UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF FLORIDA
JACKSONVILLE DIVISION

In re:

TAYLOR, BEAN & WHITAKER MORTGAGE CORP., CASE NO: 09-7047-3F1

Debtor.
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TRANSCRIPT OF PROCEEDINGS

Hearing re: Status Conference Pursuant to Section 105(D)(1), before the Honorable Jerry A. Funk, U.S. Bankruptcy Judge, commencing at 9:30 a.m., on July 7, 2010, at the United States Courthouse, Room 4D, 300 North Hogan Street, Jacksonville, Florida, as reported by Elizabeth M. Masters, RPR, and a Notary Public in and for the State of Florida at Large.

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P R O C E E D I N G S

July 7, 2010 9:30 a.m.

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THE COURT: Good morning. We're here today on the case of Taylor, Bean & Whitaker Mortgage, Motion for Relief from Stay by National Union Fire and a Status Conference under 105(D)(1).

MR. DANTZLER: Good morning, Your Honor, David Dantzler here for the debtor.

The Motion for Relief from Stay has been rolled, by consent, to the 16th, next Friday, believing that this time might be better used to walk the Court through the report.

THE COURT: Very well. That will be continued until Friday. It's announced in open court, no further notice need be given.

So are you ready to begin?

MR. DANTZLER: I am, Your Honor. Are you ready?

THE COURT: Well, yes, I just got this. If you had given it to me a week ago, I would be more prepared.

MR. DANTZLER: I've got some slides that may help us all.

THE COURT: Thank you.

MR. DANTZLER: Your Honor, we have, after ten months, completed the reconciliation processes that were first described back last September. And it does mark an important milestone in this case.

As the Court, I'm sure, well remembers, there was a fair amount of chaos when this case was first filed, and we believe this will bring a fair amount of clarity and order going forward. It's our hope that it provides a factual basis for the resolution of legal issues relevant to this case and that it is a fundamental step in proposing a plan and concluding the case.

And before I take the Court kind of through the highlights, I would just like to make a few points.

One, the facts, as I'm sure you can appreciate, are very complicated. By trying to simplify them for the purposes of this presentation, I don't mean to imply to the Court or anyone else that there might not be some other fact that's not discussed today that can be important to some issue that ultimately needs to be resolved. This is a summary, it's just the highlights.

It's also possible that additional specific facts might come to light in the future, but it is our judgment that it is highly unlikely that they will affect the fundamental findings set forth in the report.

I'm going to apologize in advance, this is not an easy story to tell. It was not an easy story to investigate. The facts are not linear, and they are not necessarily logical. There are many moving parts at this company.

And while the report is organized by subject matter, and I plan to take the Court through it in, roughly, that order, that's not the way that the company necessarily operated at all times, it's certainly not the way that the reconciliation processes were conducted. The reconciliations were dynamic processes that evolved as facts were developed and we gained a better understanding of how the company operated.

It's also important to highlight for the Court that we did not endeavor to answer every question that we found interesting, and there are many here. We endeavored to stay focused on the issues that were fundamental to the bankruptcy case. And, quite importantly, the principal focus of these reconciliations was the company, or the status of the company, at the time that it collapsed in early

August. And we've only gone so far back in time as was necessary to put those facts in context.

From the debtor's perspective, this status conference is intended only, but importantly, to provide the Court and other interested parties with an overview which we hope will be useful in moving this case forward.

To save us all a lot of time, let me just make clear at the beginning that this presentation is not intended to estop any party. All rights are reserved subject to proof, all stakeholders' rights as well as the debtor's rights.

Now, Judge, I don't plan to take you through all 80 or 90 pages of the report. I don't plan to tell you things that you already know about the history of this case, though I think some context is important in order to understand the fundamental findings that are a part of this reconciliation.

So if we go back to August of 2009, which is when the company collapsed. Just as a reminder, search warrants were issued on August the 3rd at both Taylor Bean's headquarters in Ocala and the Warehouse Lending Group of Colonial Bank.

The very next day, FHA, Ginnie Mae and Freddie Mac sent notices of either suspension or termination of Taylor Bean's rights to originate mortgages and service those mortgages.

After an overnight appeal was denied, the company was unable to transact its business. To complicate things, on August the 5th, Colonial Bank instituted an account hold which, in effect, trapped hundreds of millions of dollars in accounts used by Taylor Bean in the conduct of its business.

On that same day, because of the prior day's actions, the vast majority of the company's 2,500 employees were laid off. And during that same week, states began to file regulatory actions seeking to suspend, on a state-by-state basis, the company's licenses.

And then finally, on August the 14th, Colonial Bank was closed, and the FDIC was appointed as receiver.

For a variety of reasons, it took several weeks before the petition was filed. The petition was filed in this case on August the 24th. A new board and CRO was appointed. Accounts were opened at Regions Bank, both before and after the filing of the petition.

The servicing for more than 512,000 loans was transferred to new servicers. And all the while, as the Court, I'm sure, remembers, borrower issues were escalating. People's money was hung up. Payments were coming in, checks were not getting to the right place. It was a mess. It was critically important for them to bring order to the case.

In the very beginning there was lots of back and forth, cross-motions of all kinds filed between us and the FDIC, which ultimately resulted in the stipulation with the FDIC-Receiver, which, in effect, defined the interface between the insolvency proceeding in this Court of Taylor Bean and the statutory insolvency regimen for a bank and FDIC receivership.

And in relevant part to today's proceeding, that stipulation defined and, in effect, required the debtor perform a servicing reconciliation which was focused on, in effect, the trapped money as a result of the collapse, and then an asset reconciliation.

In the very early days of the case, it was clear that there were competing claims of ownership of certain mortgage loans. And there was a reporting requirement. I was reminded that when we first -- when we looked at the stipulation again, we had first thought we might be able to do this in six weeks.

And our first reporting date, or our hoped-for reporting date, to provide you with the information that we are going to provide today was the end of October 2009. As you know, we have filed two interim reports. But now, today, marks the end of the process.

But the reconciliations, we learned very quickly, were more complicated than first expected. There was an enormous amount of data that had to be compiled, analyzed, and, in effect, managed.

We had limited access to employees for a variety of reasons: they had been laid off, many were getting on with their lives, and there was the ongoing criminal investigation.

We were confronted with a company that had outgrown its systems by a long shot and there was no comprehensive, as a lawyer would call, finance and accounting collateral inventory system that we could go through that provided a comprehensive look at the business, its assets and its use of money.

Borrower issues were identified throughout the course of the reconciliation which resulted in a borrower protocol which this Court approved earlier this year.

