

Dear Investor or Interested Party,

The month of August included some major accomplishments in moving the case toward the goal line. First and foremost we did accomplish the second distribution which totals slightly in excess of \$25 million, representing a 20% recovery on the initial investor investment. This brings the total return to 30 cents on the dollar to date.

Secondly, in the claims area, we were successful in the elimination of any "secured creditor" claims. During the month we also were successful in settling all of the late filed claims.

From an asset recovery standpoint, we successfully sold the Connecticut properties as well as resolving through foreclosure in excess of \$600,000 of problem loans related to one borrower consisting of one single-family detached residence and one commercial property.

The distribution of the \$25 million was made on August 18. Because of the effort put forward in cleaning up the beneficiaries addresses in the first mailing, the second mailing was much smoother and although there were a few "glitches" - the mailings appear to have gone out almost flawlessly.

Although a few issues remain with respect to creditor claims, the court did resolve the issue with respect to "secured claims". In a ruling on August the 21st, the court ruled that an essential ingredient to having a secured position was the actual possession of the physical note representing the borrowings by the third party borrower from Brasota. There were approximately 20 investors who felt they still had secured claims totaling approximately \$2.5 million. With this decision by the court, we no longer have anyone claiming a secured creditor position. The Bradenton Herald has graciously allowed us to use a contact link to their website covering this particular court hearing. That website can be reached at http://www.bradenton.com/mld/bradenton/business/special_packages/brasota/15334508.htm

Also, during the month we were able to reach settlements with all parties who filed late claims. As covered in previous newsletters, in the case of "excusable neglect" these claims were allowed in full. They will be treated the same as all of the other investors. There were cases where compromises were reached with some of the claimants allowing them 50% of their total claim. Again, as covered in previous newsletters, decisions relating to compromise of a claim were made with an eye on the "equities" of the situation as well as facts and circumstances regarding the late filings. Slightly less than \$700,000 in claims were handled in this manner.

A major accomplishment during the month was the closing of the sale of the Connecticut properties. As previously relayed, these properties were extremely problematic in that they were low income housing properties with serious deferred maintenance, code violations and potential life safety issues further complicated by their distance from Bradenton. We are extremely pleased that we were able to accomplish the sale.

On collection efforts, during the month we successfully foreclosed on two properties from one borrower which should be worth in excess of \$600,000. We are pleased with this in that no payments had ever been made on these loans even though they were originated in 2003.

Another major accomplishment was the payoff of a \$248,000 loan. We were able to achieve collecting all interest and attorney fees for a total payment of \$485,000. This particular loan had been delinquent for 4 plus years and the borrower had gone through at least one bankruptcy during the collection process.

Going forward we have a few obstacles still to be overcome. The Hidden Hills Equestrian Center, where we have total amounts outstanding in excess of \$4 million, is now scheduled for an auction sale on October the 30th. Under the terms of the sale agreement entered into with Hidden Hills, the property must achieve net proceeds of \$5.3 million to the seller. If \$5.3 million can be

achieved, we, as well as the other secured creditors would be paid virtually in full. If the \$5.3 million is not achieved, the court has given us permission to proceed with our foreclosure and obtaining title to the property at that time.

A second major problematic issue that we face is the foreclosure of the Try-mor mobile home park on US 41 just south of Bradenton. Although slightly in excess of \$1 million was advanced on this credit facility, the park is less than desirable, and efforts to find a purchaser to pay close to what Brasota is owed to date have not been successful. We have postponed two foreclosure sales hoping that a buyer for the park could be found. We actively continue to seek purchasers and are hopeful that we will not have to take title to this property.

During the month, I had the opportunity to go back and review where we started out and where we have come to date. Originally we had approximately \$22 million cash on hand and a problem loan portfolio and real estate owned totaling approximately \$76 million for a total of \$98 million. Of the \$98 million, \$6 million represented loans which really had been paid off but never removed from the books. Had we liquidated the portfolio and real estate owned at the time, based on offers and proposals that were actually received, the total estate, including the cash, would have amounted to approximately \$45-\$50 million. The reason for this is that virtually all of the loans were delinquent, most had no collection efforts expended and generally the documentation from the standpoint of a perspective purchaser was less than adequate and, for a "cold purchaser", highly suspect. Remember that, of the original portfolio, in excess of \$48 million were developer loans, virtually all of which were delinquent.

As it currently stands we have made distributions of slightly over \$42 million, have approximately \$32 million cash on hand, and I feel comfortable in saying, stand to realize approximately \$20 million on the remaining assets. Overall this will mean that the estate will have achieved a payback in the \$.65 on the dollar range versus what would have been about \$.32 to \$.33 on the dollar had it been liquidated immediately in a Chapter 7 proceeding. In absolute dollars this means that the estate benefited to the tune of close to \$50 million by staying in operation and liquidating in a measured manner as opposed to an immediate liquidation. I would be remiss if I did not point out that the estate has also been improved by approximately \$5 million due to the excess of operating income over operating expenses, including **all** fees, since inception.

We continue to aggressively pursue collections and I'm certain that borrowers who may have originally thought that they could get a "break" because of the bankruptcy are now fully aware that we do not discount or compromise on settlements.

In the next few months we will be filing the bankruptcy plan and disclosure statement and also dealing with the matters related to the Morrison estate. Should you have the questions please feel to free to contact me at Jerry@Brasota.com .

Best regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale Jr.,
Chapter 11 Bankruptcy Trustee