



**R.E. LOANS LLC**  
**MORTGAGE FUND**

September 13, 2011

Re: R.E. Loans, LLC: Commencement of Chapter 11 Cases

Dear Noteholder:

R.E. Loans, LLC (“R.E. Loans”) filed a voluntary chapter 11 petition in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the “Bankruptcy Court”) on September 13, 2011. R.E. Loans’ wholly owned subsidiaries, Capital Salvage, a California corporation, and R.E. Future, LLC (collectively, the “REO Subsidiaries”), which own some of the real estate that has been acquired as the result of foreclosures by R.E. Loans, also filed voluntary chapter 11 petitions in the Bankruptcy Court. R.E. Loans and the REO Subsidiaries have requested joint administration of their cases and I will refer to all three companies on a consolidated basis as R.E. Loans in this letter, except for certain specific references to the REO Subsidiaries.

As I have indicated in prior letters, it has appeared for some time that the commencement of a chapter 11 case would likely be a necessary step in the process of restructuring R.E. Loans’ obligations. The filing of the chapter 11 cases is a step forward in the restructuring process. I have obtained from Wells Fargo Capital Finance, LLC (“WFCF”) financing for R.E. Loans’ ongoing operations during the chapter 11 cases. The first day motions will include R.E. Loans’ request for authority to enter into the new financing arrangement with Wells Fargo and a motion by R.E. Loans to employ Mackinac Partners as its manager during the chapter 11 cases. Walter Ng and Kelly Ng have agreed to appoint Mackinac Partners as the sole manager of R.E. Loans and R.E. Future with final decision making authority, effective upon the filing of the chapter 11 petitions, and subject to Bankruptcy Court approval. Further, subject to Bankruptcy Court approval, I will be elected the sole director of Capital Salvage and President of Capital Salvage. Going forward the Ngs, Bar-K, Inc. and B-4 Partners, LLC will not have any ongoing role in managing R.E. Loans.

R.E. Loans and WFCF participated in negotiations with three separate third parties, each of which had indicated an interest in acquiring WFCF’s senior secured debt and financing R.E. Loans’ operations going forward. I believed that this might provide the greatest flexibility to maximize recoveries to Noteholders. Unfortunately, none of these negotiations came to fruition. WFCF and the last of the three potential purchasers reached an impasse with

respect to the proposed refinancing transaction prior to the expiration of the last forbearance agreement (the "Forbearance Agreement") between WFCF and R.E. Loans on July 31, 2011.

As I have indicated in my prior letters, R.E. Loans has no regular cash flow. It receives cash only when and as it liquidates individual properties. All proceeds from such sales are subject to WFCF's senior security interest and, in light of the expiration of the Forbearance Agreement, WFCF had the right to apply all such proceeds to its debt. Therefore, absent a new commitment to provide ongoing funding, R.E. Loans would be unable to pay its current costs of managing the portfolio.

The last Forbearance Agreement expired on July 31, 2011. Although WFCF declined to further extend the Forbearance Agreements under which R.E. Loans was operating prepetition or to continue financing R.E. Loans' operations out-of-court, WFCF did not take any enforcement actions after the last Forbearance Agreement expired and did continue to advance the funds necessary to pay R.E. Loans' current operating expenses. That said, WFCF declined to extend the Forbearance Agreement and declined to commit to continue funding on an ongoing basis, but WFCF has agreed to provide financing for the chapter 11 cases pursuant to an agreed upon budget to enable R.E. Loans to proceed with an orderly chapter 11 process designed to restructure R.E. Loans' debts.

In addition, several lawsuits, including at least one class action, have recently been filed against R.E. Loans. Each such lawsuit results in additional defense costs paid to outside counsel. The commencement of the chapter 11 cases gives rise to an "Automatic Stay" of all enforcement actions against R.E. Loans pursuant to Bankruptcy Code § 362(a) and, therefore, should reduce R.E. Loans' ongoing litigation fees and may provide for resolution of many different actions in a single forum in a more efficient manner.

My goal is to propose a formal chapter 11 plan of reorganization pursuant to which R.E. Loans will have a period of time to maximize the value of its promissory notes and real property, without the risk of an immediate foreclosure by WFCF. WFCF has committed to provide financing during the chapter 11 cases. The proposed financing by WFCF provides R.E. Loans with six months during which to confirm a chapter 11 plan. This time period may be extended if the parties are proceeding with confirmation of the plan in good faith, but are unable to complete the chapter 11 process in six months. WFCF has also provided a non-binding proposal to provide financing of a chapter 11 plan of reorganization.