Throughout, we have had extensive interaction with the FDIC, who has been invaluable, quite frankly, in portions of this process.

And we've also had ongoing conversations and dialogue and information exchanges with certain of the stakeholders who have information or who will be affected by the facts as they pan out.

During the course of the reconciliations, we built databases, and these have ultimately become the sources of information that we turn to to answer questions or to compile information that's being presented today.

Kind of fundamentally we built a lookup database, is what we call it, which is the information with respect to kind of -- the important information with respect to every individual loan serviced by Taylor Bean since January 1, 2007.

I want to make one point clear for the Court, because I've said numbers of times that -- something to the effect and certainly have given the impression that the records at Taylor Bean were unreliable and that they were a mess and it was a disaster.

I think that as we have worked through this, we have come to believe that the servicing system, whose fundamental component is a computer software system known as FICS, was reliable. When you have an organization this size, there are going to be human errors. But the more we have worked with that information, the more we came to believe that FICS and the servicing records were reliable.

And so that forms the basis of this lookup database which has been supplemented and adjusted especially with respect to the facts that occurred as the company collapsed. So we believe we have good and accurate information regarding all of the loans.

Other databases have been built, both relating to the servicing reconciliation and the asset reconciliation. And then we've also built a large electronic evidence database that contains more than 2 million records. These are primarily e-mails and attachments to e-mails. Together, though, these have provided a lot of information that's been used in the course of the reconciliations.

It's important to note that throughout this process, as I said, there has been an ongoing criminal investigation. That has been one of the reasons we've had limited access to a number of key employees.

As I'm sure the Court is aware, Mr. Farkas, the chairman and primary shareholder of Taylor Bean, was in indicted in June -- that indictment was unsealed on June the 16th -- and charged with securities fraud, wire fraud, bank fraud, and conspiracy. And in the indictment, co-conspirators both at Taylor Bean and Colonial Bank are referred to.

I want to make clear for the Court that the issues as laid out by the government in that indictment, and the issues that we've looked at in especially that asset reconciliation, intersect at certain points, but they're not absolutely identical.

And we have not endeavored to act as law enforcement. We've endeavored to reconcile, not figure out -- and we have stumbled across lots of facts as you might imagine. But we have not tried to figure out who knew what about what on a given day. We have not endeavored to discover the historical conduct of all of the employees at Taylor Bean. The government is doing that and others may.

All right, with that, Judge, I'm just going to turn now to set the table for the reconciliation.

At its core, Taylor Bean's business had three large operations or business units. It really had more units than that. But its business functions were to originate, which would be to underwrite, and finance individual mortgage loans at the closing table for individual borrowers, then to take those loans, bundle them, and sell them in the secondary market to investors.

And they, in large part, sold one of two ways. Most of the loans were sold in bundles that went to support -- kind of the income stream from the bundle of loans, the pool of loans, went to support the ultimate issuance of mortgage-backed securities.

The other kind of sales transactions -- they would sell to issuers of mortgage-backed securities, in the simplest form. The other sales transaction was just a straight-out sale of pools of mortgage loans. So whole loans is just the straight-out sale, and then selling into trades, that's the collateral for the issuance of mortgage-backed securities.

And then as the loans were sold, Taylor Bean's objective in most instances was to sell the loan but retain the rights to service, which meant to deal with the borrower in the collection of the money and to deal with the investor in the payment of the money, making sure taxes and insurance get paid. And ultimately, when there was a default, manage that default and foreclosure process. And all of these processes were well underway and robustly underway at the time of Taylor Bean's collapse.

Just to kind of give you a sense of the last five years of this company, it experienced, literally, exponential growth. In terms of the number of individual mortgages originated, in 2004, it originated just over 59,000 loans; it peaked in 2007 at just over 195,000; in 2008, 184,000; and at the time of its collapse, it was generating about 14,500 loans per month in new originations at a rate of about $2.7 billion a month in new financing.

At the same time, the servicing was growing in the same way. By way of comparison, in 2004, the company was servicing just over 73,000 loans, having an unpaid principal balance cumulatively of

$10.5 billion.

By 2009, the time of the collapse, more than 512,000 loans, with an unpaid principal balance cumulatively of about $80 billion.

And the one thing that at least is interesting to me and, I think, adds some context is as Taylor Bean was literally growing at an unbelievable pace, many of its competitors were collapsing as the mortgage market collapsed. The commercial paper market crashed in July, August 2007. By the end of 2008, Lehman Brothers had filed bankruptcy. Lots of those big issuers of mortgage-backed securities had been acquired or fallen by the wayside.

So this company was basically picking up the pieces as other people were falling, and that is -- and they were just blowing and going. And they were blowing and going on July the 31st. And then the FBI showed up on August the 3rd, and it came to a screeching halt and it caused lots of money to be affected and caught up. And that is what the servicing reconciliation really is focused on.

The servicing reconciliation, as it was ultimately unfolded, involved three components. I'm just going to walk you through each of those components.

But first, I think I've tried to describe this for the Court before, but Taylor Bean, in effect, collected borrower payments in a variety of ways: checks were mailed directly to the company, checks were mailed directly to Colonial Bank in a lockbox, funds were -- or payments were made electronically by wire and ACH, and then there were a whole host of other kind of Internet and telephone methods of payment.

But all of those borrower payments ultimately were collected in the Custodial Funds Clearing Account, the big account at Colonial. And then, on a daily basis, in effect, yesterday's deposits would be pushed down to P&I, principal and interest accounts, and T&I, tax and insurance accounts, maintained on behalf of the investors. And there were probably a hundred, close to a hundred, of those accounts.

And so every day, money is deposited. The next day, that money is pushed down and new money is coming into the CFCA.

From the investor P&I accounts, money is paid to the investors as scheduled, usually monthly; and from the T&I accounts, tax and insurance payments are made on behalf of the borrowers when they're due.

And then the other -- as I have said, the other piece of the servicing business that is involved and that the money certainly touched was the management of foreclosed homes, some of which Taylor Bean managed all the way through the sale after the foreclosure and dealt with the proceeds of those sales.

As I have said, all of this process was in place when the administrative hold was released -- when these accounts were locked down on August the 5th. And it is the result of that lockdown and the subsequent payments coming in -- the payments that were trapped and the payments that kept coming in that have been the overall focus of the servicing reconciliation.

And what we have done is determined now that there was $860,642,822 in gross affected funds. That's the amount of basically borrower money, borrower-related money, that was affected when this company collapsed.

