

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION**

Federal Trade Commission,)	Civil No. SACV 00-964 DOC (MLGx)
)	
Plaintiff,)	Consolidated With Cases:
)	SA CV 00-1174 DOC (MLGx)
vs.)	SA CV 01-139 DOC (MLGx)
)	SA CV 01- 306 DOC (MLGx)
First Alliance Mortgage Company, et al.,)	
)	
Defendants.)	
)	
In re First Alliance Mortgage Company, a)	Civil No. SACV 02-417 DOC
California Company, et al.,)	Chapter 11 Case
)	(Jointly Administered)
Related Debtors,)	
)	
And Related Actions.)	Civil No. SACV 01-971 DOC (MLGx)

**NOTICE OF PROPOSED CLASS ACTION SETTLEMENT
AND SETTLEMENT HEARING**

TO: ALL PERSONS WHO OBTAINED HOME MORTGAGE LOANS FROM FIRST ALLIANCE MORTGAGE COMPANY FROM JANUARY 1, 1992 TO MARCH 23, 2000.

**THIS NOTICE MAY AFFECT YOUR RIGHTS.
PLEASE READ IT CAREFULLY.**

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1. WHY SHOULD I READ THIS NOTICE?

The records of First Alliance Mortgage Company (First Alliance) show that you obtained a home mortgage loan from First Alliance between January 1, 1992 and March 23, 2000, the date First Alliance filed bankruptcy. If so, you may be eligible to receive a refund from a proposed Settlement of certain government and private lawsuits filed against First Alliance.

This Notice describes the lawsuits against First Alliance and others, your rights under the proposed Settlement, and the date and time of a public Hearing that will be held by the United States District Court to consider the fairness of the proposed Settlement. Although the lawsuits against First Alliance are proceeding in California, the proposed Settlement covers persons who obtained First Alliance loans anywhere in the United States.

2. WHAT ARE THESE LAWSUITS ABOUT?

These lawsuits were filed by the Federal Trade Commission (FTC); the States of Arizona, California, Florida, Illinois, Massachusetts, and New York; AARP; the Official Joint Borrowers Committee, and various individual borrowers, including representative borrowers suing on behalf of a nationwide Class (the plaintiffs). The lawsuits seek money damages and other relief from First Alliance and certain of its affiliates, officers and employees (the First Alliance defendants) for violations of the Federal Trade Commission Act, the Truth in Lending Act (TILA) and various provisions of state law. Some of the plaintiffs also seek relief from certain Trusts that purchased mortgage loans originated by First Alliance (the other defendants).

The lawsuits allege, among other things, that First Alliance deceived consumers by violating TILA and engaging in several unlawful practices, among them: representing that there were no points or fees on its loans, when in fact First Alliance charged loan origination fees ranging from 10% to 25% of the amount of the loan; representing that the amount borrowed was the amount financed, when in fact the total amount borrowed, and the amount upon which interest was charged, also included substantial additional fees and charges; representing that the interest rate on its adjustable rate mortgages would increase only with changes in the market index when in fact, it was a teaser rate that would increase one percentage point every six months for the first 18 - 36 months of the loan; and making unsubstantiated claims that consumers would save money when consolidating debts with First Alliance.

In defense, the First Alliance defendants contend, among other things, that they followed the law, complied with all disclosure requirements and disclosed all loan fees and terms both verbally and in writings signed by the borrowers.

On March 21, 2002 the plaintiffs and all of the defendants submitted to the Court a proposed Settlement of this action that would create a fund to return money to borrowers who obtained First Alliance loans between January 1, 1992 and March 23, 2000 (Class Members). The complete details of the proposed Settlement are contained in a settlement agreement (called a Stipulation of Settlement) between the plaintiffs and the defendants. The proposed Settlement must be approved by the Court to ensure that it is fair, reasonable, and adequate.

The proposed Settlement will only become effective if certain conditions are met, and it is approved by the Court.

3. WHO IS COVERED BY THE PROPOSED SETTLEMENT?

Anyone who obtained a home mortgage loan from First Alliance between January 1, 1992 and March 23, 2000.

