

Summary of Investor Meeting, October 2, 2019

Introductions

Clyde Hamstreet introduced himself and the members of the receivership team:

Hamstreet & Associates – Receiver

- Clyde Hamstreet
- Hannah Schmidt, Case Manager
- Maren Cohn*
- Jeff Anspach*
- Martha Cohn
- Veronica Hamstreet*
- Andrea Dennis*

Miller Nash Graham & Dunn – Receiver’s Counsel

- John Knapp
- David Foraker*
- Joe Vance*

Forensic Accountants

- Michael Ueltzen
- Paul Artley

*Indicates team member was not present

Overview and Agenda

Clyde explained that the purpose of this meeting is to give an update on the Receiver’s findings. The presentation goes through specific examples, explains their meaning, and describes conclusions. The bulk of the presentation relates to the forensic accountants’ investigation and is followed by a question and answer session. The presentation slides are available on the website, and can be reviewed in conjunction with these minutes.

The meeting addressed:

1. How did we get here?
2. What happened?
3. Forensic accounting investigation
4. Findings
5. Where did the money go?
6. Investments and losses
7. How are we going to recover money/assets?
8. Next steps
9. Questions and Answers

1. How did we get here?

Clyde gave an overview of how the Private Placement Disclosures (PPDs), a document signed by investors at the time of their investment, gave control of the Funds to American Equities, Inc. (AEI) as their manager. Theoretically, this control was limited within specific parameters, but there were no checks and balances, such as an audit. AEI did not follow the parameters outlined in the PPDs. It and those who controlled AEI used the Funds for unauthorized purposes and received high, undisclosed

commissions on transactions between the Pools and AEI (or American Eagle Mortgage Management, LLC (AEMM)).

2. What happened?

As the Pools had less available cash from investment earnings, they began using capital to pay dividends to investors. Clyde identified several factors that limited the Pools' cash flow:

- a. The economic downturn certainly contributed, causing a liquidity crisis when many performing contracts went into default.
- b. The management companies made a large number of loans between the Pools and Related Parties (i.e., people related to Ross Miles and Maureen Wile and entities in which they had a financial interest). These loans were usually poorly or not at all documented and often paid no interest.
- c. The Pools financed large, mostly non-performing assets in Mexico. Several of these loans are also poorly documented.
- d. The properties that came to be owned by the Pools (REOs) were poorly managed. Instead of producing earnings, the REOs used Pool resources to pay foreclosure and legal fees, property maintenance expenses, taxes, and other holding costs. The management companies also sold REOs to related parties, which limited the Pools' recovery; examples of this are addressed in the next section.

3. Forensic Accounting Investigation

Our Forensic Accountants:

Michael Ueltzen: Certified Public Accountant, Certified in Financial Forensics, Certified Fraud Examiner. Has worked in forensic accounting for 30+ years.

Paul Artley: Certified Public Accountant, Certified Fraud Examiner, Certified Anti-Money Laundering Specialist. Worked with the FBI for 20+ years.

What is Forensic Accounting?

Michael explained forensic accounting as being at the intersection between law and accounting. He described that he often works with attorneys to understand and process the numbers that are the basis of legal cases.

Irregularity and Complexity

Michael and Paul presented their work in two parts, and then presented their preliminary findings:

- I. Explanation of the scope and complexity of the case
- II. Walk-through of some of the examples of the complexity
- III. Preliminary findings

I. Scope and Complexity

Michael began by emphasizing that the Pools have a huge volume of records; there have been over 220,000 transactions since only 2007. He emphasized that there are no simple contracts or transactions in this case; each one has “some hair” that requires time and digging to fully understand.

The assets and cash were moved so frequently between the Pools and to and from Related Parties that it is enormously complicated, sometimes bordering on impossible, to trace an individual transaction. The difficulty of tracing comes not only from the frequency of movement, but also because of the quality and availability of AEI/AEMM’s records, which often contain errors or do not exist due to the age of the records and retention policies.

Michael noted that three former AEI employees have been invaluable to the forensic accountants’ investigation by helping to explain complex situations that are not well documented and would otherwise take the accountants hours to understand if only viewing the records.

