(d) of the Bankruptcy Code one or more of the Debtors may not
24 qualify for a discharge, all parties (including all holders of claims and/or interests) bound by the
25 Plan pursuant to section 1141(a) of the Bankruptcy Code will be permanently enjoined, on and
26 after the Effective Date of the Plan, from:

27 (i) commencing or continuing in any manner any action or other proceeding of any
28 kind;

- 1 (ii) enforcing, attaching, collecting, or recovering by any manner or means of any
2 judgment, award, decree, or order;
- 3 (iii) creating, perfecting, or enforcing any encumbrance of any kind;
- 4 (iv) asserting any right of setoff, subrogation, or recoupment of any kind against the
5 Debtors, their estates, the USACM Trust and DTDF or their assets or their estate representatives,
6 with respect to or on account of any such claim or interest; and
- 7 (v) taking any action that would interfere with the consummation of the Plan.

8 **X. ALTERNATIVES TO THE PLAN AND LIQUIDATION ANALYSIS**

9

10 **A. Alternatives to the Plan**

11 The Debtors have carefully considered all reasonable alternatives to the organized
12 liquidation that was selected and is set forth in the Plan. During the first several months of these
13 cases, the Debtors diligently sought to obtain post-petition financing that might have allowed
14 USACM to reorganize and remain in business as a loan originator and loan servicer. However,
15 after the Debtors' unsuccessful attempts to obtain Court approval for two different term sheets for
16 post-petition financing from two reputable lenders, the Debtors were unable to obtain further
17 reasonable proposals from potential lenders for such financing. The Debtors then diligently
18 marketed the significant assets available for sale to various potential acquirers, and the result of
19 those intensive efforts is the Asset Purchase Agreement with Silver Point, and the final auction
20 process that will bring forth the highest and best offer to acquire the assets of USACM and FTDF
21 identified for sale pursuant to the Plan. Further, extensive negotiations with the different
22 Committees resulted in the proposed structure for the organized liquidation of remaining assets
23 and the potential recovery of other assets that is also carried out through the Plan.

24 The Debtors believe that if the Plan is not confirmed, a reasonably likely alternative is that
25 the cases will be converted to liquidation cases under Chapter 7 of the Bankruptcy Code. As
26 discussed below, the Debtors believe that the Chapter 7 alternative is not in the best interest of any
27 of the creditors, equity interest holders, or other parties in interest in these cases.

28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

B. Liquidation Analysis and Best Interest of Creditors Test

Pursuant to section 1129(a)(7) of the Bankruptcy Code, for the Plan to be confirmed it must provide that creditors and holders of equity interests will receive at least as much under the Plan as they would receive in a liquidation of the Debtors under Chapter 7 of the Bankruptcy Code (the “Best Interest Test”). The Best Interest Test with respect to each impaired class requires that each holder of a claim or equity interest of such class either (a) accepts the plan or (b) receives or retains under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code. The Court will determine whether the value received under the Plan by the holders of claims in each class of creditors or equity interests equals or exceeds the value that would be allocated to such holders in liquidation under Chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan meets the Best Interest Test and provides value that is significantly greater than that which would be recovered by each such holder in a proceeding under Chapter 7 of the Bankruptcy Code.

The chart attached hereto as *Exhibit 4* provides a preliminary liquidation analysis (“Liquidation Analysis”) for each of the five Debtors and, based on certain assumptions discussed below, supports the conclusion that a hypothetical liquidation under Chapter 7 of the Bankruptcy Code would return less value to each holder of a claim or equity interest in each class under the Plan than would the proposed distributions to be made under the Plan. Further analysis, including calculation of recovery values under the Plan versus the Chapter 7 liquidation alternative, will be provided after all proofs of claim filed by the November 13, 2006, bar date are reviewed.

C. General Assumptions for the Liquidation Analysis

The following general assumptions were made in preparing the Liquidation Analysis for each of the five Debtors.

1. The Liquidation Analysis was prepared in accordance with section 1129(a)(7)(A)(ii) of the Bankruptcy Code to determine whether the Plan is in the interests of the Debtors’ estates and creditors.