4. WHAT ARE THE TERMS OF THE PROPOSED SETTLEMENT?

The following is only a summary of the terms and conditions of the proposed Settlement. For more information, you may obtain a copy of the settlement agreement by writing to Class counsel, whose names and addresses are listed in Section 9 of this Notice, or you may view the agreement on-line at <http://www.ftc.gov/bcp/online/edcams/famco/>.

The proposed Settlement will create a Redress Fund (Fund) for the benefit of the borrowers who are Class Members. The FTC will be in charge of the Fund, which is expected to include the following sums:

- A. Approximately \$60 million from First Alliance's bankruptcy estate, after deducting accrued accounts payable and reserves for certain administrative expenses yet to be determined.
- B. \$20 million from Brian Chisick, the Chief Executive Officer of First Alliance, and his wife Sarah Chisick.
- C. \$3 million from an insurance policy with Lloyd's of London held by First Alliance's officers, directors, and employees.
- D. \$1 million from certain insurers on behalf of the trustees for the mortgage loan trusts which purchased loans originated by First Alliance.
- E. Possible additional amounts once other lawsuits relating to First Alliance are resolved.

Certain amounts will be deducted from the Fund to pay non-borrowers in the bankruptcy case, attorneys fees and costs (see Section 11 of this Notice), additional compensation to be requested by certain borrowers (see Section 12 of this Notice), along with other reserves set forth in the settlement agreement. The total amount of deductions from the Fund is estimated to be between \$26 and \$28 million.

The proposed Settlement will only become effective if certain conditions are met, and it is approved by the Court. If the proposed Settlement is approved, the Court will enter a judgment releasing and discharging the defendants from all claims which were or could have been asserted by borrowers who have not requested exclusion from the Class.

A condition of the proposed Settlement is that the Court enter a Bar Order finding that the settlement has been entered into in good faith and providing that all non-settling defendants such as Lehman Brothers, Prudential and First Union are barred from asserting any claims against the defendants to recover losses or attorneys' fees in litigation arising out of or related to the business of First Alliance. In the event the Bar Order is overturned on appeal, the rights of the Class Members against all non-settling defendants such as Lehman Brothers, Prudential and First Union, will be affected.

5. HOW WILL THE SETTLEMENT FUND BE DISTRIBUTED?

The Fund will be distributed to borrowers who are Class Members according to a formula to be approved by the Court. In order to distribute the Fund among Class Members in a reasonable and cost-efficient way, attorneys for the plaintiffs have recommended the following formula:

If you are a Class Member you will be eligible for a refund of the loan origination fees you paid to First Alliance. However, if you previously settled a claim against First Alliance you may not qualify to receive a refund.

Plaintiffs Counsel expect that the total refunds due Class Members for their loan origination fees will exceed the amount in the Fund. In that case, Class Members will be paid on a pro rata basis, and will receive a refund of only a portion of their loan origination fee.

For example, if refund requests total \$220 million but only \$55 million is available in the Fund, a borrower who paid a \$10,000 loan origination fee on a single loan could expect to receive \$2,500, or 25% of the full amount of their loan origination fee. Joint borrowers, such as a husband and wife, will receive only a single refund. Borrowers who had more than one First Alliance loan will be eligible for a refund for each loan.

6. WHAT DO I NEED TO DO TO PARTICIPATE IN THE SETTLEMENT?

You don't have to do anything right now. Watch your mailbox for further notices from the Court or the FTC. However, if you change your address, please notify CPT Group, Inc. at 16630 Aston Street, Irvine, CA 92606, or FTC's toll-free hotline at 1-877-862-0886.

7. CAN I EXCLUDE MYSELF FROM THE SETTLEMENT?

Yes. If you exclude yourself from the Class, you will **not** receive any payment from the Fund and you will **not** be bound by the Order and final judgment which may be entered dismissing these lawsuits against the defendants. You will be free to pursue whatever legal rights you may have by pursuing your own lawsuit against First Alliance, currently in bankruptcy in the Central District of California, and against any other defendant at your own risk and expense.

