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UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

In re First Alliance Mortgage) Case No. SA CV 00-964 DOC (EEx)
Company, a California)
Corporation; First Alliance)
Corporation, a Delaware)
Corporation; First Alliance)
Mortgage Company, a Minnesota)
Corporation; and First Alliance)
Portfolio Services, Inc., a)
Nevada Corporation,) **STIPULATION OF SETTLEMENT**

Debtors.)

Federal Trade Commission,)

Plaintiff,)

v.)

First Alliance Mortgage)
Company, et al.,)

Defendants.)

1 _____)
 2 State of Arizona; State of)
 3 California; State of Florida;)
 4 State of Illinois; Commonwealth)
 5 of Massachusetts; and State of)
 6 New York,)
 7 Plaintiffs,)
 8 v.)
 9 First Alliance Mortgage)
 10 Company, et al.,)
 11 Defendants)
 12)
 13 Frank and Nicolena Aiello,)
 14 et al.,)
 15 Plaintiffs,)
 16 v.)
 17 First Alliance Mortgage)
 18 Company, et al.,)
 19 Defendants)
 20)
 21 Frank and Nicolena Aiello, et)
 22 al.,)
 23 Plaintiffs,)
 24 v.)
 25 Brian Chisick, et al.,)
 26 Defendants)
 27)
 28 Frank and Nicolena Aiello, et)
 al.,)
 Plaintiffs,)
 v.)
 BNY Western Trust Co., et al.,)
 Defendants)
)
 Official Joint Borrowers)
 Committee,)
 Plaintiff,)
 v.)
 Lehman Commercial Credit, Inc.,)
 et al.,)
 Defendants)
 _____)

Case No. SA CV 01-971 DOC
 (formerly filed in the United
 States Bankruptcy Court,
 Central District of California,
 Adversary Case No. AD 01-01463
 LR)

Case No SA CV 02-52 DOC

Case No SA CV 01-1111 DOC

1 This Stipulation of Settlement dated as of February 25, 2002
2 (the "Stipulation"), is made and entered into by and among the
3 parties to this Stipulation, by and through their counsel of
4 record as necessary: (i) the Representative Plaintiffs (on behalf
5 of themselves and each of the Class Members); (ii) AARP; (iii)
6 Velda Durney; (iv) Ida M. Forrest; (v) Henry M. Hong; (vi) Carol
7 J. Hong; (vii) Mary Ryan; (viii) Lucretia Wilder; (ix) Fred L.
8 Passmore; (x) Julia G. Passmore; (xi) Geneva A. Spires; (xii)
9 George Jerolemon; (xiii) Michael Austin; (xiv) Barbara Austin;
10 (xv) the Official Joint Borrowers' Committee; (xvi) the FTC;
11 (xvii) the State Attorneys General; (xviii) the Related Debtors;
12 (xix) the Individual Defendants; (xx) the Mortgage Loan Trusts;
13 (xxi) the Trustees; (xxii) MBIA; and (xxiii) FSA.

14 All parties to this Stipulation are referred to collectively
15 in this Stipulation as the "Settling Parties."

16 The Stipulation, the Supplemental Agreement and the Consent
17 Decrees are intended by the Settling Parties to fully, finally
18 and forever resolve, discharge and settle the Released Claims (as
19 defined in ¶ 1.46 hereof), upon and subject to the terms and
20 conditions hereof.

21 **I. THE LITIGATION AND RELATED PROCEEDINGS**

22 On March 23, 2000, the Related Debtors filed their Chapter
23 11 petitions in the United States Bankruptcy Court for the
24 Central District of California, Southern Division, initiating
25 their Chapter 11 cases.

26 Beginning in approximately 1996 and continuing after the
27 date on which the Related Debtors filed their bankruptcy
28 petitions, the Related Debtors and certain of the Individual

1 Defendants were named as defendants in a number of lawsuits
2 brought by borrowers, private parties, and governmental agencies
3 alleging causes of action under state and federal law based on
4 the nature of the Related Debtors' business, sales, advertising,
5 and lending practices, including without limitation allegations
6 concerning the terms of the borrowers' loans, alleged
7 misrepresentations made in connection with those loans, and
8 alleged misconduct inducing borrowers to enter into the loans.

9 Each of the Plaintiffs except the Official Joint Borrowers'
10 Committee has filed a proof of claim in the Related Debtors'
11 bankruptcy cases, either on their own behalf, through
12 representative counsel, or both. Approximately 2000 individual
13 borrowers filed proofs of claim in the Related Debtors'
14 bankruptcy cases. In addition, each of the Representative
15 Plaintiffs has filed individual and class action proofs of claim
16 in the Related Debtors' bankruptcy cases on behalf of themselves
17 and similarly situated borrowers. AARP filed a non-class proof
18 of claim on behalf of the general public under sections 17200, et
19 seq., of the California Business and Professions Code (the
20 "UCL"), and the California Six filed individual and non-class
21 proofs of claim on behalf of the general public under the UCL.
22 Finally, each of the governmental entities has filed a proof of
23 claim.

24 On or about September 28, 2001, the Hon. David O. Carter,
25 United States District Court Judge, entered an order that, among
26 other things, certified a no-opt-out class action pursuant to
27 Rule 23(b) (1) of the Federal Rules of Civil Procedure in *Frank G.*
28

1 *Miello v. First Alliance Mortgage Corporation*, identified fully
2 below.

3 In late 2001, certain of the Representative Plaintiffs and
4 the Borrowers' Committee commenced actions against Lehman seeking
5 damages based on state and federal law and seeking to equitably
6 subordinate Lehman's claims against the Related Debtors.

7 On or about February 8th, 2002, eight individual FAMCO
8 borrowers filed a class action complaint in the United States
9 District Court for the Central District of California, captioned
10 *Frances M. Bohnsack, et al. v. Lehman Brothers Incorporated, et*
11 *al.*, Case No. 02-CV-1214. The plaintiffs assert the right to
12 serve as named representatives of the putative class action --
13 they are all members of the presently certified no opt-out class,
14 and will all be Class Members hereunder if they do not timely and
15 validly opt out of the Class. The named defendants are Lehman,
16 Prudential, and First Union and certain of the Trustees (Bank of
17 New York, Chase Manhattan Bank, and Wells Fargo Bank). The
18 complaint seeks damages and certain equitable relief based on
19 Federal and state law.

20 To the extent the above-described actions or proofs of claim
21 were filed in Bankruptcy Court, Judge Carter has withdrawn the
22 reference for those actions and proofs of claim. Each of the
23 above described actions is now pending in the District Court,
24 Central District of California, Southern Division, Judge Carter
25 presiding.

26 **II. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY**

27 The Defendants have denied and continue to deny each and all
28 of the claims and contentions alleged by the Plaintiffs in the

1 Actions. The Defendants expressly have denied and continue to
2 deny all charges of wrongdoing or liability against them arising
3 out of or related to any of the conduct, statements, acts or
4 omissions alleged, or that could have been alleged, in the
5 Actions. The Defendants also have denied and continue to deny,
6 *inter alia*, the allegations that the Plaintiffs (including
7 without limitation any of members of the Class) have suffered
8 damage or were harmed by the conduct alleged in the Actions.

9 Nonetheless, the Related Debtors and their counsel have
10 concluded that further conduct of litigation would be protracted
11 and expensive and would not be in the best interest of the
12 Estates, and that it is desirable that the Actions be fully and
13 finally settled between the Settling Parties in the manner and
14 upon the terms and conditions set forth in this Stipulation. The
15 other Defendants have also concluded that further conduct of
16 Litigation would not be in their best interests and that it is
17 desirable to settle the Actions on the terms and conditions set
18 forth herein.