As I have said earlier, that involved over 512,000 loans, it involved over 400,000 transactions. And, Judge, we've been able to reconcile -- and I say "we." Really, the team that did it is sitting right over here; I just watched them. But we have reconciled, out of that $860,000,000 million, all of it, save $234,000. It's all been allocated, which is remarkable. And since I didn't have anything to do about it, I can brag about it. It is a remarkable undertaking. Thousands of hours devoted to this.

That allocation and the treatment of that $860 million is set forth in Table 1 that's on page 33 of the report.

Now, this gross affected funds include monies currently on deposit at Colonial or at Regions, monies that were transferred to investors postpetition. I don't know if you will recall, but there were thousands of checks in the lockbox at Colonial in the early days. And ultimately, when the stipulation was entered, those went over to the investors and their subsequent servicers.

As a result of the borrower protocol which this Court approved, about $25 million was approved to go over. And that continues to be in process. And I'll give you a little update on that later.

And then there were a very large number, tens of millions of dollars, in uncompleted payments.

And by that I mean, the electronic payment had been initiated in a borrower's account but had not landed in a Taylor Bean account by the time the administrative hold was implemented.

There's been lots of dialogue with investors and subsequent servicers about this. But one of the points that needs to be made for the stakeholders, this is one place where borrowers may be getting credit for a payment that was not actually received because the money never came out of their account. But because of the way this happened, in the servicing system, that was treated as a payment because the draft was initiated.

These gross affected funds do not include a substantial amount of money that was transferred by Colonial principally after August the 4th to Ginnie Mae and Freddie Mac out of P&I accounts maintained at Colonial. It also does not -- and that's hundreds of millions of dollars.

It also does not involve or include borrower payments that came to Taylor Bean after servicing had been transferred and that check was simply sent on to a subsequent servicer. A lot of money, is the point, was affected here.

Today, the net affected funds, what's on deposit, is about $396 million. $242 million is at Colonial, $148 million is at Regions, and $5 million is at Seaside.

Table 2, on page 35, indicates the accounts at Colonial in which the money is located, the vast majority of which is in that Custodial Funds Clearing Account, that first account into which borrower payments were deposited.

The Regions account, most of the money is in P&I and T&I accounts that have been maintained at Regions.

There's about $10 million in REO sales proceeds that relates to REO that may be owned by investors.

So with respect to how much is the debtor holding in terms of true cash that has been allocated to these investors, it's, in effect, $396 million. Well, the debtor is only holding about $153 million. $242 million is at Colonial Bank under the jurisdiction of the FDIC-Receiver.

That's very simplified. It was an enormous amount of work.

At the same time, we needed to figure out what Taylor Bean's books said should have been in the bank and compare that to what was in the bank.

We've called that the book-to-bank reconciliation. And in effect, what we have determined was that there was a $25-million shortfall. There was $25 million less in the P&I and T&I accounts of investors than Taylor Bean's books said should be there.

About $5.6 million is in P&I accounts, primarily Ginnie Mae and Freddie Mac. About $19 million, the vast majority of this shortfall, is money that is not in T&I accounts.

Taylor Bean had a business practice that can now certainly be second-guessed. Even though they collected escrow money, T&I escrow money, at closing, that money that was not deposited into an investor's T&I account until the money -- until the loan was sold, the money was just brought in.

The story then today is that this company is way behind. I'm sure they would have figured out a way of -- and we're going to get to that before it's over -- how to fund that $19 million. But when the curtain came down, the $19 million wasn't there.

So that explains most of the shortfall. And then there's $462,000 in shortfall and EDCA -- and that's escrow disbursement -- checks written, but there's no money to support the check.

Now, this assumes that we will recover all $5 million at Seaside Bank, which is also EDCA money. We've made a demand letter. The check is not forthcoming yet. We continue to be in discussion with them. If for some reason all or a portion of that $5 million doesn't come back, this $462 million will -- $462,000 number will go up proportionately.

Table 4, on page 40, provides all the details of the shortfall and allocated among all of the investors.

As you can see, the biggest shortfalls occurred with Ginnie, Colonial, Freddie, and Bank of America, and then the others account for about four point -- all of the others combined account for about $4.7 million.

So step two of the servicing reconciliation, the book-to-bank, it reveals a $25-million shortfall.

Then, finally, we look at where the company stood vis-a-vis investors with respect to servicing advances. So I'll stop and give you a little more tutorial about the way servicing works so that you can understand the punch line here as well.

We have just created an example here, Judge. Taylor Bean, as a servicer, its contract with most of the investors provided for what's called scheduled scheduled payments. And what that means is, if an investor's mortgage borrowers are scheduled this month to make $125 million in payments, Taylor Bean's got to make $125 million payments no matter what, so that they have to cover late payments and defaulted payments. And over the course of time, if a loan is in default, it takes, I've learned, a very long time to go from that first missed payment to foreclosure. And all the while, Taylor Bean has to cover those payments. It takes a lot of cash to do that.

But there's one of the programs that Freddie requires only -- and it's called scheduled actual, I think -- it requires only that Taylor Bean make the interest payment. And because all of these are new loans, the interest component is, you know, virtually the entire payment.

So just by way of example -- and this is how the advance should work -- Taylor Bean -- and we picked Freddie Mac here. And as I've said, by way of example, owes Freddie Mac on payment day $125 million. And that $125 million has to be in

Freddie's P&I account.

Well, those people in investor services who are responsible for making sure Freddie gets their check monitors that P&I account. And having done this for a while, they conclude, in the days leading up to the payment day, there's only going to be $90 million in the account. So by payment day, another $35 million has to come in or Freddie, in effect, shuts them down.

You know, it's a grievous default with any of these investors to miss a payment or to be late on a payment.

So the way this is supposed to work is that Taylor Bean, using corporate funds, advances that $35 million. Freddie takes the money. Going back to the original idea of these payments coming in every day and being pushed down into the account, Taylor Bean repays itself that $35 million out of the next $35 million that's deposited into the Freddie P&I account so that that -- and the way I -- the hole is dug, it gets filled, but it gets dug immediately again. And that happens month after month after month with respect to all of these -- to all of these investors.

Now, what we have learned -- and I'll get into this -- is that not every advance was repaid in the ordinary course as I've described it here. And we'll talk about that some more at the end.

But as a general rule, this is the way the process would work. But at all times, Taylor Bean is a creditor, for lack of a better word, and is owed money on these advances subject to the contracts. And as I say, I'm not trying today to adjudicate anything.

But the point is, Taylor Bean has advanced money to investors in the same way they advanced T&I money. You know, if you don't have enough money in your escrow or you're in default and taxes are due on your house, Taylor Bean has got to pay it. And the same with your insurance.