II. Examples of Complexity

Paul and Michael walked through four examples of the complexities in their investigation, both to explain why the process is moving more slowly than many investors would like, and to clarify what has actually been happening in the AEM Pools over the years.

Overvalued Assets

Paul noted that an audit at any point would have immediately shown an issue in the way assets were reported on the Pools’ books. The Receivership schedules show \$34 million in assets, but Paul explained that as their investigation has unfolded, this figure has become more and more unreliable.

He then walked through a property in Roseburg, Oregon, from its acquisition through when it was sold, and showed how the property was overvalued (Slide 11 in the presentation). The Pool suffered a loss as a result of the difference between the recorded value and what the property eventually netted at sale. This is a typical example of how the management companies overstated the value of both REOs and contracts on the Pools’ books.

Paul explained that the lesson from this example is that the assets listed in the Receivership schedules at \$34 million are significantly overvalued.

Unusual Transaction with No Apparent Business Purpose

Paul next described a contract that had been sold between the different Pools a number of times (Slide 12). He said this contract offers an example of unusual transactions without an apparent business purpose, as well as issues with security interests in property underlying the real estate contracts, both of which are factors in the complexity of the case.

The slide shows nine assignments and seven sales of this contract over a seven-year period. Looking at the orange highlighting on the slide will help draw attention to the key takeaways:

- The contract was assigned to Riverview Bank for a period of two years, presumably as collateral for a loan. During this time, the management companies sold the contract between Pools. In other words, the contract supported loans to multiple parties (the investors and the bank) at the same time.

- In October of 2008, the management companies appear to have made an \$8,000 profit on the sale of the contract to Mexico 400.

The PPDs state that the Pools' assets should not be encumbered; here, they clearly had been encumbered by the management companies. Paul emphasized that this is merely one contract out of hundreds with similarly unusual transactions.

Michael briefly ran through another type of unusual transaction involving investments in Mexico (slides 13 and 14). He demonstrated the difference between the simple, expected flow of investment funds and earnings versus how the capital actually moved through the Pools. Movements like these make it very difficult to track and understand who and where money is coming from. Michael underlined that unwinding the investments to understand how the money flowed takes a huge amount of time.

Unauthorized Borrowing

Paul stated the goals of the Pools were to make interest payments to investors on the 5th of each month. However, the Pools did not always have the liquid assets on hand to do so. As a result, the Pools would borrow money from each other to make these payments. This kind of borrowing did occur before 2006, but before the recession of 2008 the Pools were generally able to repay such loans promptly. This changed in 2009 when some Pools no longer had the ability to repay other Pools. Slide 15 shows an example of the movement of funds between the Pools in the days before an investor payment was made.

Paul said that the management companies essentially found cash wherever it was, and moved it around between Pools to be able to make investor payments. As the financial condition of the Pools deteriorated and they became insolvent, the monthly payments to investors were being made from the capital in the Pools instead of from interest earnings produced by that capital.

Slide 16 is a summary of the borrowings between the different Pools since 2007. In total, approximately \$19 million in loans were made between the Pools, with about \$9.7 million repaid, leaving a balance of \$9.4 million still owing. Paul again reiterated that out of 2,800+ transactions related to Pool-to-Pool loans, each one has a particular reason and a story, which requires digging to unravel. These loans add to the case complexity.

Self-Dealing

The forensic accountants' final example was of a self-dealing transaction involving Maureen Wile and her son, Brian Wile, on a property in Happy Valley, Oregon (see Slide 17). It is only one example of transactions with management personnel and Related Parties.

In November 2009, AEI purchased a non-performing contract from a third party for \$88,000. The contract had a 12% interest rate and was secured by a single-family home in Happy Valley, Oregon. Later, in February 2010, AEI sold the non-performing contract to AEM Pool 600 for \$110,000. Paul explained that the typical purpose for buying a non-performing note would be to capture a large amount of equity in the underlying collateral. If the Pool had to foreclose, it would be able to sell the property for a profit that would be equal to or greater than the lost interest on the contract. The contract was placed into REO status in September 2011. Pool 600 was charged approximately \$20,000 in REO-associated costs such as legal fees, title fees, insurance, and contractor costs.