To exclude yourself you must send a Request for Exclusion to the CPT Group, Inc. at 16630 Aston Street, Irvine, CA 92606. Your Request for Exclusion must be in writing and postmarked by **June 5, 2002**. To be effective, a Request for Exclusion must include: (a) your name, address and telephone number; (b) information identifying your First Alliance loan or loans, such as the loan number, date of loan, amount of loan, and address of the property; (c) a statement that you and all other borrowers named on your promissory note are seeking exclusion; (d) your signature and the signature of all other borrowers named on the promissory note; and (e) if you are acting on behalf of another person or entity, documentation (such as a power of attorney) sufficient to show your authority to act on behalf of that person or entity. If you request exclusion from the Class and you wish to pursue a claim against First Alliance, you will be required to file a proof of claim in First Alliance's bankruptcy case.

If you do not send in a Request for Exclusion, you will be included automatically in the Class and you may be eligible to receive benefits from the settlement fund. You will also be

legally bound by the proposed Settlement, including provisions releasing the defendants and others, as more fully described in the settlement agreement.

8. WHY, WHEN AND WHERE WILL A HEARING BE HELD?

The United States District Court for the Central District of California will hold a Hearing to decide whether to approve the proposed Settlement at **8:30 a.m. on September 9th, 2002**, in Courtroom 9D of the United States Courthouse, located at 411 West Fourth Street, Santa Ana, CA. There is no need for you to attend the Hearing if you simply wish to participate in the proposed Settlement. The purpose of the Hearing will be to determine (a) whether the proposed Settlement is fair, reasonable and adequate, (b) whether the applications by certain Plaintiffs Counsel for attorney's fees and costs should be approved (see Section 11 of this Notice), and (c) whether individual borrowers who have been personally involved in lawsuits against the defendants and certain of their affiliates, officers, and employees should receive additional compensation (see Section 12 of this Notice).

If you object to any aspect of the proposed Settlement, you may file a statement of the reasons for your objection with the Court, and you may appear and be heard at the Hearing on the fairness of the proposed Settlement. In order to have the Court consider your statement of objection, and to appear and be heard at the Hearing, you must, on or before **August 29, 2002**, file with the Clerk of Court for the United States District Court for the Central District of California, 411 West Fourth Street, Room 1053, Santa Ana, CA 92701-4516, a statement of the reasons for your objection, a Notice of Intention to Appear, and a statement that copies of such statement and notice were mailed by first-class or hand-delivered to:

Office of the United States Trustee
Arthur Marquis, Esq.
Office of the United States Trustee
411 W. Fourth Street, Suite 9041
Santa Ana, CA 92701-8000

Federal Trade Commission
Anne McCormick, Esq.
600 Pennsylvania Avenue, N.W.
Room S-4429
Washington, D.C. 20580

Attorneys to Creditor's Committee
David Stern, Esq.
Klee, Tuchin, Bogdanoff & Stern LLP
1880 Century Park East, Suite 200
Los Angeles, CA 90067-1698

Attorneys for JP Morgan Chase
Successor in Interest to
The Chase Manhattan Bank
Angel A. Garganta, Esq.
McCutchen, Doyle, Brown & Enersen, LLP
3 Embarcadero Center, Suite 1800
San Francisco, CA 94111

Attorneys for Class Plaintiffs
Susan Schneider Thomas, Esq.
Berger & Montague, P.C.
1622 Locust Street
Philadelphia, PA 19103

Attorneys to Borrower's Committee
Larry W. Gabriel, Esq.
Pachulski Stang Ziehl Young & Jones P.C.
10100 Santa Monica Blvd, Suite 1100
Los Angeles, CA 90067

Attorneys for Brian Chisick
Ronald Rus, Esq.
Rus, Miliband, & Smith
2600 Michelson Drive, Suite 700
Irvine, CA 92612-1043

Attorneys for Bank of New York
John S. Baker, Esq.
Brobeck Phleger & Harrison, LLP
38 Technology Drive
Irvine, CA 92618