So this takes an enormous amount of money. And in fact, Taylor Bean had working lines of credit over time that they could draw on to make these -- going back in time that they could draw on to make these advance payments.

What we've done now is worked through where is the company vis-a-vis these advances. And it's laid out in excruciating detail, or at least in summary, in Table 5 on page 43 of the report.

But the punch line is that, as of August 4th, when all this came tumbling down, the company had cumulatively put out almost $238 million in advances for which it had not been reimbursed. And that included $71 million, roughly, in P&I advances, and that would be payments directly to investors; $116 million in T&I advances, making those tax and insurance payments; and then what we've called corporate advances of almost $39 million.

Once the foreclosure process starts, Taylor Bean also had to fund those expenses, the lawyers, filing fees, advertising, whatever. And then with respect to certain contracts, I think Freddie and Ginnie in particular -- it's there in the table -- there were other kinds of advances required over time.

There was also, at the time that the -- that loans or the servicing was transferred, in August and September of 2009, there were fees owed to Taylor Bean for the servicing that had been done of approximately $39.5 million that had not been paid at the time that the servicing was transferred.

We've been able as a result of -- and I want to be clear about this. This is not using borrower money. These are like insurance premium refunds and things like that.

During the course of the case, we've been able to recover about $13.5 million of the $237 million in unreimbursed advances, or the $39.5 million in fees, leaving a cumulative balance of unreimbursed expenses -- of unreimbursed advances and unpaid servicing fees of about $264 million. And not surprisingly, some of the biggest investors are those -- are where those advances and fees are allocated. And we've provided you with a chart there.

But as you can see, almost all are advances to, or on behalf of, the Wells Fargo Trust, Freddie, Ginnie, Bayview, and the loans serviced for Colonial.

So that's step three of the servicing reconciliation. In sum, $186 million was trapped; there's a $25-million shortfall in those -- in some of the custodial accounts; there are unreimbursed and unpaid servicing advances -- unreimbursed advances or fees totaling about $264 million; and all but $234,000 has been allocated among the investors.

And we feel like we've got this locked down, you know, very, very well. And there are mountains of information supporting, obviously, these allocations.

Judge, I would like to take just a minute -- and it's in the report -- you'll be interested -- and this is for many of the stakeholders here, to provide just a brief moment on an update on the borrower protocol and where we are on that.

Most investors opted into the protocol. Checks are, we think, beginning to actually go back to borrowers. With respect to that problem where there were two loans, two mortgages on the same house, the four investors, the three or four investors, who were affected and who, in that circumstance, have all opted in, we're working on resolutions there.

We do continue to field questions from borrowers. Thankfully, we're seeing the results from the protocol and that number is going down.

But in the course of buttoning up the reconciliation, we've identified a number of new issues. And they're described on pages 46 through 50. Now, these don't require, thankfully, additional money. But it's things like a borrower who made payment, but that monthly payment is trapped at Colonial Bank and the servicing record doesn't show it as paid and they've taken a ding on their credit report.

The problem that I described for you earlier where maybe the credit -- or where the servicing record shows that a draft, an electronic payment, was made, but it was not received, some of those kinds of individual adjustments in individual borrower's records need to be made. And the issues that are most affected there are highlighted, the new issues, at pages 46 through 50.

This will require, obviously, continued collaboration with the affected investors and, ultimately, they and their servicers will need to deal with the borrowers on that.

All right, Judge, I would now like to turn to the asset reconciliation. And this began as what we thought was a simple exercise to look at the status of a certain bucket of loans. And "ballooned" may not be the right word, but it certainly evolved in a way that there were a lot more facts and lots more circumstances that required investigation and, ultimately, reconciliation that flowed from what we were doing.

Going back to -- we thought -- our entire focus so far has been on servicing. Well, now, we will go and talk about that part of the business where they fund loans and sell loans. And remember, they're doing this in big buckets, in big pools, of loans.

As of July 2009, and over the long course of the history of this company, and especially in some of the go-go days between 2004 and now, there were a whole lot of other funding sources out there that we've looked at in other contexts.

But when the music stopped, Taylor Bean's sole source for funding individual loans at the closing table -- that's known as wet funding, before all the documents are dried and where they're supposed to be to perfect the security interest -- the only source was what's called the COLB line at Colonial Bank.

And because Taylor Bean was in the business of making loans before they could sell them and service them, it was important to keep that COLB wet funding capacity available.

So what would happen is, is a loan would be funded on COLB, and then it would dry. All the mortgage files, security files, whatever, promissory notes, come first to Taylor Bean and then ultimately make their way to Colonial Bank in Orlando. The loan is dry, it's eligible for sale.

Well, pools are being compiled, trades are being issued, you know, devised and issued, securities, all that kind of stuff at work. But they need to get it off the COLB so they can have that wet funding capability.

So they had three interim funding sources. There was an assignment of trade facility at Colonial, which is where dry loans, once sold into a trade, could, in effect, be placed, drawing or selling, as they were designed, with the proceeds being used to then pay down or pay the COLB, purchase the balloon off of the COLB.

But there was a Bank of America early purchase facility which first came online in March, March 31 of 2009, a similar kind of facility. And then there was Ocala Funding, which was a bankruptcy remote sub of Taylor Bean.

THE COURT: Excuse me.

MR. DANTZLER: Yes, sir.

THE COURT: COLB had no money in that account?

MR. DANTZLER: That's not an account, Judge, it's a line -- it's not a line -- it's a participation facility, is what they call it.

THE COURT: When they did a closing --

MR. DANTZLER: When they did a closing, your borrower --

THE COURT: -- they sent a check to the closing agent --

MR. DANTZLER: Yes.

THE COURT: -- who paid off the seller, if that's the case, and the old mortgage --

MR. DANTZLER: Right.

THE COURT: -- and that was all done.

MR. DANTZLER: Right. The money came from the COLB, that money was drawn on the COLB.

THE COURT: All right.

MR. DANTZLER: And the way the documents worked, at closing, Colonial takes a 99 percent interest in that loan and Taylor Bean has a 1 percent interest. But the loan is in the name of Taylor Bean, because they're managing the process.

THE COURT: Right.

MR. DANTZLER: Okay. And the loan ultimately makes it way to Colonial Bank, in Orlando, once it's -- when I say "the loan," the papers, the package.