In January 2012, Maureen's son Brian Wile purchased the REO from Pool 600 for \$106,500 – even though the Pool had more than \$130,000 invested in the property by that point (not including accrued interest). Brian Wile financed the entire purchase amount with a loan from the Pool at an interest rate of 9% per annum, but never made a single payment on this loan. Property tax records show that Brian Wile sold the property in March 2014 for \$196,000, but paid the Pool \$111,825, which was \$16,000 less than the balance of his note plus accrued interest. The discount to Brian Wile resulted in a further loss to the Pool of \$16,077, while Brian Wile appears to have netted a gross profit in excess of \$80,000 from the transaction.

Had the Pool retained the REO and then sold the house, they would have received the payoff and had a net positive return. Paul concluded that this example clearly shows that throughout this transaction, Maureen Wile was not acting in the investors' best interests.

4. Findings

Michael presented the forensic accountants' findings, which are a preview of public documents that will be filed with the Court in the next few weeks and subsequently made available on the investor website.

- The management companies made significant unauthorized, unapproved, undocumented, undisclosed, and unusual transactions. These kinds of transactions are indications of fraud.
- There was significant, undisclosed intermingling and commingling between the Pools and Related Parties.
 - o There are more than 28 Related Parties with common officers and/or shared business addresses.
- Investors were unaware of how the funds traveled through the various Pools and to Related Parties.
- There is a lack of documentation and observation of corporate formalities.
- The Pools were clearly operated as a unitary enterprise.
- The Pools' financial records overstate asset values.
- Pool assets were used as collateral for management company loans, which violated the PPDs.
- There was an effort to "clean house" prior to the Receivership to minimize the appearance of the above transactions.
- Investors were not receiving interest payments, but rather invested capital. After 2008, the cash payments made by the Pools were sustained by new investments.

5. Where did the money go?

Paul talked about where the money went:

- I. To purchase contracts, often at greater than fair market value.
- II. To pay commissions to the management companies on the purchase of contracts.
- III. To pay for costs of non-performing contracts/REOs.
- IV. To make investor payments of both principal and interest so that everything looks "OK."

Paul pointed out that while investors would receive quarterly statements, these only displayed information about their own investment, rather than information about the health and status of the Pool. The statements for the Pools show negative equity going back over 10 years, but this information was not disclosed to investors.

- V. To make undisclosed, unauthorized “loans” to Related Parties, many of which never paid principal or interest.
- VI. Self-dealing transactions.

6. Investments and Losses

Hannah offered a deeper breakdown of the money that was invested into the Pools. Of \$67 million invested, \$13 million was from short-term (1 year) “anchor” investments, which were all paid back. The other \$54 million came from long-term (5, 10, 15 year) investments. Hannah estimates that somewhere between \$35-40 million has been paid in principal and interest payments to these long-term investors.

She described that investor losses come from four main activities:

- i. Insider loans in the US and Mexico
- ii. Third party Mexico loans
- iii. Mismanagement (as seen in examples above)
- iv. Recession losses

Hannah emphasized that the Pools have made approximately \$10 million in insider loans, on which little or no principal or interest has been repaid. She noted that the outstanding interest on these loans is approximately \$8 million.

7. How are we going to recover money/assets?

Clyde explained that the Receiver’s next step will be to file for case consolidation. Rather than having to do accounting for 15 separate cases, all of which are deeply intermingled, the Receiver will ask the Court to consolidate all cases into a single case to both save time and increase potential recovery.

The Receiver is currently liquidating the remaining assets. An auction of the Washington, Oregon, and California properties is in progress, and all sales stemming from the auction should close by February 2020. Clyde said he is hoping to realize about \$3 million in cash from the auction properties. The Receiver is working on selling the remaining scattered properties as well.

Through August, Clyde said that the Pools are currently taking in approximately \$70,000 a month from contract collections. The Receiver has been contacting delinquent payors, and it expects September collections will be higher. As the Receiver has worked through the mix of contracts, it has discovered that some lack collateral.

One option for recovery from the contracts is to sell them in bundles through DebtEx, which functions similarly to the real estate company facilitating the property auction, but deals with contracts and

operates through an online marketplace. Clyde also mentioned the possibility of creating a trust to hold the contracts, with proceeds going to investors. We will be doing more research in this area.