19 **III. CLAIMS OF THE PLAINTIFFS AND BENEFITS OF SETTLEMENT**

20 The Plaintiffs have contended and continue to contend that
21 the claims asserted in the Actions have merit and that the value
22 of their claims substantially exceeds the amounts in the Related
23 Debtors Estates and the amounts being provided in this
24 settlement. However, Plaintiffs and their counsel recognize and
25 acknowledge the expense and length of continued proceedings
26 necessary to prosecute the Actions against the Defendants through
27 trial and through appeals and are concerned that further
28 prosecution of these actions could deplete the Estates to the

1 detriment of the Plaintiffs. Plaintiffs and their counsel also
2 have taken into account the uncertain outcome and the risk of any
3 litigation, especially in complex actions such as the Actions,
4 the possibility that the Plaintiffs, including the Class, would
5 be unable to collect all or part of any judgment, as well as the
6 difficulties and delays inherent in such litigation. Counsel for
7 the Plaintiffs also are mindful of the burdens of proof under and
8 possible defenses to the violations asserted in the Actions.
9 Counsel for the Representative Plaintiffs believe that the
10 settlement set forth in this Stipulation confers substantial
11 benefits upon and is in the best interests of the Class.

12 **IV. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT**

13 NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and
14 among the Plaintiffs, on one hand, and the Defendants, on the
15 other, on their own behalf or by and through their respective
16 counsel or attorneys of record, that, subject to the approval of
17 the Court, the Actions as to the Settling Parties, and the
18 Released Claims shall be finally compromised, settled and
19 released, and, with the exception of the actions brought by the
20 FTC and the State Attorneys General (which shall be resolved by
21 entry of the Consent Decrees against certain of the Defendants),
22 the Actions shall be dismissed with prejudice, as to all Settling
23 Parties, upon and subject to the terms and conditions of this
24 Stipulation, as follows.

25 **1. Definitions**

26 As used in the Stipulation the following terms have the
27 meanings specified below:
28

1 1.1 "AARP" means AARP, formerly known as the American
2 Association of Retired Persons.

3 1.2 "Actions" means the following actions, cases eventually
4 zonsolidated into one of the following actions, or proofs of
5 claim filed by any claimant, including but not limited to any and
6 all complaints, counterclaims, cross-claims, third party
7 complaints or other claims for relief filed in the following
8 actions and any currently pending appeals taken from orders in
9 those actions, which are identified below by the jurisdiction in
10 which such action, case, or claim originally was filed:

11 (a) *American Association of Retired Persons (AARP) v.*
12 *First Alliance Mortgage Company*, Superior Court of the State of
13 California for the County of Santa Clara, Case No. CV 778453;

14 (b) *Velda Durney v. First Alliance Mortgage Company*,
15 Superior Court of the State of California for the County of Santa
16 Clara, Case No. CV 765935;

17 (c) *Ida M. Forrest v. First Alliance Mortgage Company*,
18 Superior Court of the State of California for the County of
19 Alameda, Case No. 799294-0 [Cross-Complaint];

20 (d) *Henry M. Hong and Carol J. Hong v. First Alliance*
21 *Mortgage Company*, Superior Court of the State of California for
22 the County of Alameda, Case No. 784938-3;

23 (e) *Mary Ryan v. First Alliance Mortgage Company*,
24 Superior Court of the State of California for the County of Santa
25 Clara, Case No. CV 759815;

26 (f) *Lucretia Wilder v. First Alliance Mortgage*
27 *Company*, Superior Court of the State of California for the County
28 of Santa Clara, Case No CV 760638;

1 (g) *Fred L. Passmore and Julia G. Passmore v. First*
2 *Alliance Mortgage Company*, Superior Court of the State of
3 California for the County of Alameda, Case No. 823272-8;

4 (h) *Geneva A. Spires v. First Alliance Mortgage*
5 *Company*, Superior Court of the State of California for the County
6 of Alameda, Case No. 807253-5;

7 (i) *Frank G. Aiello, et. al. v. First Alliance*
8 *Mortgage Company, et. al.*, United States Bankruptcy Court,
9 Central District of California, Adv. No. SA00-01456, now
10 consolidated into No. SA CV 00-964 DOC (Eex);

11 (j) *Jacqueline Bowser and Irene Huston v. First*
12 *Alliance Mortgage Co. , et al. ,* United States Bankruptcy Court,
13 Central District of California, Adv. No. SA00-01343, now
14 consolidated into No. SA CV 00-964 DOC (Eex);

15 (k) *Commonwealth of Massachusetts v. First Alliance*
16 *Mortgage Company*, Superior Court for Suffolk County of the
17 Commonwealth of Massachusetts, Civil Action' No. 98-5534-A;

18 (l) *Federal Trade Commission v. First Alliance*
19 *Mortgage Company, et al.*, United States District Court for the
20 Central District of California, Case No. SA CV 00-964-DOC;

21 (m) *The People of the State of California v. First*
22 *Alliance Mortgage Company, et al.*, Superior Court of the State of
23 California for the County of Los Angeles, Case No. BC 252112 (now
24 consolidated, after dismissal in state court and refileing in the
25 United States District Court for the Central District of
26 California, into Case No. SA CV 00-964 DOC (Eex));

27 (n) *Department of Legal Affairs, Office of the*
28 *Attorney General, State of Florida v. First Alliance Mortgage*

1 *Company*, Circuit Court of the 17th Judicial Circuit, in and for
2 Broward County, Florida, Case No. 21000009116 (a complaint in
3 intervention has been filed in the United States District Court
4 for the Central District of California in Case No. SA CV 00-964
5 DOC (Eex));

6 (o) *People of the State of Illinois v. First Alliance*
7 *Mortgage Company*, Circuit Court of Cook County, Illinois, County
8 Department, Chancery Division, Case No. 98CH16598 (now
9 consolidated, after entry of a stay and refileing in the United
10 States District Court for the Central District of California,
11 into Case No. SA CV 00-964 DOC (Eex));

12 (p) Third Amended Proof of Claim filed by the State
13 Attorney General of Arizona against First Alliance Mortgage
14 Zompany, et al. in the United States Bankruptcy Court for the
15 Zentral District of California;

16 (q) Proof of Claim filed by the New York State Banking
17 Department against First Alliance Mortgage Company in the United
18 States Bankruptcy Court for the Central District of California;

19 (r) *Frank and Nicolena Aiello, et al. v. Brian*
20 *Chisick, et al.*, United States District Court, Central District
21 of California, Case No. SA CV 01-971 DOC (formerly filed in the
22 United States Bankruptcy Court, Central District of California,
23 Adversary Case No. AD 01-01463 LR);

24 (s) *Official Joint Borrowers Committee v. Lehman*
25 *Commercial Credit, Inc., et al.*, United States District Court,
26 Central District of California, Case No. SA CV 01-1111 DOC
27 (formerly filed in the United States Bankruptcy Court, Central
28 District of California, Adversary Case No. AD 1647 LR); and

1 (t) *Frank and Nicolena Aiello, et al. v. BNY Western*
2 *Trust Company, et al.*, United States District Court, Central
3 District of California, Case No. SA CV02-52 DOC.

4 1.3 "Administrative Expenses" means expenses, other than
5 Professional Fees, that are determined and allowed in the Related
6 Debtors' Estates under Section 503(b) of the Bankruptcy Code, 11
7 U.S.C. § 503(b), and paid pursuant to the confirmed Plan of
8 Liquidation and Section 1129 of the Bankruptcy Code, 11 U.S.C. §
9 1129.

10 1.4 "Bar Order" means, collectively, an order, after
11 hearing and notice to all Non-Settling Defendants in all actions
12 arising out of or related to the business of the Related Debtors,
13 and all parties who have submitted a proof of claim in the
14 Related Debtors' bankruptcy proceedings, and such other Persons
15 as to whom Defendants or the Court deem notice is necessary and
16 appropriate, in form and substance satisfactory to Coordinated
17 Plaintiffs and Defendants: (a) dismissing all pending claims
18 brought by Non-Settling Defendants against the Defendants, and
19 further providing, (b) that, 'for all Defendants the settlement is
20 in "good faith" within the meaning of Section 877.6 of the
21 California Code of Civil Procedure ("Section 877.6"); and (c)
22 that, pursuant to each of Section 877.6, 11 U.S.C. § 105, and
23 Federal Rule of Civil Procedure 16, all Persons receiving notice,
24 including without limitation the Non-Settling Defendants, are
25 barred from asserting any claims or demands against the
26 Defendants to recover losses or attorneys fees in litigation
27 arising out of or related to the business of Related Debtors,
28 whether such claims or demands are denominated as fraud claims,

1 indemnity claims, contribution claims, state or federal
2 Racketeering Influenced and Corrupt Organization (RICO) claims,
3 state common law claims, state statutory law claims, federal
4 statutory law claims, breach of representation and warranty
5 claims, or otherwise.