Attorneys for First Alliance
Attn: Patty Nagley
Irell & Manella
840 Newport Center Drive, Suite 400
Newport Beach, CA 92660

Attorneys for MBIA
Katherine A. Carey, Esq.
Kutak Rock LLP
620 Newport Center Drive, Suite 450
Newport Beach, CA 92660

Attorneys for Wells Fargo Bank, N.A.
Theresa Brehl, Esq.
Post Kirby Noonan & Sweat LLP
600 West Broadway, Suite 1100
San Diego, CA 92101

9. WHO REPRESENTS THE PLAINTIFFS?

The Class is represented by:

Berger & Montague, P.C.
1622 Locust Street
Philadelphia, PA 19103

Law Offices of David B. Zlotnick
1010 Second Avenue, Suite 1750
San Diego, CA 92101

Jenkins & Mulligan
660 Market Street, 3rd Floor
San Francisco, CA 94104

The Federal Trade Commission; the States of Arizona, California, Florida, Illinois, and Massachusetts; and the New York State Banking Department are also plaintiffs in these actions, acting in the public interest. Steinbock & Hofmann, 60 South Market Street, Suite 1400, San Jose, CA, 95113, represents AARP and certain individual borrowers in private attorney general actions under California law. Pachulski, Stang, Ziehl, Young & Jones, 10100 Santa Monica Blvd., Suite 1100, Los Angeles, CA, 90067, represents the Official Joint Borrowers Committee. All of the attorneys who represent the various plaintiffs in these lawsuits are together referred to as Plaintiffs Counsel.

10. WHAT ARE THE PLAINTIFFS COUNSEL'S REASONS FOR SETTLEMENT?

Plaintiffs Counsel have conducted a thorough investigation relating to the claims and the underlying events and transactions alleged in the lawsuits, including inspecting many thousands of pages of documents produced by defendants, and taking depositions of numerous witnesses. After weighing the substantial benefits of the proposed Settlement against the costs, risks, and delays of continuing the lawsuits, the Plaintiffs Counsel believe that the proposed Settlement is in the best interests of Class Members and is a fair, reasonable, and adequate resolution of the lawsuits and the issues they present. First Alliance is in bankruptcy and has limited assets, which would be further reduced if the lawsuits continue.

Although the plaintiffs who brought these lawsuits believe in the merits of the claims presented in their lawsuits, the defendants have denied any wrongdoing and have raised various defenses, including, among other things, that they followed the law, complied with all disclosure requirements, and disclosed all loan fees and terms both verbally and in writings signed by the borrowers. No court has yet ruled on the claims or defenses.

11. HOW WILL PLAINTIFFS COUNSEL'S FEES AND EXPENSES BE PAID?

Reasonable attorneys fees and costs as approved by the Court will also be paid from the Fund. Plaintiffs Counsel seeking fees include Class Counsel, counsel for the individual borrowers and AARP, who brought private attorney general actions on behalf of all borrowers nationwide under California law, and the Attorneys General for the States of Arizona,

California, Florida, Illinois, and Massachusetts. Counsel for the National Association of Attorneys General (NAAG), who assisted the States in presenting their cases to the Court, will also be seeking fees. (The FTC and the New York State Banking Department are not seeking attorneys fees.)

These Plaintiffs Counsel and NAAG believe they are entitled to receive fair and reasonable attorneys fees and costs which take into consideration the time they have worked on the case and the substantial benefits their efforts have conferred on the Class and the public. Plaintiffs Counsel will submit their petition for fees and costs for consideration by the Court at the Hearing on **September 17, 2002**. The total of such fees and costs will not exceed the amount of \$15 million, or 20% of the Fund available for distribution to Class Members (before deducting attorneys fees and costs), whichever is less.

12. ARE ANY INDIVIDUAL BORROWERS RECEIVING ADDITIONAL COMPENSATION?

If approved by the Court, payments totalling in excess of \$1 million may be made from the Fund to certain individual borrowers, either as representatives of all borrowers, Class representatives, or individuals instrumental in initiating the lawsuits. The FTC may oppose these requests for additional compensation.