The Receiver has employed a cross-border attorney in whom we have confidence to recover the assets in Mexico. This work involves confirming what interests, mortgages, and assets the Pools hold in Mexico, and beginning the recovery process, which may be lengthy. Clyde said we should have more updates on this process in the next 60 days.

The remaining avenue for recovery would be through pursuing litigation claims.

8. Next Steps (Claims)

As part of the Receiver's investigation into claims, we continue to gather data and analyze Related Parties loans, including the best means of collecting money owed to the Pools by Ross Miles and Maureen Wile.

There is also potential for third party claims against parties not related to Ross or Maureen but that knew of and/or supported certain instances of mismanagement. We are investigating evidence for all of the above claims.

Clyde noted that an important consideration in deciding whether to pursue claims is determining whether the potential recovery will be worth the cost of litigation. The Receiver will only pursue claims if doing so is likely to benefit investors financially.

Questions and Answer Session

Investigation

Q: Was there fraud happening in AEI prior to the receivership?

A: The management companies made significant unauthorized, unapproved, undocumented, undisclosed, and unusual transactions. These kinds of transactions are indications of fraudulent activity. However, the term “fraud” means different things in different contexts (e.g., securities laws, fraudulent transfer laws, and criminal laws).

Q: Will Ross Miles’ divorce affect the Receiver’s claims?

A: Ross Miles’ divorce does not affect the Receiver’s claims against Ross Miles. The marital assets of Ross Miles and Beverly Miles are subject to claims of their marital community. The Receiver believes that the Receiver’s claims against Ross Miles are claims of the marital community.

Q: How many banks participated in the management of contracts? Will there be any pre-trial settlements?

A: The situation involving third parties requires a great deal more investigation. The Receiver has not yet initiated communication with any bank or lending company.

Q: What have you uncovered about other investments and funds outside of the Receivership? Is there any plan to bring them into the Receivership?

A: The Receiver does not have the authority to bring other entities into the Receivership without Court action. We have identified more than 20 related party entities that received money from the Pools. We do not have access to the books and records of the majority of these entities, and therefore cannot comment on them.

Q: How can banks lend money on property that is already serving as collateral for other notes? What happens with things like title reports?

A: If a Pool’s lien on real property is properly recorded in the real property records, liens on the same property that are later in time are generally subordinate to the Pool’s lien. A title report will identify all liens and other interests that affect title. At AEI, however, documents often went unrecorded.

Q: If there is going to be a criminal case, where and how does that start?

A: The Receiver cannot bring criminal charges. State and other regulatory agencies have been notified about the case, and the Washington State Department of Financial Institutions is actively investigating AEI and its related entities. The Receiver will cooperate with these agencies.

Ross and Maureen

Q: Why were Ross Miles’ and Maureen Wile’s depositions postponed?

A: These depositions were initially scheduled to support the motion for substantive consolidation. Due to the information available from the employee declarations, however, Ross’ and Maureen’s testimony on this topic was no longer needed. The Receiver therefore agreed to postpone these depositions and

instead conduct informal interviews with Ross and Maureen. We felt this was a better way to gather helpful information at this stage of the proceeding.

Q: Are Ross and Maureen related?

A: Ross Miles and Maureen Wile are not related, but Maureen Minsker is Ross Miles' sister and the mother of Miles Minsker.

Claims

Chris Kayser from Larkins Vacura Kayser was present in the audience at the meeting. His firm has been in contact with investors and is pursuing certain securities claims that the Receiver cannot pursue. He noted that they are in the early stages and that the case for investors who live in Oregon appears stronger due to Oregon's broader securities laws. They are still researching Washington law and are hopeful they will be able to bring claims for Washington investors as well.

Q: Will the Receiver cooperate with law firms pursuing claims on behalf of investors?

A: The Receiver will pursue those litigation claims that it is legally entitled to bring, if the Receiver determines it is prudent to do so. In determining whether to bring a lawsuit, the Receiver will consider, among other things, the amount at issue, the anticipated cost of the lawsuit, and the likelihood of recovery on any judgment that might be obtained. With regard to litigation claims that the investors hold in their own right, the Receiver will cooperate with reputable law firms working in the best interests of the investors.