6 1.5 "California Six" means Velda Durney, Lucrecia Wilder,
7 Mary Ryan, Ida Mae Forrest, and Carol and Henry Hong.

8 1.6 "Chisick Shares" means shares in the Related Debtors
9 held directly or indirectly by or for the benefit of Brian and
10 Sarah Chisick and/or members of their family (in whatever form
11 they are held), including but not limited to shares held by
12 trusts in which Brian or Sarah Chisick are beneficiary or
13 trustee, or held directly or indirectly by any other heirs,
14 representatives or Related Persons.

15 1.7 "Class" means a class certified by the Court consisting
16 of all Persons who entered into mortgage loan agreements with the
17 Related Debtors during the period January 1, 1992 through
18 March 23, 2000.

19 1.8 "Class Period" means the period commencing on
20 January 1, 1992, through March 23, 2000.

21 1.9 "Class Member" or "Member of the Class" means a Person
22 who falls within the definition of the Class described in ¶ 1.7
23 hereof who does not validly and timely request exclusion from the
24 class.

25 1.10 "Coordinated Plaintiffs" means AARP, the California
26 Six, Representative Plaintiffs, the Official Joint Borrowers'
27 Committee, the FTC, and the State Attorneys General.

28

1 1.11 "Confirmation Order" means the order of the United
2 States District Court confirming the Related Debtors' Liquidating
3 Plan pursuant to Section 1129 of the Bankruptcy Code,
4 11 U.S.C. § 1129.

5 1.12 "Consent Decrees" means the stipulated final judgments
6 to be entered into by the FTC and certain of the Defendants and
7 the State Attorneys General and certain of the Defendants.

8 1.13 "Defendants" means the Related Debtors, the Individual
9 Defendants, the Mortgage Loan Trusts, the Trustees, MBIA, FSA,
10 and Wells Fargo Bank, N.A.

11 1.14 "Effective Date" shall be the first business day after
12 the expiration of five (5) calendar days following the occurrence
13 of the last of the conditions set forth in ¶ 7.1 of this
14 Stipulation.

15 1.15 "Employee Claims" means any allowed priority claim by
16 any employee of Related Debtors, other than Brian and Sarah
17 Chisick, for payment of wages, salary, benefits, bonus, pension,
18 or other compensation, as determined and allowed pursuant to
19 Section 507(a) (3) and (a)(4) of the Bankruptcy Code, 11 U.S.C. §
20 507(a) (3) and (a)(4), and paid pursuant to the confirmed
21 Liquidating Plan and Section 1129 of the Bankruptcy Code, 11
22 U.S.C. § 1129.

23 1.16 "Estates" shall mean the Related Debtors' legal and
24 equitable interests in property as defined under Section
25 541(a) (1) of the Bankruptcy Code, 11 U.S.C. § 541(a) (1).

26 1.17 "FACO" means First Alliance Corporation, a Delaware
27 Corporation.

28

1 1.18 "FACO Shares" means outstanding shares of FACO,
2 excluding the Chisick Shares and shares held by or for the
3 benefit of other individual defendants, directly or indirectly,
4 and by or for the benefit of members of their families and their
5 Related Persons (in whatever form they are held)

6 1.19 'Final' means: the later of (i) the date of final
7 affirmance on an appeal of a judgment or order, the expiration of
8 the time for a petition for or a denial of a writ of certiorari
9 to review a judgment or order and, if certiorari is granted, the
10 date of final affirmance of a judgment or order following review
11 pursuant to that grant; or (ii) the date of final dismissal of
12 any appeal from a judgment or order or the final dismissal of any
13 proceeding on certiorari to review a judgment or order; or
14 (iii) if no appeal is filed, the expiration date of the time for
15 the filing or noticing of any appeal from a judgment or order

16 1.20 'First Union' means First Union National Bank and its
17 parents, subsidiaries, affiliates, and related companies

18 1.21 "FSA" means Financial Security Assurance, Inc., and its
19 parents, subsidiaries and affiliates.

20 1.22 "FTC" means the Federal Trade Commission.

21 1.23 'Generally Released Claims' means, collectively, any
22 and all lawsuits, actions, causes of action, debts, obligations,
23 promises, guarantees, agreements, contracts, rights of
24 contribution and/or indemnification, claims, liabilities and/or
25 demands, of whatever kind or nature, whether known or unknown,
26 fixed or contingent, liquidated or unliquidated, suspected or
27 unsuspected, at law or equity, under any theory of law or equity
28 including under the Bankruptcy Code or any theory of fraudulent

1 conveyance or preference, in an individual or representative
2 capacity, on behalf of itself, a class or the public, including
3 without limitation under a statutory, contract or tort theory,
4 for declaratory relief, for intentional, fraudulent, negligent or
5 other wrongdoing, for bad faith or unfair business practices or
6 any other similar or dissimilar tort, or for compensatory,
7 consequential, punitive or exemplary damages or any damages or
8 penalties whatsoever, for specific performance, injunctive or
9 declaratory relief, or any relief whatsoever, under the laws,
10 rules and/or regulations or otherwise of any jurisdiction, court,
11 body or tribunal or otherwise of any sort or kind whatsoever,
12 whether in the United States of America, whether federal or state
13 or otherwise, and/or any other foreign jurisdiction. Generally
14 Released Claims expressly include Unknown Claims of the kind or
15 nature set out in this Paragraph.

16 1.24 "Individual Defendants" means Brian Chisick; Sarah
17 Chisick; Patricia G. Sullivan; Jeffrey Smith; Salah Bastawy;
18 Francisco Nebot; Bruce Bollong; Todd Feldman; Jeffrey Phillips;
19 Scott Gardner; Diane Clark West; Vanita Cillo; David Sproul; Ted
20 Kegel; Howard Coleman; Chris Jensen; Tom Neate; Kelly Lee; Joe
21 O'Laughlin; Steven Graber; Don Terry; Mitchell C. Horwitz; Mark
22 Mason; Albert Lord; George Gibbs; and, Merrill Butler.

23 1.25 "Judgment" means a judgment in a form acceptable to the
24 Settling Parties certified to be final pursuant to Rule 54 of the
25 Federal Rules of Civil Procedure.

26 1.26 "Lehman" means Lehman Commercial Paper, Inc., Lehman
27 Brothers, Inc., and their parents, affiliates, and subsidiaries.

28

1.27 "Liquidating Plan" means the Chapter 11 liquidating
plan of reorganization to be filed by the Related Debtors
consistent with the terms of this Stipulation as confirmed by the
Court.

1.28 "Liquidating Trust Fund" means that fund to be created
by Related Debtors as part of their Liquidating Plan into which
Related Debtors shall place on the Effective Date (1) any
unliquidated assets that cannot be distributed in cash to the
Redress Fund, (2) any mortgage loans owned by the Debtors whether
or not subject to a secured claim in favor of Lehman, (3) an
amount of cash equal to the distribution payable under the
confirmed Liquidating Plan to the holders of claims not paid on
the Effective Date to the extent they are later allowed of (a)
Other Creditors; (b) Professional Fees; (c) Administrative
Expenses; (d) Employee Claims, (e) anticipated future
Administrative Expenses and Professional Fees, as approved by the
Court; and, (f) the reserve required by the Supplemental
Agreement, (4) the proceeds, if any, from the Reliance Company
litigation, or the rights thereto, and if such litigation is not
concluded by a Final judgment or order, the right to continue to
prosecute such action, and (5) the proceeds, if any, from the \$1
million Chubb CGL policy, or the rights thereto. All actions
assigned to the Liquidating Trust Fund shall be pursued by the
fund as representative of the Estate pursuant to 11 U.S.C.
§ 1123 (b)(3).

1.29 "Liquidating Trustee" means such agents or trustees as
are approved by the Court to maintain and administer the

1 Liquidating Trust Fund pursuant to the terms of the Liquidating
2 Plan.

3 1.30 "Lloyd's Policy" means Policy No. 757/FD971617 issued
4 by Lloyds Underwriters at Interest subscribing to said policy to
5 First Alliance Corporation Directors and Officers and Company on
6 or about July 29, 1997, which, with extensions, covers the period
7 from July 29, 1997 to June 1, 2002.