And then when that loan is sold, or eligible for sale, it gets moved to one of these interim funding facilities so that, either by purchase or loan -- and all of these were supposed to work out as purchase facilities. So it would be purchased off the COLB, proceeds would be drawn on the interim funding source to pay Colonial for the COLB advance, and then ultimately sold into mortgage-backed securities issued by Ginnie Mae -- or insured by Ginnie Mae, not issued, insured by Ginnie Mae, Freddie-Mac-issued securities, whole loan sales to Freddie Mac, and then either private label security issuances or purchases to others like Wells Fargo and Bayview.

And that arrow at the bottom, there was occasionally a sale directly off the COLB to the end investor, or takeout purchaser.

But typically, a loan moved from the COLB to one of the interim funding sources, then to the takeout buyer. And the money should flow back exactly the other way. When it goes to the interim source, the draw there should pay off the COLB. When it moves from the interim funding source to the takeout buyer, the purchase proceeds should be used to pay the funding source.

The one that provides kind of the most

interest and has the most issues associated with it -- and I guess you will decide at the end which one is the most interesting and has the most issues associated with it -- but certainly the one that received the most attention in the beginning was Ocala Funding.

Ocala Funding was a Taylor Bean subsidiary. It was a bankruptcy remote, an LLC, but Taylor Bean was its managing member. It was formed in 2005. It issued short-term promissory notes, which were called secured loan notes, which one would think -- and I think under the documents it required that they be secured by collateral. But these were, in general, 15- to 45-, 60-day notes over the course of time.

LaSalle Bank was originally the indentured trustee, the collateral agent, and custodian of the collateral for the Ocala Funding commercial paper facility that's now been acquired by Bank of America.

It started issuing notes in 2005. By June of 2007, it had $4.4 billion in issued and outstanding secured loan notes. Virtually all of the purchasers of these notes were large financial institutions.

As I mentioned earlier, the commercial paper market crashed in August of 2007. And by October of 2007, Taylor Bean had paid down or purchased -- you know, a lot of this they purchased, redeemed, or rolled. Well, between August of 2007 and October of 2007, they redeemed for cash $2.8 billion in notes so that it was not this -- the crash had a great affect on this facility.

And ultimately, the facility was restructured, as of June 30, 2008. Bank of America, formerly LaSalle, remained in its role as indentured trustee, collateral agent, and custodian. However, now there were only two investors, Deutsche Bank and BNP Paribas.

Originally, Ocala Funding permitted the use of the proceeds of the loan -- of the note sales was to fund wet funding. That was changed so that they could only invest in dry loans, which means they were purchase loans, and purchase them for resale.

The capacity was affected and reduced from that $4.4 billion down to a maximum capacity of $1.75 billion.

Now, at the time of the restructuring, Judge -- and this is one of the things that I want to make sure that you get -- at the time of the restructuring, there was $962 million in issued and outstanding paper on a line that now had a $1.75 billion capacity.

We now know today -- and there's no evidence that any of these investors or Bank of America knew then -- but we know now that as of that date, between the loans and the cash on hand, there was only $250 million in collateral, so that Ocala Funding, on the date of the restructuring of the commercial paper facility, had a shortfall between amount owed and collateral of $712 million.

And on June 30th, Deutsche Bank and BNP Paribas purchased $783 million in new notes, and that cash came into the bank accounts of Ocala Funding, at LaSalle, now Bank of America, on that day, on June the 30th.

From that day forward -- and again, I'm giving you the highlights in summary form -- but from that day forward, no new cash came in from investors. Those notes were rolled, in effect, every month. So it was always the maximum capacity. And notes would be rolled every month.

And the way that that would work is that there would be -- Taylor Bean managed all the business affairs of Ocala Funding. And Taylor Bean would, in effect, every time new paper was issued, there would be a collateral check. And if there was enough collateral in the information that they provided the trustee, Bank of America, the notes could be rolled. Interest would be paid and that kind of thing, but the notes could be rolled.

And that process occurred month after month after month, and had been occurring throughout the remainder of 2008 and 2009, until the bankruptcy was filed.

Now, it's important to understand kind of how this relationship between Colonial, Taylor Bean and Ocala Funding and the bank and the trustee worked.

First, looking at how loans were treated. As I told you, these wet loans that are funded ultimately make their way to the Warehouse Lending Group at Colonial. And then Taylor Bean is arranging for the sale of loans, in our vernacular, off of the COLB to Ocala Funding.

And when that sale occurs -- and remember, these are going in box loads, not one folder at a time -- but when loans are sold, they are then shipped from Colonial -- and this is a prior loan -- they are shipped from Colonial, who is the owner of the 99 percent interest in the loan, to LGTS, LaSalle Global Trust Services, that kind of corporate trust department, as I understand it, or that trustee-type facility or capacity.

LGTS takes receipt of the loans. And we're informed that a bailee letter would accompany the loans from Colonial to LGTS. LGTS, as we understand it, when a loan comes in, if it qualifies as collateral, all the papers are there and it meets whatever requirements for the facility, they log it in to their inventory system as being on hand. And what that means is good loan, eligible for collateral, in the possession of LGTS.

Well, what's happening at the same time, remember, Ocala Funding is merely an interim funding source. So literally, even as Taylor Bean is arranging for this interim sale to Ocala Funding, they're selling the same loan to another purchaser, to an ultimate takeout buyer, the investors.

And so the loan stays at LGTS for only a very short period of time. LGTS then sends the loan, at the direction of Taylor Bean, to the custodian of the acquiring investor.

Again, as we understand it, it's subject to a bailee letter. Attached to the reports are copies of each of the bailee letters going for both of those lines. We've not determined if there's one for every single loan. That didn't seem necessary to what we were doing.

But what complicates this by a lot is that Colonial and their corporate trust group was the custodian for Freddie Mac and by far and away the biggest purchaser of Taylor Bean loans. So the loan goes across from Colonial to Ocala Funding, but to its custodian, LGTS, who takes it in as collateral.

That loan is sold. If it's sold to Freddie Mac, it goes back from LGTS to Colonial two or three floors down in their corporate trust department. And when LGTS releases that loan with the bailee letter, in their collateral management system that's changed to active release, which, as we understand it, means it's still our collateral until we get paid, the bailee letter.

So what's happening at LGTS, it's compiling a long list of loans that are either on hand or on active release that serve as collateral for the Ocala Funding commercial paper facility.

Now, what's supposed to happen with the money is -- what's really supposed to happen is that when the loan gets to LGTS and it's confirmed as being good collateral, Ocala Funding ought to pay Colonial for it.