Q: Ross, Maureen, and their related parties owe the Pools \$10 million. How are these loans going to be repaid?

A: The first step in trying to collect on these debts is to gather loan documents (where they exist) and other evidence to support the loans. If the parties obligated on a loan refuse to pay the loan or reach a negotiated resolution of their debts owing to the Pools, the Receiver will pursue legal action to obtain a judgment if it determines it would be prudent to do so. The entry of a judgment allows the Receiver to exercise certain judicial remedies to collect on the judgment.

Q: Besides the REOs and the contract assets, how will the Receiver recover investor losses?

A: The proceeds from liquidating the Pools' non-litigation assets (i.e. real estate paper, loans receivable, and owned real estate) will not be enough to repay investors. Some recovery may be had from Ross and Maureen and their related parties by getting them to repay loans they obtained from the Pools. The Receiver also has claims against Ross, Maureen, AEI, AEMM, and others for their mismanagement of the Pools. In addition, the Receiver is investigating whether it has other kinds of litigation claims that could generate additional recoveries for investors.

Q: Are the Receiver's attorneys willing to work on a contingent fee basis?

A: The Receiver is still in the process of investigating the litigation claims that it has available and the viability and strength of each such claim. The Receiver will evaluate each claim on its merits to determine the most cost-efficient way to proceed.

Q: Can investors weigh in on the Receiver's choice of legal counsel for pursuing litigation claims?

A: The Receiver will take investor opinion into account in making its selection of litigation counsel. Clyde Hamstreet has experience with local law firms through past cases and will be directly involved in deciding which law firms will be hired to prosecute the Receiver's litigation claims.

Q: Can we get the properties from situations like the Happy Valley example (i.e., fraudulent conveyances to family members)?

A: The Receiver will pursue all avenues of recovery to which it has a legitimate claim.

Investor Finances

Q: Will I need to file a 1099-INT form for 2019?

A: In the vast majority of cases, the Receiver will not be issuing 1099-INTs to investors for 2019. Nearly all of the money paid out to investors in 2019 will be considered a return of principal rather than interest earned, and so investors will not need to submit a 1099-INT to the IRS. The exception to this rule would occur if an investor took a substantial payout or was paid off entirely in early 2019 and the amount paid included significant accrued interest. The Receiver anticipates very few instances where this happened and will contact those investors directly with the appropriate forms.

Q: Can I file a claim for theft loss on taxes I've previously paid on my investment?

A: Whether an investor claims a theft loss is a decision each investor must make individually with their tax advisor. However, in order for an investor to claim a theft loss on a bad investment, at a minimum criminal charges must be made and ideally a criminal conviction. The Receiver cannot bring criminal charges, but can cooperate with agencies who might. It is unlikely that any such charges will be made in 2019. The Receiver does not recommend taking a theft loss based on information currently available. The relevant IRS rulings are Rev Proc 2009-20, Rev Proc 2011-58, and Rev Rul 2009-9.

Q: What is the situation with my PENSICO account?

A: Upon request for an account review, PENSICO may adjust an investor's account balance to \$0 in order for their system to waive fees. After a distribution plan is approved by the court, PENSICO will readjust investors' balances accordingly. Please follow up with PENSICO directly to verify how your account balance is being treated. Their phone number is (800) 962-4238.

Q: What does the court order permitting transfers of investor notes mean for investors?

A: The order permitting the transfer of claims was entered on August 9. Investors may transfer their claims in this case, provided that such transfers are lawful and a notice of transfer is provided to the **Receiver**. The order is available in the documents section of the www.AEMinvestors.com website.

Q: What is the benefit of transferring a claim (e.g., for buying out one's IRA)?

A: Some investors may wish to sell their claims in the Receivership to someone else for immediate cash or other consideration, rather than wait for distributions to be made in the Receivership. It is possible that this movement would have tax or other logistical benefits for some investors.

Recovery

Q: After selling the contracts and the REOs, what assets are left?

A: Repayment of loans made to related parties and claims associated with those, mortgages on Mexican properties, and 3rd party claims.

Q: What is DebtEx and what costs will it add to the Receivership?