8 1.31 "MBIA" means MBIA, Insurance Corporation, and its
9 parents, subsidiaries and affiliates.

10 1.32 "Mortgage Loan Trusts" means, collectively, First
11 Alliance Mortgage Loan Trust 1993-1; First Alliance Mortgage Loan
12 Trust 1993-2; First Alliance Mortgage Loan Trust 1994-1; First
13 Alliance Mortgage Loan Trust 1994-2; First Alliance Mortgage Loan
14 Trust 1994-3; First Alliance Mortgage Loan Trust 1994-4; First
15 Alliance Mortgage Loan Trust 1995-2; First Alliance Mortgage Loan
16 Trust 1996-1; First Alliance Mortgage Loan Trust 1996-2; First
17 Alliance Mortgage Loan Trust 1996-3; First Alliance Mortgage Loan
18 Trust 1996-4; First Alliance Mortgage Loan Trust 1997-1; First
19 Alliance Mortgage Loan Trust 1997-2; First Alliance Mortgage Loan
20 Trust 1997-3; First Alliance Mortgage Loan Trust 1997-4; First
21 Alliance Mortgage Loan Trust 1998-1A; First Alliance Mortgage
22 Loan Trust 1998-1F; First Alliance Mortgage Loan Trust 1998-2;
23 First Alliance Mortgage Loan Trust 1998-3; First Alliance
24 Mortgage Loan Trust 1998-4; First Alliance Mortgage Loan Trust
25 1999-1; First Alliance Mortgage Loan Trust 1999-2; First Alliance
26 Mortgage Loan Trust 1999-3; and First Alliance Mortgage Loan
27 Trust 1999-4; and the certificate and note holders thereof.

28

1.33 "Non-Settling Defendants" means (a) Lehman and any of its parents, subsidiaries, related, or affiliated companies; (b) Prudential and any of its parents, subsidiaries, related, or affiliated companies; (c) First Union and any of its parents, subsidiaries, related, or affiliated companies; and (d) other potential defendants not released pursuant to this Stipulation and not yet parties to litigation arising out of or related to the business of Related Debtors.

1.34 "Notice" means the notice described in 3.1 hereof, in a form acceptable to the Settling Parties.

1.35 "Official Joint Borrowers' Committee" means that official committee as appointed by the U.S. Trustee in or around July 30, 2000.

1.36 "Other Creditors" means the holders of general unsecured claims, other than the Plaintiffs, persons who validly and timely opt out of the Class and Brian and Sarah Chisick.

1.37 "Person" means an individual, corporation, limited liability corporation, professional corporation, limited liability partnership, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

1.38 "Plaintiffs" means the Class Members, the Official Joint Borrowers' Committee, the FTC, the State Attorneys General, AARP, Barbara Austin, Michael Austin, Velda Durney, Ida M. Forrest, Henry M. Hong, Carol J. Hong, Mary Ryan, Lucretia

1 Wilder, George Jerolemon, Fred L. Passmore, Julia G. Passmore,
2 Geneva A. Spires, Frank G. Aiello, Nicolena Aiello, Paul
3 Carabetta, Lenore Carabetta, Vito Cicci, Stella Cicci, Veronica
4 Maines, Thaddeus Zychlinski, Marissa Zychlinski, Jacqueline
5 Bowser and Irene Huston.

6 1.39 "Prior Borrower Settlements" means borrowers who
7 settled a claim or lawsuit with Related Debtors and were paid by
8 the Related Debtors within the ninety days prior to the filing of
9 the bankruptcy by Related Debtors.

10 1.40 "Professional Fees" means fees, expenses, and costs to
11 be paid to professionals employed by the Related Debtors, the
12 Official Creditors' Committee, or the Official Joint Borrowers
13 Committee, which are determined and allowed in the Related
14 Debtors' Estates pursuant to Sections 330, 331, 503 and 507 of
15 the Bankruptcy Code, 11 U.S.C. §§ 330, 331, 503 and 507, and paid
16 pursuant to the confirmed Liquidating Plan and Section 1129 of
17 the Bankruptcy Code, 11 U.S.C. § 1129.

18 1.41 "Prudential" means Prudential Securities, Inc., and its
19 parents, affiliates, and subsidiaries.

20 1.42 "Redress Fund" means a fund to be established and
21 administered by the FTC for the benefit of the Members of the
22 Class and other Plaintiffs, as more fully described herein.

23 1.43 "Redress Fund Administrator" means the FTC, or such
24 agents or trustees that the FTC pursuant to the Consent Decree,
25 in its sole discretion, will appoint, to establish, maintain, and
26 administer the Redress Fund.

27 1.44 "Related Debtors" means First Alliance Mortgage
28 Company, a California corporation; First Alliance Corporation, a

1 Delaware corporation; First Alliance Mortgage Company, a
2 Minnesota corporation; and First Alliance Portfolio Services,
3 Inc., a Nevada corporation as debtors and debtors-in-possession.

4 1.45 "Related Persons" means, with respect to any individual
5 or entity to whom it refers, each of its, his, her, or their,
6 past or present directors, officers, managers, employees,
7 partners, members, principals, agents, controlling shareholders,
8 venture capital investors, attorneys, accountants or auditors,
9 financial advisors, associates, personal or legal
10 representatives, predecessors, successors, parents, subsidiaries,
11 divisions, joint ventures, assigns, spouses, heirs, related or
12 affiliated entities, any entity in which a person or entity has a
13 controlling interest, any members of their immediate families, or
14 any trust of which any individual is the settlor or which is for
15 the benefit of any individual and/or member(s) of his or her
16 family.

17 1.46 "Released Claims" means, collectively, all claims
18 released pursuant to any Paragraph of this Stipulation. The
19 releases and discharges referred to herein are not bankruptcy
20 discharges.

21 1.47 "Reliance Company Litigation" means the action between
22 the Related Debtors and Reliance Insurance Company in
23 Liquidation, as successor-in-interest by merger to Reliance
24 Insurance Company of Illinois, currently pending in the United
25 States District Court for the Central District of California as
26 Case No. CV 00-3282 GAF, and any proceeding related thereto,
27 including without limitation any liquidation proceeding for
28 Reliance.

1 1.48 "Representative Plaintiffs" means Frank G. Aiello,
2 Nicolena Aiello, Barbara Austin, Michael Austin, Paul Carabetta,
3 Lenore Carabetta, Vito Cicci, Stella Cicci, George Jerolemon,
4 Veronica Maines, Thaddeus Zychlinski, Marissa Zychlinski,
5 Jacqueline Bowser and Irene Huston, as individuals and on behalf
6 of Class Members.

7 1.49 "Residuals" means the securities representing the
8 residual interests held by and property of the Estate in the
9 various Mortgage Loan Trusts that were formed for the purpose of
10 securitizing pools of real estate mortgages for sale to the
11 investing public.

12 1.50 "Residual Proceeds" means all proceeds received by the
13 Estate from the Residuals for the period between January 1, 2002
14 and the Effective Date, and the interest earned thereon, such
15 proceeds to be accounted for separately by Related Debtors.

16 1.51 "Residual Certificateholder" means a holder of Class R
17 Certificates in the Mortgage Loan Trusts. "Class R Certificates"
18 means any of those certificates representing certain residual
19 rights to distributions from the Mortgage Loan Trusts, designated
20 as a "Class R Certificate" on the face thereof.

21 1.52 "Securitization Documents" means any and all documents
22 executed in connection with the issuance of asset backed notes by
23 the Mortgage Loan Trusts and the Trustees, including but not
24 limited to, purchase and sale agreements, trust agreements,
25 indenture of trust agreements, insurance agreements, indemnity
26 agreements, and servicing agreements.

27 1.53 "Settling Parties" means, collectively, each of the
28 parties to this Stipulation.