I'm sure you'll be surprised to find that didn't happen. They got behind. And what the flow of money became was that as Ocala Funding -- as loans that had been shipped to LGTS were being sold -- again, all managed by Taylor Bean -- purportedly from Ocala Funding to these other purchasers, then the money would come into the bank accounts at Bank of America, the Ocala Funding accounts, and that money should have then been paid to what's called the Investor Funding Account at Colonial, which is where you would pay Colonial, basically, on the COLB. That's the way that the money should have flowed.

When the events of early August occurred and Taylor Bean was in the news, Colonial was collapsing, Taylor Bean is collapsing, it appears that the Bank of America, or LGTS, took stock of the collateral it had on hand, loans and cash. And it's our understanding, based on the work that we've done and the information that they've provided, that actually in the physical possession of LGTS when this fell apart was collateral with a value of less than $165 million.

They went to their collateral list, and it appeared that there were 7,883 loans on active release to Colonial Bank. They had been shipped there, but they had no evidence of payment. And that resulted in a lawsuit by Bank of America against Colonial Bank basically of those 7,883 loans.

And the gist of the lawsuit, as I understand it, is you have our loans, our collateral. Either give us the loans or give us the proceeds of the sale of those loans.

A TRO was -- I don't have the exact -- I think I've got this right, but I'm not positive. A TRO was entered by the district court in Miami about the same time that Colonial Bank failed and the FDIC receivables point. And they have continued to work through that litigation, thankfully outside of this proceeding.

But those 7,883 loans, I'm sure you will remember Mr. Zaron, on more than one occasion, coming in here and expressing grave concern on behalf of Bank of America about these 7,883 loans that might be at Colonial that served as collateral for this.

And that was really what gave rise to this asset reconciliation, what had happened to those 7,883 loans, what were the facts related to how they got to where they were, what money had flowed associated with those. And that's what we thought we would be able to do in four to six weeks with respect to the asset piece.

So what we did was started with that bucket of 7,883 loans. And there was a list attached to the complaint. We had conversations with FDIC, we had conversations with Bank of America.

And we went to Taylor Bean's records. And Taylor Bean's records said that rather than those loans being owned by Ocala Funding, as Bank of America believed, according to Taylor Bean, Ocala Funding only owned -- or was only coded as owning 183 loans. As it turns out, I'm not sure it was 183 that went into 7,883. I'm not positive about that.

But that got us to focus on, okay, what happened to the loans. But more importantly, who paid for them? And fairly quickly, as I said a minute ago, we determined that Taylor Bean had fallen behind -- or Ocala Funding had fallen behind in paying Colonial for loans that were being shipped to Ocala Funding and to others that were being sold to Ocala Funding and that they were not paying timely. In fact, they had a list at Taylor Bean of how far behind they were.

We can also see continuous deposits from the sale of loans into the Ocala Funding accounts at Bank of America. So if money is coming into Ocala Funding and Colonial is not getting paid, what's happened?

Which ultimately resulted in a very close look at the loans that LGTS had on their collateral list as well as the cash in and out of those Ocala Funding accounts, one in particular.

So what we've determined -- and I say "we've determined." We've had conversations with lots of people in this room who have provided us with a lot of information. But on the list of collateral maintained by LGTS are 9,111 loans.

If you'll look at Taylor Bean's records, what that indicates is that more than 7,000 are owned by Freddie and others. Notice at the bottom, 301 were paid off, paid in full, never funded. There are 301 that are not really active.

So the bucket, even though we've continued to refer to it in the report and in this presentation as 9,111 loans, the real number of active loans that might serve as collateral to Ocala Funding is 8,810.

We looked at the bank account activity, purchase advises, any information we could get to determine whether or not the assigned investor in Taylor Bean's servicing record had actually purchased the loans that were assigned to them. They paid somebody, be it Ocala Funding or Taylor Bean.

And in large part we determined that, in fact, payment had been made by the assigned investor for the loans. And you'll see those potential adjustments. But what we actually determined is that Freddie has paid for 27 loans that are not assigned to it -- and these are those kinds of errors that I was saying earlier that just, I think, happened because we're dealing in such volume -- and that Colonial is assigned 37 more loans than it should.

Ocala Funding, in fact, has 23 loans that belong -- not belong, because somebody is going to decide that -- has 23 loans that have been paid for by Freddie. And 23 of those 27 are assigned to Ocala Funding. But then there are 39 loans that Ocala Funding has paid for that it's not assigned. So that's kind of the picture.

And when servicing was released back when this was all happening, those loans are now in the hands of the servicers for those investors in large part, because that's the way that the records indicated ownership, ownership of those loans.

So in effect, we were able to confirm payment by the people to whom they -- by the investor to whom they are assigned.

And then we also tried to figure out how had those loans, these 9,111 loans, been funded and to whom were they assigned in the records. And what we learned is that of the 9,111 -- remember, 301 don't really count, so you're down to 8,810 -- 4,928 were still on the COLB, which means that they had gone across, apparently been sold, but Colonial never got paid.

Apparently there's probably a different story with each of these other funding sources, but it is much the same, we suspect, for the AOT, the Overline, Seaside, and Platinum.

But for the Bank of America early purchase facility, there were 2,979 loans on that facility that we were able to determine monies were drawn off that facility in connection with those loans. And it was not Ocala Funding who paid Colonial, but it was proceeds of the Bank of America facility, which is totally different than the Bank of America role at Ocala Funding. It was totally independent.

So what it appears -- and I'm trying to refrain from making any -- drawing any conclusions, but I think some are evident. It appears that loans were in constant shipment to and from LGTS, controlled by Taylor Bean. Taylor Bean provided information to LGTS about what loans were coming, what loans were on the facility, and which loans had been paid off. And apparently, LGTS relied on that information in keeping up with their list, and it ultimately grew to 9,111 loans.

But all the while, Taylor Bean is selling those loans, either not paying for them or selling them, or having them sold off, so that, in effect, as I said, it looked like collateral. It was on their list. And it looks like Taylor Bean, through this high volume, kept that list long.

But in fact -- and Taylor Bean sold the loans for Ocala Funding. But a lot of times -- this got to moving so fast, Judge, that Ocala Funding had its own ownership and investor code so that, when it was the owner, it would be distinguished from Taylor Bean in the servicing system. It was moving so fast that they just stopped assigning any codes to Ocala Funding.

But it appears that very little of the Ocala Funding money, when Ocala Funding was selling loans, very little of that money was actually making its way to pay down the funding sources on which the loans had been financed.

But these facts in particular, COLB not being paid and seeing that almost 3,000 loans had been financed that are on the Ocala Funding list, had been financed and Colonial actually had been paid for almost 3,000 off of the Bank of America facility, what happened is, those loans went across to LGTS, came back to Colonial, and were then financed on Bank of America, or the early purchase facility, mostly in sales to Freddie Mac.