Now that the chapter 11 cases have been filed, the United States Trustee will appoint an Official Creditors' Committee (the "Creditors' Committee"). R.E. Loans believes that all or virtually all of the members of the Creditors' Committee will be Noteholders. Large noteholders who are not insiders will probably receive a solicitation of possible interest from the United States Trustee inviting them to serve on the Creditors' Committee. The Creditors' Committee will engage counsel to represent the interest of creditors and the fees incurred by the Creditors' Committee's professionals will be paid by R.E. Loans and are included in the budget that WFCF has agreed to fund. R.E. Loans intends to engage in discussions regarding the chapter 11 process and what will maximize the aggregate value available to creditors with the Creditors' Committee and its counsel immediately upon formation of the Creditors' Committee.

The goal will be to proceed with the chapter 11 process promptly, to minimize the expenses incurred in connection with the reorganization.

R.E. Loans anticipates working with the Creditors' Committee to formulate a plan of reorganization that will provide for an orderly disposition of part or all of the property owned by R.E. Loans and will avoid the need for a fire sale, which would result in substantial reduction in the expected recoveries from such properties. R.E. Loans is not soliciting your approval of any particular plan of reorganization at this time and before any such solicitation is made you will be provided with extensive additional information, including, without limitation, a formal "Disclosure Statement." The plan has not yet been finalized and discussions with the Creditors' Committee will be extremely important in formulating the final plan.

WFCF has made a non-binding offer to provide exit financing subject to various conditions. The WFCF proposed financing would give R.E. Loans until the end of 2012 to pay off the balance due WFCF, though there are also interim targets for net cash proceeds from asset dispositions to be applied to such balances due, that R.E. Loans would be required to meet under WFCF's proposed exit facility of \$25 million by January 31, 2012, \$50 million by April 30, 2012, and \$75 million by September 30, 2012.

Through the chapter 11 process and the restructuring of its obligations, R.E. Loans may be able to obtain alternative take-out financing from other sources that would provide R.E. Loans with additional time to maximize value of the portfolio. R.E. Loans anticipates that any plan of reorganization will provide Noteholders with distributions once WFCF's senior secured debt is paid in full, and will create a trust for the benefit of Noteholders, which would have the power to investigate potential claims that may constitute an additional source of recovery for Noteholders.

R.E. Loans has filed several pleadings asking for relief in the chapter 11 cases. Those pleadings include an application seeking immediate interim approval of my employment, with final decision-making responsibility for R.E. Loans, and a motion for interim approval of the financing to be provided by WFCF. At the initial hearings on those motions, R.E. Loans will seek only interim approval and the scheduling of a further hearing in several weeks, at which hearing R.E. Loans will request final approval of my employment and the debtor in possession financing. The formal notice of these motions is enclosed with this letter. The Creditors' Committee will likely be formed before the final hearing on these motions, and I will confer with the Creditors' Committee regarding all matters in connection with the chapter 11 cases.

R.E. Loans will file complete Schedules of Assets and Liabilities and a Statement of Financial Affairs in several weeks. The exact timing will depend on deadlines to be established by the Bankruptcy Court.

To facilitate availability of information relating to the chapter 11 cases on an ongoing basis, R.E. Loans intends to post to its website at [www.RELoansllc.com](http://www.RELoansllc.com) each pleading filed in the chapter 11 cases promptly after it is filed. In addition, you can access those pleadings on the Bankruptcy Court's website at [ecf.txnb.uscourts.gov](http://ecf.txnb.uscourts.gov). If you would like copies of pleadings and you do not have internet access that enables you to access pleadings from either of

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these sources, please request any pleading you need from counsel for R.E. Loans at the following address: Kendra Johnson, c/o Stutman, Treister & Glatt PC, 1901 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, California 90067 ([kjohnson@stutman.com](mailto:kjohnson@stutman.com)). The Bankruptcy Court may also establish additional mechanisms for notice of the proceedings in the chapter 11 cases.

The chapter 11 filings are an important step in the restructuring process. While it is unfortunate that R.E. Loans has filed for relief under chapter 11 of the Bankruptcy Code, I believe that the chapter 11 cases are a necessary procedural tool to resolve the claims against R.E. Loans, as well as R.E. Loans' claims against other parties, and to maximize the recoveries by Noteholders.

Very truly yours,

A handwritten signature in black ink that reads "James A. Weissenborn". The signature is written in a cursive, flowing style.

James A. Weissenborn