1 1.54 "Specifically Released Claims" means, collectively, any
2 and all lawsuits, actions, causes of action, debts, obligations,
3 promises, guarantees, agreements, contracts, rights of
4 contribution and/or indemnification, claims, liabilities and/or
5 demands, of whatever kind or nature, whether known or unknown,
6 fixed or contingent, liquidated or unliquidated, suspected or
7 unsuspected, at law or equity, under any theory of law or equity
8 including under the Bankruptcy Code or any theory of fraudulent
9 conveyance or preference, in an individual or representative
10 capacity, on behalf of itself, a class or the public, including
11 without limitation under a statutory, contract or tort theory,
12 for declaratory relief, for intentional, fraudulent, negligent or
13 other wrongdoing, for bad faith or unfair business practices or
14 any other similar or dissimilar tort, or for compensatory,
15 consequential, punitive or exemplary damages or any damages or
16 penalties whatsoever, for specific performance, injunctive or
17 declaratory relief, or any relief whatsoever, under the laws,
18 rules and/or regulations or otherwise of any jurisdiction, court,
19 body or tribunal or otherwise of any sort or kind whatsoever,
20 whether in the United States of America, whether federal or state
21 or otherwise, and/or any other foreign jurisdiction, based on,
22 arising out of, related to or the subject of: (a) the Actions;
23 (b) facts, transactions, events, occurrences, acts, disclosures,
24 statements, omissions, or failures to act which were or could
25 have been alleged with respect to such conduct in the Actions;
26 (c) any and all claims arising out of or relating to or in
27 connection with the settlement or resolution of the Actions;
28 (d) mortgage loans issued by the Related Debtors during the Class

1 Period and the Actions; and (e) the sale and securitization of
2 such loans to the Mortgage Loan Trusts and the Trustees.
3 Specifically Released Claims expressly include Unknown Claims of
4 the kind or nature set out in this Paragraph.

5 1.55 "State Attorneys General" means the attorneys general
6 from the States of Arizona, California, Florida, Illinois, and
7 Massachusetts, and the New York State Banking Department.

8 1.56 "Supplemental Agreement" means the agreement relating
9 to potential termination of this Stipulation that will be filed
10 under seal with the District Court.

11 1.57 "Term Sheet" means the February 15, 2002 letter
12 agreement provisionally agreed upon by the FTC subject to
13 Commission approval and accepted on behalf of the Coordinated
14 Plaintiffs, and certain of the Defendants.

15 1.58 "Trustees" means, collectively, in their individual
16 capacities, in their respective capacities as trustees of the
17 Mortgage Loan Trusts and in any other capacity under the
18 Securitization Documents, JP Morgan Chase Bank as successor in
19 interest to the Chase Manhattan Bank (hereinafter "Chase
20 Manhattan Bank"), Trustee of First Alliance Mortgage Loan Trust
21 1993-1; Chase Manhattan Bank, Trustee of First Alliance Mortgage
22 Loan Trust 1993-2; Chase Manhattan Bank, Trustee of First
23 Alliance Mortgage Loan Trust 1994-1; Chase Manhattan Bank,
24 Trustee of First Alliance Mortgage Loan Trust 1994-2; Chase
25 Manhattan Bank, Trustee of First Alliance Mortgage Loan Trust
26 1994-3; Chase Manhattan Bank, Trustee of First Alliance Mortgage
27 Loan Trust 1994-4; Chase Manhattan Bank, Trustee of First
28 Alliance Mortgage Loan Trust 1995-2; Chase Manhattan Bank,

1 Trustee of First Alliance Mortgage Loan Trust 1996-1; Chase
2 Manhattan Bank, Trustee of First Alliance Mortgage Loan Trust
3 1996-2; Bank of New York, Trustee of First Alliance Mortgage Loan
4 Trust 1996-3; Chase Manhattan Bank, Trustee of First Alliance
5 Mortgage Loan Trust 1996-4; Chase Manhattan Bank, Trustee of
6 First Alliance Mortgage Loan Trust 1997-1; Chase Manhattan Bank,
7 Trustee of First Alliance Mortgage Loan Trust 1997-2; Chase
8 Manhattan Bank, Trustee of First Alliance Mortgage Loan Trust
9 1997-3; Bank of New York, Trustee of First Alliance Mortgage Loan
10 Trust 1997-4; Chase Manhattan Bank, Trustee of First Alliance
11 Mortgage Loan Trust 1998-1A; Chase Manhattan Bank, Trustee of
12 First Alliance Mortgage Loan Trust 1998-1F; Chase Manhattan Bank,
13 Trustee of First Alliance Mortgage Loan Trust 1998-2; Wells Fargo
14 Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.),
15 Trustee of First Alliance Mortgage Loan Trust 1998-3; Wells Fargo
16 Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.),
17 Trustee of First Alliance Mortgage Loan Trust 1998-4; Wells Fargo
18 Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.),
19 Trustee of First Alliance Mortgage Loan Trust 1999-1; Wells Fargo
20 Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.),
21 Trustee of First Alliance Mortgage Loan Trust 1999-2; Wells Fargo
22 Bank Minnesota, N.A. (formerly Norwest Bank Minnesota, N.A.),
23 Trustee of First Alliance Mortgage Loan Trust 1999-3; and Chase
24 Manhattan Bank, Trustee of First Alliance Mortgage Loan Trust
25 1999-4, any owner trustees of the Mortgage Loan Trusts and the
26 parents, subsidiaries and affiliates of these entities.

21 1.59 "Unknown Claims" means any Released Claims which any
28 releasing party does not know or suspect to exist in his, her or

1 its favor at the time of the release of the released persons
2 which, if known by him, her or it, might have affected his, her
3 or its settlement with and release of the released persons, or
4 might have affected his, her, or its decision not to object to
5 this settlement. With respect to any and all Specifically and
6 Generally Released Claims, all parties providing releases
7 stipulate and agree that, upon the Effective Date, they shall
8 expressly, and each of the Class Members shall be deemed to have,
9 and by operation of the order approving this Stipulation and the
10 Consent Decrees shall have, expressly waived the provisions,
11 rights and benefits of California Civil Code § 1542, which
12 provides:

13 A general release does not extend to claims which
14 the creditor does not know or suspect to exist in his
15 favor at the time of executing the release, which if
 known by him must have materially affected his
 settlement with the debtor.

16 All parties providing releases of Unknown Claims shall expressly,
17 and each of the Class Members shall be deemed to have, and by
18 operation of this Stipulation and the Consent Decrees shall have,
19 expressly waived any and all provisions, rights and benefits
20 conferred by any law of any state or territory of the United
21 States, or principle of common law, which is similar, comparable
22 or equivalent to California Civil Code § 1542. All parties
23 providing releases of Unknown Claims (including without
24 limitation any individual Class Member) may hereafter discover
25 facts in addition to or different from those which he, she or it
26 now knows or believes to be true with respect to the subject
27 matter of the Specifically or Generally Released Claims, but each
28 shall expressly, and each Class Member, upon the Effective Date,

1 shall be deemed to have, and by operation of this Stipulation
2 shall have, fully, finally, and forever settled and released any
3 and all Specifically and Generally Released Claims, known or
4 unknown, suspected or unsuspected, contingent or non-contingent,
5 whether or not concealed or hidden, which now exist, or
6 heretofore have existed upon any theory of law or equity now
7 existing or coming into existence in the future, including
8 without limitation conduct which is negligent, intentional, with
9 or without malice, or a breach of any duty, law or rule, without
10 regard to the subsequent discovery or existence of such different
11 or additional facts. All parties providing releases of Unknown
12 Claims expressly acknowledge, and the Class Members shall be
13 deemed by operation of the Stipulation to have acknowledged, that
14 the foregoing waiver was separately bargained for and a key
15 element of the settlement of which this release is a part.

16 **2. The Settlement**

17 **a. Payments by Brian and Sarah Chisick and Consent Decrees**

18 2.1 Upon the Effective Date, Brian and Sarah Chisick
19 collectively shall (i) contribute the amount of \$20,000,000.00
20 (adjusted in the manner set forth in the Supplemental Agreement)
21 to the capital of Related Debtors, and (ii) agree to the
22 cancellation of any Chisick Shares. Said contribution is an
23 addition to the assets of the Estates as of February 25, 2002.

24 (a) Following February 15, 2002, and until the
25 Effective Date, Brian and Sarah Chisick will not transfer, or
26 cause to be transferred, any Chisick Shares.

21
28

1 (b) Brian and Sarah Chisick represent that they have
2 transferred no Chisick Shares to persons whose holdings would not
3 constitute Chisick Shares since March 23, 2000.

4 (c) To secure the payment in ¶ 2.1 above, three days
5 before the hearing on confirmation of the Liquidating Plan, Brian
6 and Sarah Chisick will obtain and deliver to the FTC an
7 irrevocable letter of credit issued by a financial institution
8 payable to the Liquidating Trustee. Both the financial
9 institution that issues the letter of credit and the form of the
10 letter of credit must be acceptable to the FTC, which acceptance
11 will not be unreasonably withheld.

12 2.2 Upon the Effective Date, Brian Chisick will purchase
13 the Residuals, including the Residual Proceeds, by paying in cash
14 to the Related Debtors (i) the amount of \$25,100,000.00, plus
15 (ii) interest in an amount equal to the total amount that would
16 be received on a \$25.1 million deposit for a period from January
17 1, 2002 to the Effective Date, based on an annual (365-day) rate
18 of simple interest of three percent (3%), or, if Mr. Chisick puts
19 this \$25.1 million plus the interest thereon at three percent
20 (3%) from January 1, 2002 into a separate account by April 1,
21 2002 and it remains in a separate account until the Effective
22 Date, then the interest obligation from the date of the deposit
23 shall be the amount earned on the funds so deposited.

24 2.3 (a) Upon the Effective Date, MBIA will release all of
25 its right, title and interest in and to the remaining balance of
26 the escrow account established for the benefit of MBIA pursuant
27 to the July 14, 2000 Consent Agreement ("Consent Agreement")
28 between certain of the Related Debtors, the Trustees, and MBIA.

1 Upon the final resolution, by settlement, final judgment or
2 otherwise, of any and all claims brought against the Mortgage
3 Loan Trusts insured by MBIA ("the MBIA-Insured Trusts") or the
4 Trustees by any Person who falls within the definition of the
5 Class described in Paragraph 1.7 of this Stipulation who has
6 validly and timely requested exclusion from the Class, or by any
7 Person seeking contribution or indemnity on account of such
8 claims, the Trustees will transfer to the Liquidating Trust Fund
9 all of their right, title and interest in and to the remaining
10 balance of the escrow accounts established for the benefit of the
11 Trustees under the Consent Agreement except that with respect to
12 the release of the escrow funds held by Chase Manhattan Bank they
13 shall have appropriate consents from the Residual
14 Certificateholders. Until such time as MBIA or the Trustees
15 release their right, title and interest in their respective
16 escrow accounts pursuant to the terms of this Stipulation,
17 nothing in this Stipulation shall affect, alter or amend any
18 right of MBIA or the Trustees under the Consent Agreement to make
19 withdrawals from the escrow accounts in accordance with the terms
20 of the Consent Agreement.

21 (b) In the event that any claim, action or proceeding
22 is brought against the Mortgage Loan Trusts or Trustees by any
23 Person who falls within the definition of the Class described in
24 Paragraph 1.7 of this Stipulation who has validly and timely
25 requested exclusion from the Class, the Trustees and the Mortgage
26 Loan Trusts shall have the right to require the Residual
27 Certificateholders to defend such claim, action or proceeding;
28 provided, however, that the Residual Certificateholders may not

1 without the prior written consent of the relevant Trustee and its
2 insurer settle any such action, claim or proceeding if such
3 settlement would result in any payment from the assets of the
4 Mortgage Loan Trusts or Trustees.

5 2.4 Brian Chisick, Sarah Chisick, and the Related Debtors
6 will agree to Consent Decrees barring future violations of the
7 law, which Consent Decrees shall become operative on the
8 Effective Date. The form and content of such decrees will be
9 negotiated in good faith, but it is generally agreed that the
10 consent decree will be in a form similar to the types of decrees
11 used to resolve FTC and State actions, without any admission of
12 wrongdoing.

13 2.5 Upon the Effective Date, Brian and Sarah Chisick shall,
14 pursuant to the Consent Decrees, be enjoined from engaging in any
15 residential loan origination business for ten years.

16 **b. The Allowance of the Coordinated Plaintiffs' Claim.**

17 2.6 For purposes of this Stipulation and distribution under
18 the confirmed Liquidating Plan, the claims of the Plaintiffs will
19 be treated as a joint claim and allowed, pursuant to 11 U.S.C. §
20 502, as a general, unsecured claim against the Related Debtors in
21 the amount of Two Hundred Seventeen Million Dollars
22 (\$217,000,000); provided that this amount shall not be binding in
23 proceedings by Plaintiffs against Non-Settling Defendants, and
24 provided further that the amount shall not be binding in the
25 event that the Effective Date of this Stipulation fails to occur.

26 **c. Distributions on the Effective Date**

27 2.7 (a) Upon the Effective Date and pursuant to the
28 confirmed Liquidating Plan, the Related Debtors shall transfer

1 and distribute the Estates as follows: (i) pay all allowed claims
2 payable on that date pursuant to the terms of the Liquidating
3 Plan, (ii) transfer to the Liquidating Trust Fund all
4 unliquidated assets of the Estates, including the mortgage loans
5 owned by Related Debtors, and cash in the amounts provided for
6 under ¶ 1.28, and (iii) transfer all remaining cash of the
7 Estates to the Redress Fund, including the additional amounts
8 paid to Related Debtors by Brian and Sarah Chisick pursuant to
9 paragraph 2.1.

10 (b) Assuming the Court hearing the interpleader action
11 filed by Lloyd's approves such payment, the insureds under the
12 Lloyd's Policy will on the Effective Date pay to the Redress Fund
13 \$3,000,000, the money to come from the Lloyd's Policy and not the
14 insureds themselves; and

15 (c) Upon the Effective Date, the sum of \$1,000,000
16 shall be paid by MBIA and FSA (\$960,000 and \$40,000 respectively)
17 to the Redress Fund on behalf of the Mortgage Loan Trusts.

18 **d. The Liquidating Trust Fund**

19 2.8 Pursuant to the confirmed Liquidating Plan, Related
20 Debtors shall establish the Liquidating Trust Fund to be
21 administered after the Effective Date by the Liquidating Trustee.

22 (a) The Liquidating Trustee shall liquidate the assets
23 in the Liquidating Trust Fund and make payments from the
24 Liquidating Trust Fund to any holder of the allowed claims set
25 forth in Paragraph 1.28 hereof and to the Redress Fund, pursuant
26 to the Liquidating Plan.

27 (b) No Person shall have any claim against the Related
28 Debtors or the Liquidating Trustee or their counsel based on

1 distributions of the Liquidating Trust Fund made in accordance
2 with this Stipulation and the confirmed Liquidating Plan.

3 (c) It is acknowledged by the Settling Parties that
4 the total amount of allowed claims paid from the Liquidating
5 Trust Fund may be less than the amount of the Liquidating Trust
6 Fund as a consequence of a determination of the distribution to
7 such allowed claims that is less than the amount reserved under
8 Paragraph 1.28 hereof or an agreement by such creditors as to the
9 amount of their claims and the payment therefor. The amount
10 remaining in the Liquidating Trust Fund after payment of the
11 allowed claims for which the fund was established, shall revert
12 to and become part of the Redress Fund.

13 **e. Subsequent Transfers**

14 2.9 The Redress Fund shall also be entitled to receive the
15 following:

16 (a) Any proceeds remaining from the Lloyd's Policy,
17 after the resolution of all other claims against that policy,
18 including the past and future claims of the insureds for the
19 reimbursement of expenses (including those related to any
20 prospective Lehman, Prudential, or First Union contribution or
21 indemnity claims). The Related Debtors shall provide the
22 Coordinated Plaintiffs with an accounting for the amounts paid
23 hereunder, including the amount of attorney fees paid to
24 Individual Defendants' counsel; and

25 (b) The amounts remaining in the Liquidating Trust
26 Fund as defined in ¶1.28 following the satisfaction of the
27 obligations to be paid from that fund.

28

1 2.10 The Plaintiffs agree not to object to any allocation of
2 the proceeds of the Lloyd's Policy described above to settle
3 third party claims or pay attorneys' fees. The Settling Parties
4 hereby stipulate and agree that the stay of the Lloyd's Policy
5 should be immediately terminated by the Court.

6 **f. Administration of the Redress Fund**

7 2.11 The Redress Fund shall be established and administered
8 by the FTC for the benefit of the Class and other Plaintiffs.
9 The FTC, with the input of the Coordinated Plaintiffs, shall
10 submit to the Court for review and approval a plan for the
11 disbursement of funds to the Members of the Class and other
12 Plaintiffs. Settling Defendants shall have no right to contest
13 the substance or manner of distribution of the Redress Fund nor
14 my responsibility in connection therewith.