So that got us looking at what did Ocala Funding, with respect to all those loans that went through that circle, when the music stopped, how many of these had they paid for? And what we were able to determine is that out of that 8,810 active loans in their bucket, they had actually paid for 691. And when I said they had paid, the proceeds had gone from an Ocala Funding account to Colonial for 691 loans.

So here is kind of a summary or the first important takeaway with respect to Ocala Funding, which is in the heart of much of this -- of many of the problems with respect to assets and cash.

When the music stopped, Deutsche Bank and BNP were owed, collectively, $1.68 billion. Deutsche Bank is owed about twice as much as BNP. I think it's $1.1 billion to almost $5 billion or something.

Of the 9,111 loans that are on that list at LGTS that they believed were collateral, all were actually shipped there and, as I said, only 8,810 were active. And of those active loans out of that 8,810, only 183 are actually shown in the Taylor Bean records as owned by Ocala Funding. Ocala paid for 691 of those loans. Colonial was not paid for 4,928 of the loans in the first instance. And Colonial was paid for almost 3,200 loans, but from somebody other than Ocala Funding.

I think that sheds some light on where the problem is and how there could be competing claims of ownership.

But to put just not too fine a point on it, with respect to that 4,928 loans that Colonial never got paid for, they're on the COLB listing as belonging to Colonial, they're on the Ocala Funding listing, and a bunch of them are on Freddie Mac, with Freddie having paid for them. So it's not, you know, the words that we used in the early days of double pledging. Well, this is a triple competing claim.

We looked, just by necessity, at the COLB loans. You know, it's just the next logical step. And when the company collapsed and the bank failed, there were 8,714 loans on the COLB, which means that Colonial had funded the closing of those loans and Colonial had not been paid for those -- Colonial still showed as owning their participation, their 99 percent interest.

Well, as you can see in this -- in the summary chart, 3,831 are still in effect at Colonial. But 4,928 went through that Ocala Funding circle that we described a minute ago, and then several, a handful, have been sold to other investors.

The value of the kind of purchase price of the

4,928, the value at which they are on the COLB, for those loans that went to Ocala and came back, is in excess of $900 million, which I believe that the FDIC has laid claim to in this case, along with some banks.

But that's kind of a summary of the COLB. And most of the loans, as you see, 4,200 of the 4,928 that went through the Ocala Funding loop are now at Freddie.

As I said in the beginning, this was not a linear process. We've got data points that caused us to have questions about all kinds of issues. But the next thing I want to talk to you about is the Colonial AOT. That's another one of those interim funding sources. It's kind of in the middle column in that diagram that we looked at earlier.

And this was a facility that worked, or was supposed to work, as follows: Taylor Bean, you know, closes loans on COLB, or whatever. They've got a bucket of loans that they're going to sell to the issuer of the mortgage-backed security. They don't get paid -- one, they've got to come up with the pool, and then they don't get paid until the securities issuance closes. So that's a number of days.

So what they do is they build these pools and they sell them into trades. And when something is sold into a trade, as I understand it, the trade, or the pool in the trade, gets specific numbers associated with the securities issuance. The pools are assigned the numbers. And as the pool is being filled, the loans for financing purposes are supposed to reside on the Colonial AOT facility.

And there are AOT facilities of all kinds. It's not unusual financing, as I understand it, or was not back in the days of mortgage-backed securities.

What really caused us to look at this is what we'll get to in a minute, and that is, the movement of money through the Ocala Funding account. But it's just easier, I think, to tell the story and understand the story this way.

When the music stopped, there were 124 trades assigned to the AOT, 124 trades, with a value in excess of $1.4 billion. So if you just look at the AOT, what that tells you on its face is Colonial has advanced $1.4 billion against all of these loans in these 124 pools and awaiting the pools to be sold into securities and the money to come in to pay Colonial and reducing that balance.

Well, when we looked at those -- and the way I'm telling it is like it's simple, but it took a long time to figure this out. But when we looked at those 124 trades, we realized that 112 by number -- and there were 112 corresponding trades on that Bank of America early purchase facility that had been put there apparently appropriately, money had changed hands, all that kind -- the early purchase facility seems to have operated like it was supposed to. There's some litigation between the estate and Bank of America about residuals and fees and that kind of thing. But it operated as it was designed.

But 112 trades were on the AOT that had a corresponding trade or ticket number, very similar amounts, and very similar settlement dates, the dates that they're supposed to get paid and the securities are supposed to close.

But upon digging into those 112 trades, the loans on the 112 trades assigned to the EPF, those are relatively new loans. They're exactly what you would expect to see assigned to a trade.

If you start digging into the loans under those same numbers, amounts, and settlement dates assigned to the AOT, old, sold, never funded, nonexistent, not there, you know, just -- and then there are another 12 trades on the AOT, seven of which we could find no record of anywhere, no collateral, no nothing, they're well past their settlement date, and five -- it was five we couldn't find, but seven that were either well past their settlement date or just had no value.

In effect, Judge, all 124 trades assigned to that AOT with the $1.4 billion balance are worthless.

There are, however, kind of independent of the trades, which are literally supposed to be the collateral, there are -- and this is the way that -- this is what -- I don't know if this picture will be helpful to you or not, but the way that the trade works, you get a pool of loans, and Freddie or Ginnie approves them as being worthy of supporting the issuance of a mortgage-backed security.

What was happening is, is that the pool that was approved would be then assigned to the Bank of America early purchase facility and a draw would be made on that facility. The money would go into the investor funding account, and funds would be used to pay down the AOT.

But at the same time, there are these parallel corresponding trades being assigned to the AOT, and a draw would come off the AOT. We now know -- and this doesn't make sense -- but we now know that that money was deposited into the Ocala Funding investor account. The money would then be paid to Colonial to pay down the AOT. The money is going in a circle.

And what we ultimately were able to figure out is that there would be a loan -- a -- a pool assigned to the AOT -- and I'm just going to make this up -- of $50 million. A new pool would be assigned to the AOT for $50 million, or $60 million. It would be assigned to the AOT. The $60 million would be drawn, and it would work its way through this circle so that that older $50-million pool would be paid off. And then in our vernacular, we call those round trips. The money is just going out and back, taking an older trade-off and replacing it with one of these newer trades.

That's kind of how the trade -- that's how the trade stayed alive on the AOT.

THE COURT: Sort of like just kiting checks to make you look like you're current in all your accounts?

MR. DANTZLER: Judge, I think that would be a fair description.