A: DebtEx functions as a marketing and bundling service for debt portfolios and also provides an online marketplace to sell them. Their function is similar to our auction company, RMNW, or other brokerage firms. The need for and cost of these services will be comparable to other real estate professionals. This is a good time to be liquidating our contract portfolio; there is currently a strong market.

FQ: What if the investors want more control over the contracts owned by the Pools?

A: The Receiver is also looking into an alternative option of establishing a trust to maintain the contracts, where proceeds from contracts would go to investors. More research is needed, but ultimately the Receiver will determine what he believes is the best method of disposing of the contracts and request Court approval to proceed.

Distribution Plan

Q: Given the request for case consolidation, how does the Receiver anticipate sharing the income across the Pools?

A: Since the money used to purchase assets effectively came from all the Pools, recovery from those assets should be returned across all the Pools. There will be no distributions until a distribution plan has been presented to and approved by the Court. After its initial presentation to the Court but before it is finalized, investors and others will have the opportunity to review, discuss, and comment on the plan.

Q: What percentage of investors were rolling over their interest rather than receiving interest payments?

A: It varies, because investors changed their elections over the years.

FQ: Will this issue affect how recovery is distributed to investors?

A: In order to make distributions to investors, a distribution plan must be approved by the Court. The Receiver is tasked with creating a plan that is equitable to all investors. Some investors did very well, ultimately at the expense of other investors. Our distribution plan will take the SEC's model into account, which determines the ratio of money invested to money received. There will be a chance for investors to address these issues, and others, when we present our initial plan to the Court.

Current Status

Q: What is the monthly income of the Pools' contracts? How many non-performing notes do they own?

A: We are receiving approximately \$75K per month from normal contract collections. We are in the process of sending out demand letters to non-performing contracts, which has resulted in an increase in September and October collections to \$92K and \$103K. We are not releasing specific information on the Pools' domestic contracts at this time due to our ongoing investigations into their details. In Mexico, only one out of the Pools' 17 contracts is currently performing.

Q: What is happening to the money coming into the Pools? Where is that money going?

A: The money is going to employ the Receiver, related professionals, and former AEI staff, and to cover the costs associated with maintaining and liquidating the assets. Right now our costs are greater than our income.

Q: How likely is the judge to accept the motion for case consolidation?

A: We believe there is a strong case for substantive consolidation and expect the Court to approve the motion to consolidate at a hearing on November 22.

Q: What is happening with Pool 300?

A: Pool 300 is part of the receivership and is not receiving any special treatment.

AEI

Q: Is it true that AEI is still in business and still soliciting funds?

A: Yes. However, the Washington Department of Financial Institutions (DFI) is aware of their activity and has an active investigation.

FQ: Can AEI still take people's money?

A: If anyone wants to give it to them, yes.

Q: Does the Receiver own the American Equities building? There are often cars in the parking lot.

A: The building is owned by an entity controlled by Ross Miles. We believe the building is collateral for a bank loan. Members of the Receiver's team work there, and American Equities also operates from the building.

Q: Does AEI and/or Ridgecrest have a separate reserve of their own assets to pay their investors?

A: Not that we have identified. Both AEI and Ridgecrest owe the Pools a significant amount of money in addition to owing money to their own investors. These entities do not appear to have much in the way of assets. The structure of their business is different from the Pools, so investors may have different rights than they do in the Pools.

Q: Will people who are invested in other funds, like AEI or Ridgecrest, have access to relevant information?

A: At this point in time, investors in Ridgecrest and AEI do not have an avenue for obtaining information other than requesting it from those companies.

Mexico

Q: What is RMV?

A: The initials RMV stand for Ross, Maureen, and Valerio. RMV is a Mexican entity that was a pass-through corporation for the \$3.3M investment into Marina Cortez in La Paz Mexico. The Pools loaned the funds to RMV, which in turned loaned and/or contributed the funds to the corporation that built and owns the rights to operate the marina. RMV does not have a security interest in the marina, but does have a security interest in undeveloped land in Baja.

Q: What exactly are the assets in Mexico?

A: Outside of the RMV loan, the Mexican assets are mortgages collateralized by properties. The Receiver's counsel in Mexico is reviewing loan documents and developing a recovery plan for each property.