15 **g. FACO Shares**

16 2.12 Under the terms of the Liquidating Plan, the Related
17 Debtors will cancel all FACO Shares. Following the Effective
18 Date, the Redress Fund Administrator shall pay those Persons who
19 held FACO shares on the Effective Date the lesser of \$1.50 per
20 share or the basis of such shares prior to cancellation, provided
21 that the total amount of such payments does not exceed
22 \$3,250,000.00. The basis of any Person in a share of FACO stock
23 purchased on or after February 25, 2002 shall be conclusively
24 presumed to be 9 cents. To the extent that the total amount of
25 such payments would exceed \$3.25 million, the Redress Fund
26 Administrator shall reduce the payment to each former FACO
27 shareholder on an equal proportionate basis (that is, so that
28 each former FACO shareholder will receive an equal percentage of

1 the amount that they otherwise would receive under the formula
2 above) until the total payments do not exceed \$3.25 million. If
3 the amount of payments to shareholders as calculated above is
4 less than \$3.25 million, then the remainder shall revert to the
5 Redress Fund. No payment will be made on account of the Chisick
6 Shares or FACO Shares held by other Individual Defendants or
7 their Related Persons.

8 **h. Dismissals and Releases**

9 2.13 The Actions shall be dismissed as to the Defendants
10 with prejudice, with the exception of (i) the joint proof of
11 claim referenced in ¶ 2.6 which shall be treated in accordance
12 with that paragraph and the confirmed Liquidating Plan, (ii) the
13 actions filed by the State Attorney Generals and the FTC which
14 are to be resolved by the entry of Consent Decrees as to certain
15 Defendants and (iii) Plaintiffs' claims against Jeffrey Smith
16 unless he makes the election set forth in the final sentence of
17 ¶ 4.12. Notwithstanding (ii) above, the Florida actions against
18 Francisco Nebot and Bruce Bollong shall be dismissed without
19 prejudice. To the extent a dismissal is required in an Action
20 pending before the District Court, the dismissals shall be
21 entered as part of the District Court's orders implementing this
22 Stipulation. To the extent a dismissal is required in any of the
23 Actions not pending before the District Court, that action shall
24 immediately be stayed, so long as the Individual Defendants in
25 such action agree to waive all rules relating to the prompt
26 prosecution of that action and the Court approves the stay; those
27 Actions shall then be dismissed with prejudice on the Effective
28 Date.

1 **i. Payment of Coordinated Plaintiffs' Counsel Fees and**
2 **Provisions re Taxes**

3 2.14 Any attorneys fees awarded by the Court to counsel for
4 Coordinated Plaintiffs and/or the National Association of
5 Attorneys General will be paid out of the Redress Fund, save and
6 except those fees and costs that are payable for services
7 rendered by the Official Joint Borrowers Committee as an
8 Administrative Expense of the Estates or the Liquidating Trust
9 Fund. The Defendants will have no right to object to the fee
10 procedure established by the Coordinated Plaintiffs and approved
11 by the Court, or fees to be paid under that procedure, to the
12 extent those fees are paid from the Redress Fund.

13 2.15 Settling Parties and the Redress Fund Administrator
14 agree to treat the Redress Fund as being at all times a
15 "qualified settlement fund" within the meaning of Treas. Reg.
16 § 1.468B-1. The Settling Parties agree that the exact tax
17 structure of the Redress Fund will be set forth in the
18 Liquidating Plan.

19 **3. Notice Order and Settlement Hearing**

20 3.1 Promptly after execution of the Stipulation, the
21 Coordinated Plaintiffs shall submit any additional documents
22 necessary to obtain preliminary approval of the settlement by the
23 District Court and shall apply for entry of an order (the "Notice
24 Order"), the form and content of which will be negotiated by the
25 parties in good faith, requesting, *inter alia*, approval of the
26 method of dissemination of a settlement notice (the "Notice").
27 The Related Debtors shall disseminate the Notice to all Class
28 Members. The Notice shall be in a form agreed upon by the

1 Settling Parties and approved by the Court. The cost of such
2 Notice shall be borne by the Related Debtors.

3 3.2 The Coordinated Plaintiffs shall request that after the
4 Notice is given, the Court hold a hearing under Rule 23(e) of the
5 Federal Rules of Civil Procedure (the "Settlement Hearing") and
6 approve the settlement as set forth herein.

7 **4. Releases**

8 4.1 All Persons granting releases under this ¶ 4 shall have
9 expressly waived the provisions, rights and benefits of
10 California Civil Code § 1542, which provides:

11 **A general release does not extend to claims which**
12 **the creditor does not know or suspect to exist in his**
13 **favor at the time of executing the release, which if**
14 **known by him must have materially affected his**
15 **settlement with the debtor.**

16 4.2 Except as set forth in ¶¶ 4.11 and '4.12, upon the
17 Effective Date, the Plaintiffs and their Related Persons shall
18 have, and each of the Class Members and their Related Persons
19 shall be deemed to have, and by operation of the Judgment shall
20 have, fully, finally, and forever relieved, released, and
21 discharged the Defendants, the family members of Brian and Sarah
22 Chisick and all entities controlled by them (now or in the past),
23 the Trustees, MBIA, FSA, and any other insurer of the Mortgage
24 Loan Trusts (or any of the securities issued by any of the
25 Mortgage Loan Trusts) and all of its, his, her, or their Related
26 Persons from the Specifically Released Claims.

27 4.3 Except as set forth in ¶ 4.11, upon the Effective Date,
28 the Defendants and their Related Persons shall have fully,
finally, and forever relieved, released, and discharged the
Plaintiffs and their Related Persons (excluding the Commonwealth

1 of Massachusetts; it being understood that the Individual
2 Defendants have no present intention of bringing any such claim
3 against the Commonwealth of Massachusetts), the members of the
4 Official Creditors' Committee, the professionals of the Official
5 Creditors' Committee, members of the Borrowers' Committee, and
6 the professionals of the Official Borrowers' Committee, and all
7 of its, his, her, or their Related Persons from any claims,
8 including Unknown Claims, arising out of or related in any manner
9 to the filing of claims or Actions against them so that no such
10 claims against these releasees arising out of or related to their
11 conduct in the Actions shall survive. The releases provided by
12 this paragraph are not intended to, and shall not, release any of
13 the Plaintiffs or their Related Persons from any of their
14 respective obligations on loans originated by Related Debtors.

15 4.4 Except as set forth in ¶ 4.11, upon the Effective Date,
16 the Related Debtors shall have fully, finally, and forever
17 relieved, released, and discharged Brian and Sarah Chisick, the
18 family members of Brian and Sarah Chisick and all entities
19 controlled by them (now or in the past), the Trustees, the
20 Individual Defendants, all of Related Debtors' current and former
21 officers, directors and employees, MBIA and FSA and all of their
22 Related Persons from the Generally Released Claims. Related
23 Debtors shall also release any claims against Plaintiffs arising
24 out of the Prior Borrower Settlements.

25 4.5 Except as set forth in ¶ 4.11, upon the Effective Date,
26 Brian and Sarah Chisick shall have fully, finally, and forever
27 relieved, released, and discharged the Related Debtors, the
28 Individual Defendants and their respective Related Persons from

1 the Generally Released Claims; and the other Individual
2 Defendants shall have fully, finally, and forever relieved,
3 released, and discharged Brian and Sarah Chisick and their
4 respective Related Persons from the Generally Released Claims.

5 4.6 Except as set forth in ¶ 4.11, upon the Effective Date,
6 MBIA and FSA shall have fully, finally, and forever relieved,
7 released, and discharged the Related Debtors and Plaintiffs and
8 each of its, his, her, or their Related Persons from any claims
9 for malicious prosecution, abuse of process, or similar torts
10 arising out of or related to the filing of claims against their
11 insureds, so that no such claims against these releasees arising
12 out of or related to their conduct in the Actions shall survive.