13. WHAT CLAIMS WILL BE RELEASED IF THE SETTLEMENT IS APPROVED BY THE COURT?

If approved by the Court, the proposed Settlement will be legally binding upon borrowers who obtained a home mortgage loan from First Alliance between January 1, 1992 and March 23, 2000 and who do not request exclusion from the Class. The proposed Settlement will release defendants and others from all known and unknown claims for damages and other relief (including cancellation, reformation or rescission of the loans) arising out of or relating to home mortgage loans obtained from First Alliance from January 1, 1992 through March 23, 2000.

The defendants and others being released include, without limitation: First Alliance Mortgage Company, a California corporation; First Alliance Mortgage Company, a Minnesota corporation; First Alliance Corporation, a Delaware corporation; First Alliance Portfolio Services, Inc., a Nevada Corporation, Brian and Sarah Chisick (and their family members), Patricia G. Sullivan, Jeffrey Smith, Salah Bastawy, Francisco Nebot, Bruce Bollong, Merrill Butler, George Gibbs, Albert Lord, Mark Mason, Todd Feldman, Jeffrey Phillips, Scott Gardner, Diane Clark West, Vanita Cillo, David Sproul, Ted Kegel, Howard Coleman, Chris Jensen, Tom Neate, Kelly Lee, Joe O'Laughlin, Steven Graber, Don Terry, Mitchell C. Horwitz, JP Morgan Chase Bank, as successor in interest to The Chase Manhattan Bank, Bank of New York, Wells Fargo Bank Minnesota N.A., Financial Security Assurance Company, MBIA Insurance Corporation, and the Mortgage Loan Trusts (and their Trustees) that acquired mortgage loans originated by First Alliance.

Claims and lawsuits brought against Lehman Brothers, Inc., Lehman Commercial Paper, Inc., Prudential Securities, Inc., and First Union National Bank are **not** being released by the proposed Settlement.

14. WHAT IF THE SETTLEMENT IS NOT APPROVED BY THE COURT?

If the proposed Settlement is not approved by the Court as being fair, reasonable, and adequate, the settlement agreement will be null and void and the plaintiffs will proceed to trial on their lawsuits. The plaintiffs and defendants could also attempt to enter into another settlement agreement.

15. WHERE DO I GET ADDITIONAL INFORMATION?

This Notice is only a summary of the proposed Settlement and does not describe all of the details of the settlement agreement. For complete details of the proposed Settlement, you may look at the settlement agreement (called a Stipulation of Settlement) and other papers filed in these lawsuits. The documents are available for inspection during regular business hours at the Office of the Clerk of the Court for the Central District of California, 411 West Fourth Street, Room 1053, Santa Ana, CA, 92701. Copies of the Stipulation for Settlement are also available upon reasonable advance request to Class counsel, whose names and addresses are listed in Section 9 of this Notice. You also may view the Stipulation of Settlement on-line at <http://www.ftc.gov/bcp/conline/edcams/famco/>. You also may call the FTC's toll free hotline at 1-877-862-0886.

16. WHAT ARE THE RELEVANT DATES?

If you simply wish to participate in the proposed Settlement you do not need to do anything now. You will receive further notification if the proposed Settlement is approved and the Fund is distributed. If you want to request exclusion from the Class or appear at the Hearing, these are the relevant dates:

- Deadline for mailing Request for Exclusion June 5, 2002
- Deadline for filing Notice of Intention to Appear August 29, 2002
- Date of Hearing September 9th, 2002

DO NOT CONTACT THE COURT.

This Notice provides only a summary of matters about these lawsuits. You may seek the advice and guidance of your own private attorney, at your own expense, if you wish. You may also contact counsel for the Class, the Arizona, California, Florida, Illinois, or Massachusetts State Attorney General's Office, the New York State Banking Department, or the FTC's toll free consumer hotline at 1-877-862-0886.

DATED: April 22, 2002

BY ORDER OF:

THE HONORABLE DAVID O. CARTER
THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA