

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF WASHINGTON AT SPOKANE

In re:

THE CATHOLIC BISHOP OF
SPOKANE, a/k/a The Catholic Diocese of
Spokane,

Debtor.

No. 04-08822

DECLARATION OF GLORIA Z.
NAGLER IN SUPPORT OF MOTION
FOR ORDER APPROVING
SETTLEMENT AGREEMENT

Gloria Z. Nagler hereby certifies under penalty of perjury under the laws of the State of Washington that the following is true and correct:

1. The Plan Trustee and the Reorganized Debtor have negotiated the Order Approving the Settlement Agreement ("Agreed Order") to obtain early payment of the balance of the Reorganized Debtor's obligations under the Plan proposed by the Reorganized Debtor and the Plan Trustee. The settlement described in the Agreed Order provides for early payment and discounting to the present value of the sums remaining due from the Debtor to the Plan Trustee under the Plan.
2. Final payment due under the terms of the Plan is currently scheduled for final payment in October, 2009. It appears that the Reorganized Debtor has timely and completely performed all of the Reorganized Debtor's obligations under the Plan, to date. This settlement between the Plan Trustee and the Reorganized Debtor, if approved by the court, would modify the Plan to reduce the Reorganized Debtor's remaining obligation

Declaration of Gloria Z. Nagler in Support of
Motion for Order Approving Settlement Agreement

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1 from \$1,000,000 to a discounted sum (approximately \$890,000), based upon the present
2 value of the receipt of payment in January, 2008 rather than in October, 2009. The
3 settlement will result in payment to matrix tort claimants with allowed claims being made
4 as early as February, 2008 rather than in October, 2009, about a year and a half earlier
5 than required.

6 3. The settlement is advantageous for the Plan Trustee, and the claimants entitled to
7 payment pursuant to the Plan. The early payment discount is based upon the present
8 commercially-available loan interest rate, and the actual rate being paid by the
9 Reorganized Debtor to borrow the funds from a commercial lender. No discount was
10 made for the Reorganized Debtor's loan setup or funding fees. Receipt of this payment
11 early from the reorganized Debtor allows the Plan Trustee to make a more significant
12 payment to matrix tort claimants with allowed claims in the early months of 2008 rather
13 than the end of 2009. There may be at least one additional distribution to matrix tort
14 claimants with allowed claims in two to three years, from funds not expended and no
15 longer needed for tax return work, indemnification purposes, etc.

16 4. If the final installment of the sums due from the Reorganized Debtor was paid to the Plan
17 in October, 2009, additional administrative costs for continuing to administer the Plan
18 would be incurred by the Plan Trustee. Delayed payment will prevent the claimants
19 receiving the funds until October, 2009, with no interest earned during the intervening
20 months. By receiving these funds earlier, the claimants will be able to invest or use the
21 funds much sooner. The counsel for a majority of the claimants have participated in and
22 concurred in the negotiation of this settlement. The Plan Trustee anticipates no
23 opposition to the settlement.

24 5. The loan obtained by the Reorganized Debtor requires that the Plan Trustee assign to the
25 Reorganized Debtor's lender the Plan Trustee's security interest in Our Lady of Lourdes
26 Cathedral, in Spokane, Washington. The deed of trust held by the Plan Trustee secures
27

1 the Reorganized Debtor's payment of the final \$1,000,000 owed by the Reorganized
2 Debtor, described in the Plan as Parish Note 3. This deed of trust is superior in priority to
3 the Future Tort Claims deed of trust, which secures an undetermined amount. The
4 existence of, and amount of, future tort claims compensable under the Plan will not be
5 known for an extended period of time, if such claims are ever made. By assigning the
6 deed of trust to the Reorganized Debtor's lender in exchange for early payment of the
7 Parish 3 note, there is a slight risk that the holding of the deed of trust by the lender might
8 give the lender an advantage over the Plan Trustee's holding and future foreclosure of the
9 Future Tort Claims deed of trust encumbering the same property. By such assignment,
10 the Plan Trustee would not control the timing of the foreclosure of the senior lien on the
11 Lourdes Cathedral, requiring the Plan Trustee to act quickly to cure the Reorganized
12 Debtor's possible default of the assigned Parish Note 3 obligation.

- 13 6. In order to minimize this slight risk, the Plan Trustee will request that the Reorganized
14 Debtor's lender execute an agreement to delay any foreclosure on the Lourdes Cathedral
15 in the event of a default, to allow the Reorganized Debtor and the Plan Trustee to sell
16 such assets, including the Lourdes Cathedral, as needed to realize for the Plan Trustee
17 and the lender the value of the Lourdes Cathedral without a distressed-property sale.
18 However, the circumstances that could give rise to this identified risk are contingent and
19 remote. The Plan Trustee believes the benefits of early payment, coupled with the
20 existence of significant other security for repayment of the Future Tort Claims, amply
21 justifies the slight added risk of losing control over the timing of the foreclosure of the
22 Parish Note 3 deed of trust, in the unlikely event that the Reorganized Debtor defaults in
23 its repayment. The court's approval of the settlement should not be conditioned upon
24 such an agreement being successfully negotiated and executed.

25 Date: December 27, 2007
26 Place: Seattle, Washington

/s/Gloria Z. Nagler
GLORIA Z. NAGLER, WSBA # 13176
Plan Trustee