13 4.7 Except as set forth in ¶ 4.11, upon the Effective Date,
14 Brian and Sarah Chisick and MBIA shall have released any and all
15 claims each may have against the others relating to the business
16 of the Related Debtors; provided, however, that it is the intent
17 of Brian and Sarah Chisick and MBIA that nothing herein shall
18 affect, alter or amend the terms of the transaction documents
19 relating to the MBIA insured Mortgage Loan Trusts, or otherwise
20 affect the rights of the Residual Certificateholder under the
21 transaction documents; Brian and Sarah Chisick shall also have
22 released the indemnification claim asserted against the Trustees
23 and the Mortgage Loan Trusts as to monies paid pursuant to this
24 Settlement and fees and costs incurred in litigating the Actions.

25 4.8 Except as otherwise provided herein, including without
26 limitation in ¶¶ 4.10, 4.11 and 4.12 below, following the
27 Effective Date the Plaintiffs will forever refrain and forbear
28 from commencing, instituting, and/or prosecuting any lawsuit,

1 action, and/or other proceeding and/or making any claim against
2 any Person receiving a release from Plaintiffs hereunder, based
3 upon or arising out of or related to any Released Claim.

4 4.9 Upon the Effective Date, the Plaintiffs shall have, and
5 each of the Class Members shall be deemed to have, expressly
6 waived and released claims for rescission or reformation of any
7 loan originated by the Related Debtors.

8 4.10 In addition to the foregoing releases, the State
9 Attorneys General: (i) commit that the State Attorneys General
10 will not seek administrative sanctions arising out of or related
11 to the Specifically Released Claims; (ii) represent, for the
12 States of California, New York, Illinois, Massachusetts, Florida
13 and Arizona, that the State Attorneys General do not have any
14 pending criminal investigations against any of the Defendants
15 arising out of or related to the Specifically Released Claims,
16 and that they are not aware of any such investigation; and (iii)
17 agree not to seek any injunctive relief against Francisco Nebot
18 or Bruce Bollong.

19 (a) The State Attorneys General for California,
20 Illinois, Florida, and the New York State Banking Department
21 further represent that they will not attempt to initiate any
22 criminal investigations against any of the Defendants arising out
23 of or related to the Specifically Released Claims.

24 (b) The State Attorneys General for Arizona and
25 Massachusetts represent that they have no current intention to
26 initiate any criminal investigation against any of the Defendants
27 arising out of or related to the Specifically Released Claims.
28 In the event any State Attorney General of Arizona initiates a

1 criminal investigation against any of the Defendants arising out
2 of or related to the Specifically Released Claims, the release of
3 that State described in ¶ 4.3 herein given by the Defendant who
4 is the subject of such investigation shall be void and of no
5 further force and effect and such Defendant shall be entitled to
6 an offset against any monetary sanction imposed against that
7 Defendant in an amount equal to the amount of that Defendant's
8 nonetary contribution to the Redress Fund.

9 4.11 Notwithstanding any contrary provision herein, this
10 Stipulation does not and cannot be construed (a) to release
11 Lehman, Prudential, or First Union; (b) to release any Class
12 Member who validly and timely requests exclusion from the Class;
13 or (c) to release any Settling Party from any obligation under
14 this Stipulation, the Supplemental Agreement or the Consent
15 decrees.

16 4.12 Notwithstanding any contrary provision herein, the
17 State Attorneys General do not release Patricia Sullivan and
18 Salah Bastawy, and none of the Plaintiffs releases Jeffrey Smith,
19 from any claim or demand unless and until he or she has agreed to
20 be bound by this Stipulation, including without limitation a
21 consent decree identical to that applicable to Brian Chisick
22 under ¶ 2.4 (or on such other lesser inclusive terms as
23 acceptable to the States), the allocation of the Lloyd's Policy
24 reflected in ¶ 4.15 below and the releases contained in ¶ 4.3
25 hereof. In the event, Mr. Smith elects to be bound by this
2.6 Stipulation, but not to accept a consent decree, and agrees to
27 give the same release as Francisco Nebot is giving in ¶ 4.13
28

1 below, then he shall be released by all Plaintiffs other than the
2 State Attorneys General.

3 4.13 Except as set forth in ¶ 4.11, upon the Effective Date,
4 Francisco Nebot shall have fully, finally, and forever relieved,
5 released, and discharged the Related Debtors from the Generally
6 Released Claims.

7 4.14 Each of the Related Debtors, Brian Chisick, any other
8 party hereto which is or may become a holder of a Residuals,
9 acknowledges and agrees that the release by the Trustees of their
10 rights, title and interests in the escrow accounts established in
11 accordance with the terms of the Consent Agreement shall not be
12 or be construed to be or constitute a breach of trust or a breach
13 of fiduciary duty by the Trustees and each of the foregoing.
14 parties hereby fully, finally and forever releases the Trustees
15 from any and all claims arising in connection with the execution
16 and delivery by the Trustees of this Stipulation.

17 4.15 Plaintiffs agree that they shall have no interest in
18 the proceeds of the Lloyd's Policy except as provided in ¶¶ 2.7
19 and 2.9 hereof (the initial \$3 million payment and the residual,
20 if any, of that policy); the Related Debtors and the Individual
21 Defendants consent to the use of proceeds of the Lloyd's Policy
22 to the extent provided in the Supplemental Agreement to address
23 claims brought by persons who validly and timely opts out of the
24 Class, to the use of up to \$2.5 million of those proceeds to
25 reimburse Individual Defendants for attorneys fees incurred in
26 defending the Actions, and to the use of the remainder of the
27 Lloyd's Policy to defend, settle and pay any judgment in *Leon*
28 *Rasachack, et al., On Behalf of Themselves and All Others*

1 Similarly Situated vs. First Alliance Corporation, et al., Case
2 No 798083, Superior Court of the State of California, County of
3 Orange.

4 **5. Administration of Redress Fund**

5 5.1 The defendants shall have no responsibility for,
6 interest in, or liability whatsoever with respect to the Redress
7 Fund, including investment or distribution of the assets in the
8 Redress Fund, the determination, administration, or calculation
9 of claims from the Redress Fund, the payment or withholding of
10 taxes, or any losses incurred in connection therewith.

11 **6. Coordinated Plaintiffs' Counsel's Attorneys' Fees and**
12 **Reimbursement of Expenses**

13 6.1 Counsel for the Coordinated Plaintiffs (excluding
14 counsel for the official Joint Borrowers Committee) and the
15 National Association of Attorneys General may submit an
16 application or applications (the 'Fee and Expense Application')
17 for distributions to them from the Redress Fund for: (a) an award
18 of attorneys' fees; plus (b) reimbursement of expenses incurred
19 in connection with prosecuting the Actions defendants and their
20 counsel shall not challenge the amount, method for payment, or
21 distribution of such fees.

22 6.2 The procedure for and the allowance or disallowance by
23 the Court of any applications by any of the counsel to the
24 Plaintiffs and/or the National Association of Attorneys General
25 for attorneys' fees and expenses to be paid out of the Redress
26 Fund are not part of the settlement set forth in the Stipulation,
27 and any order or proceedings relating to such fees, or any appeal
28 from any order relating thereto or reversal or modification

1 thereof, shall not operate to terminate or cancel the
2 Stipulation, or affect or delay the finality of the judgment
3 approving the Stipulation and the settlement of the Actions set
4 forth herein.

5 6.3 Defendants and their Related Persons shall have no
6 responsibility for, no liability, and no ability to object
7 whatsoever with respect to, any payment to Plaintiffs' counsel
8 and/or the National Association of Attorneys General from the
9 Redress Fund.

10 6.4 Defendants and their Related Persons shall have no
11 responsibility for, no liability, and no ability to object
12 whatsoever with respect to the allocation among Plaintiffs'
13 counsel, and/or the National Association of Attorneys General,
14 and/or any other Person who may assert some claim thereto, of any
15 fee or expenses that the Court may make in connection with the
16 Actions.

17 **7. Conditions of Settlement, Effect of Disapproval,**
18 **Cancellation or Termination**

19 7.1 The Effective Date of the Stipulation shall be
20 conditioned on the occurrence of all of the following events, and
21 shall occur the first business day after the expiration of five
22 (5) calendar days after the occurrence of the last of these
23 events:

24 (a) An Order has been entered authorizing the Related
25 Debtors to enter into and consummate this Stipulation and such
26 Order either has become Final, or no part of such order has been
27 stayed pending appeal;

28