1 2. The Liquidation Analysis is based upon a number of estimates and assumptions
2 that, although considered reasonable by the Debtors, are subject to economic, business,
3 governmental regulation and contingencies beyond the control of the Debtors. Accordingly, no
4 assurances can be made. The Liquidation Analysis is subject to change. Nothing contained herein
5 shall be used as an admission against the Debtors or any other person.

6 3. The Liquidation Analysis utilizes the Debtors' unaudited financial statements as of
7 July 31, 2006, and other figures estimated by the Debtors as a basis for determining liquidation
8 values.

9 4. The Liquidation Analysis assumes a conversion to Chapter 7 on November 15,
10 2006.

11 5. The Liquidation Analysis does not quantify potential legal causes of action, which
12 may include, without limitation, proceeds of avoidance actions as well as claims of the Debtors
13 against third parties.

14 **D. Notes to the Liquidation Analysis**

15 The following notes apply to the Liquidation Analysis for each of the five Debtors that is
16 attached hereto as *Exhibit 4*. The notes below relate to specific asset categories identified in the
17 Liquidation Analysis and correspond to the "Note Reference" column in that analysis.

18 A. Cash and Cash Equivalents: Estimated recovery of Cash and Cash Equivalents on
19 hand is assumed to be 100%. The Liquidation Analysis assumes that the Debtors will
be entitled to any applicable servicing and interest revenue earned until 11/15/06.

20 B. Investments in Loans: Estimated recoveries for Investments in Loans are based
21 upon a loan by loan recovery analysis and current management estimates. These
recoveries are allocated in accordance with the loan documents.

22 C. Principal in Collection Account: Estimated recovery of Principal in Collection
23 Account is assumed to be 100%.

24 D. Accounts Receivable: Estimated recoveries for Accounts Receivable are based
25 upon current management estimates.

26 E. Prepaid Interest: The Liquidation Analysis assumes that the Court will allow
27 USACM to retain Prepaid Interest (both the uncollected amounts and the funds in
collection account).

28

- 1 F. Notes Receivable: Estimated recoveries for Notes Receivable are based upon
2 current management estimates.
- 3 G. Prepaid Expenses: The Liquidation Analysis assumes no recovery for Prepaid
4 Expenses.
- 5 H. Property, Plant & Equipment: Estimated recoveries for Property, Plant &
6 Equipment are based on appraisals and current management estimates.
- 7 I. Other Assets: Estimated recoveries for Other Assets are based upon current
8 management estimates.
- 9 J. Administrative Claims: Estimated based on management's current estimates of
10 operating costs, Chapter 7 trustee and professional fees, and Chapter 11 professional
11 fees.
- 12 K. Secured Claims: Based on scheduled claims (none scheduled)
- 13 L. Priority Claims: Based on 105% of scheduled claims
- 14 M. Unsecured Claims: Based on scheduled claims plus estimated deficiency claims
- 15 N. Equity Interests: Based on total equity as reported on the July 31, 2006 balance
16 sheet, net of restructuring charges and reserves

17 **XI. PLAN FEASIBILITY**

18 The Bankruptcy Code requires that in order to confirm the Plan, the Court must find that
19 confirmation of the Plan is not likely to be followed by a further liquidation or need for further
20 financial reorganization of the Debtors (the "Feasibility Test"). For the Plan to meet the
21 Feasibility Test, the Court must find that the Debtors will possess the resources and working
22 capital necessary to meet their obligations under the Plan.

23 The Debtors believe that the structure set forth in the Plan, as discussed above, provides a
24 feasible framework for the recovery of certain claims and assets held by the Debtors and an
25 orderly, phased liquidation of the Debtors and their assets, and that confirmation of the Plan is not
26 likely to be followed by any further liquidation or reorganization of the Debtors.

27 **XII. POTENTIAL MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE**
28 **PLAN**

1 PROVIDED BELOW IS A SUMMARY DESCRIPTION OF CERTAIN UNITED
2 STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO THE DEBTORS
3 AND TO CERTAIN HOLDERS OF ALLOWED CLAIMS OR INTERESTS. THIS
4 DESCRIPTION IS FOR INFORMATIONAL PURPOSES ONLY AND, DUE TO A LACK OF
5 DEFINITIVE JUDICIAL OR ADMINISTRATIVE AUTHORITY OR INTERPRETATION,
6 SUBSTANTIAL UNCERTAINTIES EXIST WITH RESPECT TO VARIOUS TAX
7 CONSEQUENCES OF THE PLAN AS DISCUSSED HEREIN. ONLY CERTAIN
8 CONSEQUENCES OF THE PLAN FOR THE DEBTORS AND FOR HOLDERS OF
9 ALLOWED CLAIMS OR INTERESTS ARE DESCRIBED BELOW. NO OPINION OF
10 COUNSEL HAS BEEN SOUGHT OR OBTAINED WITH RESPECT TO ANY TAX
11 CONSEQUENCES OF THE PLAN. NO RULINGS OR DETERMINATIONS OF THE IRS OR
12 ANY OTHER TAX AUTHORITIES HAVE BEEN SOUGHT OR OBTAINED WITH RESPECT
13 TO THE TAX CONSEQUENCES OF THE PLAN, AND THE DISCUSSION BELOW IS NOT
14 BINDING UPON THE IRS OR SUCH OTHER AUTHORITIES. THE DEBTORS ARE
15 MAKING NO REPRESENTATIONS REGARDING THE PARTICULAR TAX
16 CONSEQUENCES OF THE CONFIRMATION AND CONSUMMATION OF THE PLAN AS
17 TO ANY CLAIM OR EQUITY INTEREST HOLDER, AND NO PERSON IS RENDERING
18 ANY FORM OF LEGAL OPINION AS TO SUCH TAX CONSEQUENCES. NO ASSURANCE
19 CAN BE GIVEN THAT THE IRS WOULD NOT ASSERT, OR THAT A COURT WOULD
20 NOT SUSTAIN, A POSITION DIFFERENT FROM ANY DISCUSSED HEREIN.

21 THE DISCUSSION OF UNITED STATES FEDERAL INCOME TAX
22 CONSEQUENCES BELOW IS BASED ON THE INTERNAL REVENUE CODE, TREASURY
23 REGULATIONS, JUDICIAL AUTHORITIES, PUBLISHED POSITIONS OF THE IRS AND
24 OTHER APPLICABLE AUTHORITIES, ALL AS IN EFFECT ON THE DATE OF THIS
25 DISCLOSURE STATEMENT, AND ALL OF WHICH ARE SUBJECT TO CHANGE OR
26 DIFFERING INTERPRETATIONS (POSSIBLY WITH RETROACTIVE EFFECT).

27 THE FOLLOWING DISCUSSION DOES NOT ADDRESS FOREIGN, STATE OR
28 LOCAL TAX CONSEQUENCES OF THE PLAN, NOR DOES IT PURPORT TO ADDRESS

1 THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO
2 SPECIAL CLASSES OF TAXPAYERS SUBJECT TO SPECIAL TAX RULES (E.G., BANKS
3 AND CERTAIN OTHER FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, TAX-
4 EXEMPT ORGANIZATIONS, PERSONS WHOSE FUNCTIONAL CURRENCY IS NOT THE
5 UNITED STATES DOLLAR, DEALERS IN SECURITIES OR FOREIGN CURRENCY,
6 PERSONS WHO RECEIVED THEIR ALLOWED CLAIMS OR INTERESTS PURSUANT TO
7 THE EXERCISE OF AN EMPLOYEE STOCK OPTION OR OTHERWISE AS
8 COMPENSATION AND PERSONS HOLDING ALLOWED CLAIMS OR INTERESTS AS A
9 HEDGE AGAINST, OR THAT ARE HEDGED AGAINST, CURRENCY RISK OR THAT ARE
10 PART OF A STRADDLE, CONSTRUCTIVE SALE OR CONVERSION TRANSACTION).
11 FURTHERMORE, THE FOLLOWING DISCUSSION DOES NOT ADDRESS UNITED
12 STATES FEDERAL TAXES OTHER THAN INCOME TAXES.

13 EACH CLAIM OR INTEREST HOLDER IS STRONGLY URGED TO CONSULT HIS,
14 HER, OR ITS OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL,
15 STATE, LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS
16 DESCRIBED HEREIN AND IN THE PLAN.

17 **A. General Tax Administration and Reporting**

18 The USACM Trust shall be treated as a grantor trust, for federal income tax purposes,
19 within the meaning of sections 671 through 677 of the Internal Revenue Code. Pursuant to and in
20 accordance with the Plan, the USACM Trustee shall be responsible for all tax matters of the
21 USACM Trust, including, but not limited to, the filing of all tax returns and other filings with
22 governmental authorities on behalf of the USACM Trust for time periods ending on or before the
23 last day of the last tax reporting year of the USACM Trust, including the filing of tax returns for
24 the applicable USACM Trust as a grantor trust pursuant to section 1.671-4(a) of the United States
25 Income Tax Regulations, the filing of determination requests under section 505 of the Bankruptcy
26 Code (if deemed necessary), and responding to any tax audits of the USACM Trust. The USACM
27 Administrator shall provide such information to the beneficiaries of the USACM Trust as will
28 enable them to properly file their separate tax returns and shall withhold and pay over any amounts

1 required by tax law. The USACM Administrator is authorized to act as agent for the USACM
2 Trust in withholding or paying over any amounts required by law (including tax law) to be
3 withheld or paid by the USACM Trust in connection with the transfer and assignment of the assets
4 of the estate to the USACM Trust pursuant to the Plan.

5 No liquidating trust will be created for any other Debtors' estate. Each other Debtor is a
6 limited liability company which is treated as a partnership for federal tax purposes. Of the four
7 limited liability companies which are Debtors, only DTDF will undergo a transfer of its assets to a
8 DTDF Administrator. The DTDF Administrator will have similar duties with respect to the filing
9 of tax returns and governmental reports and the provisions of tax information to creditors and to
10 members of the Debtor as are described above with respect to the USACM Trustee of the USACM
11 Trust.

11 **1. Allocation of Reportable Tax Items.**

12 Except as otherwise set forth in the Plan or a USACM Trust Agreement, and as more fully
13 set forth in B through D below, items of income, deduction, credit, or loss of the USACM Trust
14 shall be allocated for federal income tax purposes among the beneficiaries of the applicable
15 USACM Trust pro rata on the basis of their beneficial interests; provided, however, that to the
16 extent any item of income cannot be allocated in the taxable year in which it arises, the USACM
17 Trust shall pay the federal, state and local taxes attributable to such income (net of related
18 deductions) and the amount of such taxes shall be treated as having been received by, and paid on
19 behalf of the Beneficiaries when such allocations are made. Similarly such tax items determined
20 with respect to DTDF will be reported by the estate administrator to governmental authorities and
21 to the creditors and members of DTDF. The estate administrator shall be entitled to deduct any
22 federal or state withholding taxes from any payments made with respect to allowed claims or
23 interests, as appropriate, and shall otherwise comply with section 346 of the Bankruptcy Code.

24 **2. Valuations.**

25 The USACM Trustee shall provide for consistent valuations of assets transferred to the
26 USACM Trust as of the Effective Date and as of the date of any other taxable event and shall use
27 such valuations for all federal tax purposes.

28 **B. Consequences to the Debtors**

1. Sale of Acquired Assets

1 If the anticipated sales of the assets of USACM and FTDF to Silver Point, or a higher and
2 better bidder approved by the Court, close as contemplated by the Plan, the sales will result in
3 realization of a gain to the Debtor that sells such assets in an amount equal to the excess of the
4 proceeds received over the basis of the acquired asset in the hands of the Debtor. The sales will
5 result in a loss to the Debtor that sells such assets in an amount equal to the shortfall between such
6 basis and the proceeds received. Gains and losses realized by the respective Debtors will be
7 passed through to their shareholders or members on Schedules K-1 and the latter will pay any
8 resulting tax as further explained in paragraph B.2. below.

9 **2. Partial Satisfaction of Indebtedness**

10 USACM's transfer of its property to the USACM Trust will be treated as a deemed two-
11 step transfer to the shareholders of the Debtor, followed by deemed transfers to the beneficiaries of
12 those trusts. This will be in satisfaction of the Debtor's obligations to the creditor beneficiaries in
13 amounts up to the fair market value of the transferred property on the Effective Date as determined
14 and reported by the USACM Trustee of the USACM Trust. USACM will recognize gain or loss
15 on this transfer in an amount up to the difference between that fair market value and the Debtor's
16 basis in the transferred property.

17 Any gain or loss realized by USACM (which is an S corporation Debtor) from those
18 transfers will pass through to the shareholders on Schedule K-1. A shareholder who recognizes
19 taxable income or gain from those transfers or from any other source will pay any resulting tax.

20 USA Realty, USA Securities, FTDF and DTDF are limited liability companies classified
21 directly or indirectly as partnerships. A partnership is not taxed on its income but passes it
22 through on Forms K-1 to its partners. Losses are similarly passed through to the partners.

23 S corporations and partnership entities do not have unused losses or carry-forwards, but the
24 shareholders and partners may be unable to use losses from the corporation or partnerships for any
25 of several reasons, such as lack of basis, not being "at risk" on the investment in the corporation or
26 partnership, etc.

27 **3. Cancellation of Indebtedness Income**

28

1 Confirmation of the Plan can be expected to give rise to cancellation of indebtedness
2 income (“COD”). Under the Plan, each Debtor will generally realize COD in an amount equal to
3 the excess of the adjusted issue price of any of its indebtedness exchanged or canceled (including
4 any accrued but unpaid interest) over the fair market value of any property transferred to the
5 USACM Trust or DTDF or to the creditors of any of the Debtors on the Effective Date, as
6 determined and reported by the USACM Trustee, DTDF Administrator, or FTDF, USA Realty or
7 USA Securities, respectively. Because the COD will arise in the course of a proceeding pursuant
8 to Chapter 11 or 7, respectively, of the Bankruptcy Code, USACM may not be required to include
9 such COD in distributable income on K-1 to shareholders. Instead, certain shareholders may be
10 required to reduce certain of their beneficial tax attributes by the amount of COD excluded from
11 taxable income by reason of the bankruptcy. Such attribute reduction would first be applied to
12 reduce the shareholders’ net operating losses, next to reduce certain other tax attributes (such as
13 capital loss carryforwards and the tax basis of certain property), and finally to reduce some
14 subsidiary attributes, if applicable. If the amount of COD excluded from taxable income by
15 reason of the bankruptcy exceeds available tax attributes, the excess would permanently escape
16 taxation.

17 However, tax treatment of COD for members of limited liability companies treated as
18 partnerships is different from the treatment of S corporation shareholders. COD realized from
19 discharge of partnership debt is partnership income allocated to the partners on Form K-1 pursuant
20 to Internal Revenue Code section 702(a). Each partner’s basis in its membership interest is
21 increased by the COD income allocation and the partner is deemed to have received cash in an
22 equivalent amount. Only members who are themselves bankrupt will be entitled to exclude COD
23 income under Internal Revenue Code section 108.

24 **4. Effects of Filing by Partnerships**

25 When a limited liability company classified as a partnership files for bankruptcy, no new
26 taxable entity is automatically created for federal income tax purposes, and the partnership is not
27 terminated under Internal Revenue Code section 708. Therefore, each partnership is considered as
28 continuing until it is terminated. Under section 708(b) (in the absence of special circumstances

1 such as a merger or division), a partnership will terminate if no part of any business, financial
2 operation or venture of the partnership continues to be carried on by any of its partners in a
3 partnership. Until the partnership completely ceases all business activities and has no assets, it
4 should be treated as continuing. The transfer of all assets of a partnership to an estate
5 administrator for liquidation should not by itself terminate the partnership, because the partnership
6 will still have financial operations and will be deemed to have assets after the transfer. Thus, the
7 filing of a bankruptcy case alone does not result in recognition of income, gain or loss by the
8 partnership, depreciation recapture or deemed disposition of the partnership's assets (so gain on
9 any installment obligations held by the partnership is not thereby accelerated), but the later
10 transfer of all assets of a partnership to creditors will trigger all of the foregoing consequences.
11 Each Debtor that is a limited liability company will be deemed terminated upon the earlier of the
12 transfer of all of its assets to creditors, or its dissolution and termination under Nevada state law.

13 C. Tax Consequences to Creditors

14 For United States federal income tax purposes, USACM's transfer of its property to the
15 USACM Trust will be treated as a deemed transfer to beneficiaries of a trust who are creditors in
16 satisfaction of the Debtor's obligations to those creditors, followed by deemed transfers by the
17 creditors to the USACM Trust. The deemed transfers to the several respective classes of creditors
18 will be treated as taxable recognition events to those creditors, resulting in reportable gains or
19 losses equal to the fair market value of the creditors' interests in the transferred property on the
20 Effective Date, as determined and reported by the trustee, reduced by the creditors' bases in their
21 receivables from the Debtors.

22 The deemed transfers from the several respective classes of creditors to the USACM Trust
23 will be treated as creating a grantor trust, with the several respective classes of creditors treated as
24 grantors. As grantors of such grantor trust, the several respective classes of creditors will report
25 their pro-rata shares of all items of taxable income, gains and losses of the creditors' trust on their
26 federal income tax returns, and pay any resulting tax liability.

27 The transfer of assets directly from the other Debtors, or from DTDF, to creditors will
28 similarly be taxable recognition events to those creditors, resulting in gains or losses equal to the

1 fair market values of the assets received reduced by the creditors' bases in their receivables from
2 the Debtors. All of the several respective classes of creditors should consult their own tax
3 advisors for information that might be relevant to their particular situations and circumstances and
4 the particular tax consequences to them.

5 **D. Tax Consequences to USACM Stockholders and Members of the Debtors**

6 For United States Federal income tax purposes, USACM's transfer of its property to the
7 USACM Trust will be treated as a deemed transfer to USACM shareholders, followed by a
8 deemed transfer by its shareholders to the USACM Trust. The deemed transfer to the shareholders
9 of USACM will be treated as exchanges in redemption of their shares of stock of USACM. Any
10 excess of the value of assets, except for assets classified as inventory, received through the
11 deemed distribution over a shareholder's basis in those shares will generally be taxable long or
12 short term capital gain. The transfer of assets, except for assets classified as inventory, by the
13 Debtors directly to creditors of the other Debtors, which are classified as partnerships, will be
14 treated as distributions of capital which will be tax free until a member has recovered its basis in
15 its membership interest. In addition, each member of a limited liability company will be deemed
16 to have COD to the extent of that partner's allocable share of the debt discharged in bankruptcy.
17 See the discussion of COD income in B-3 above. Any excess of the value received through the
18 deemed distribution over a member's basis in its membership interest will generally be taxable as
19 long or short term capital gain. Assets classified as inventory generally generate ordinary income
20 when distributed to shareholders or members. Shareholders and members should consult their
21 own tax advisors for further information.

22 *[Remainder of this page intentionally left blank.]*
23
24
25
26
27
28

1 **XIII. CONCLUSION**

2 The Debtors and the four Committees believe that the Plan offers a fair and comprehensive
3 solution to the numerous complex and difficult issues presented in these bankruptcy cases, fairly
4 addresses the rights of all creditors, equity holders, and other parties in interest, and provides a
5 significant recovery for creditors and Fund Members that is greater than other reasonably likely
6 alternatives. The Debtors and the four Committees therefore urge that you vote to accept the Plan.

7 Dated this 7th day of November, 2006.

8
9 **THE DEBTORS:**

10 USA Commercial Mortgage Company
11 USA Securities, LLC
12 USA Capital Realty Advisors, LLC
13 USA Capital Diversified Trust Deed Fund, LLC
14 USA First Trust Deed Fund, LLC

15 By: _____
16 Thomas J. Allison
17 Chief Restructuring Officer

18
19 Respectfully submitted,

20 /s/ Lenard E. Schwartzer
21 Lenard E. Schwartzer, Nevada Bar No. 0399
22 Jeanette E. McPherson, Nevada Bar No. 5423
23 SCHWARTZER & MCPHERSON LAW FIRM
24 2850 South Jones Boulevard, Suite 1
25 Las Vegas, Nevada 89146

26 and

27 Annette W. Jarvis, Utah Bar No. 1649
28 Steven C. Strong, Utah Bar No. 6340
RAY QUINNEY & NEBEKER P.C.
36 South State Street, Suite 1400
P.O. Box 45385
Salt Lake City, Utah 84145-0385

899884v3