But there are loans, individual loans, assigned to the AOT. In fact, there are 9,304 individual loans assigned to the AOT. But again, we went to the records, and this is what we found. In effect, that 231 of the loans were either not found or had been disposed of in some way prior to 2007; over 2,700 had been sold to other investors over the course of time; 1,200 had been charged off, paid in full, whatever; 1,837 had been foreclosed. Foreclosed property was not eligible collateral on the AOT.

And then Colonial was left with 3,278 loans that were active, as I've used the word before, but only sort of. They're very old, their performance is questionable. But the value of those 3,278 is $474 million.

Now, if all these 9,300 were good, their value would be $1.2 million, and they would be undercollateralized by $200,000, if every one of them were good.

But the ones that, arguably, they might be able to look to that are still around in some form might be the REO and the loans which have a value of about $700 million. And that's their face value. Our suspicion is it's much, much, much less than that, so that the AOT is likely undercollateralized by more than a billion dollars.

Well, once we got through looking at the loans, that necessarily -- and I'm just about to finish here -- that necessarily caused us to look at cash, because a lot of this money is going through that Ocala Funding account at Bank of America.

And so turning the cash -- I need to take you back to a diagram we looked at earlier. As I told you, with respect to servicing, Taylor Bean was required to crack the nut every month for the amounts scheduled to be paid to investors, and it had to advance the shortfall every month. Well, what we now know is that, since August of 2008, the vast majority of the funds used to make those advances came through the Ocala Funding account.

But when those funds were repaid -- remember, I told you that payments come in and would be taken to repay the advance -- rather than paying the money back to Ocala Funding, Taylor Bean would pay that into another of its operating accounts -- actually, an account at RBC -- for most of this time.

And in the beginning, we thought it was just that simple, that money had been taken from Ocala Funding to fund the servicing advances. But when we began to look at this more closely, we began to see some other things.

First, going back to Ocala Funding. The cash in those Ocala Funding bank accounts should only be used for a handful of purposes: to buy loans, to buy notes from those who have purchased them, to make interest payments or pay fees. And if there's any profit -- and there's no evidence there ever was -- but if there was, then Ocala Funding would be free to use that money any way they wanted to.

When we started looking at the money that was deposited into that Ocala Funding -- there was one account, really, and it's called the Ocala Funding Collateral Account. It had been in place the life of the commercial paper facility. When we started looking at that, we started looking at it June 30th. The date of restructure kind of became our ballpark number. And I know -- and I want to distinguish something, and I don't -- I don't want to understate or overstate.

Remember, I told you as of June 30th, Ocala Funding appears to have been undercollateralized by $712 million. It does not appear that any of that money was misused in the way that money appears to have been misused going forward.

Now, we've not done nearly the forinsics on that that we've done going forward. But we have looked at it, and it's not readily apparent to us in the work that we did that that money got used except churned up, for lack of a better word. And we're just not sure.

But beginning in August of 2008, it's clear that money began to come out of that Ocala Funding Collateral Account for purposes other than buying loans, buying notes and paying fees and interest. And so that's what we focused on.

And after June 30, 2008, just over $19 billion was deposited into the Ocala Funding collateral account. And there's a detailed description of the source and the number of those deposits in Table 9 on page 80 of the report.

And while this requires some judgment on our part and is imprecise, our best estimate is -- and this is not going to be far off -- $7.9 billion of those deposits are inconsistent with the structure or the purpose of Ocala Funding and the commercial paper facility.

There really is no reason that money -- in the way that Ocala Funding works that money should be coming off the AOT. Advances from the AOT ought to be going to Ocala Funding. It just doesn't -- that doesn't work.

So here we've got highlighted for you on the screen the largest or the -- or the summary of what I would call inconsistent deposits. And by that we mean inconsistent with the structure, purpose, controlling documents of the Ocala Funding commercial paper facility.

And you'll see by far and away $7 billion of the $7.9 billion comes off the AOT. And then these other deposits, not absolutely all of them, but the vast majority of these other deposits, appear to be short-term deposits into the Ocala Funding Collateral Account. And by "short-term," I mean a day.

And you will see that some there are actually from custodial accounts, or the Custodial Funds Clearing Account. And as I understand it, in the servicing world and under the contracts that the servicers have with investors, those funds are truly custodial and are involved. And those kinds of transfers would be problematical on a number of levels.

But much of those -- many of those deposits were deposits that came in for a day and then back out. And it appears that most of those in-and-out, short-term deposits and back happened to correspond to the time of the collateral check. Is there enough cash and loans to roll the notes?

Then we looked at how did the money go out of -- in the same way, we looked at how did the money go out of that Ocala Funding account over the same time period. Not surprisingly, the amount of money disbursed since June 30, 2008 was $19 billion. In looking at the disbursements, about $7.1 billion, $7.2 billion, appear to be inconsistent with the structure and purpose of the Ocala Funding commercial paper facility.

The details and the debtor's analysis of those disbursements is set forth in Table 10, on page 82. What I've got here on the screen is a summary. You can see that the $5 million -- that the $5 billion went back to that Taylor Bean Investor Funding Account at Colonial. Those look to be those round trips that I was telling you about, which you referred to as kiting.

Then you can see payment transfers to Freddie, the P&I accounts -- there are two of them there -- of over $800 million. Those appear to be, over the course of time, funding of those servicing advances paid to Freddie.

Now, we looked, and it appears that most of those, save, you know, what was outstanding that we have described earlier, most of those were actually repaid -- I use that in quotes -- from the Freddie accounts over time, but paid to that operating account of Taylor Bean, not back to Ocala Funding.

With respect to the $674 million transferred to the Custodial Funds Clearing Account -- remember, that's the account where borrower payments go -- remember, every day, Judge, they're pushing down into literally a hundred accounts.

As we understand it, when payment day came for everybody but Freddie, it was on the 18th of the month, generally. And it was easier to manage the advances by making one deposit into the Custodial Funds Clearing Account in the cumulative amount needed and let the system push it down rather than make individual transfers. So those deposits into the Custodial Funds Clearing Account are almost certainly the funding of advances made on behalf of a whole host of investors.

And it's not clear to us -- in fact, it is clear to us that not all of those were repaid, that they were never pulled back out of the investor accounts. It's a lot harder to do -- you're talking so much money, so many transactions, and cash gets funded in an account in the first instance, that Custodial Funds Clearing Account, where hundreds of millions of dollars are going through there every day, it's a difficult exercise. But it does not appear that all of those were repaid in the same way that Freddie's were.

There's a Ginnie Mae advance, a direct advance. I think there have been some Ginnie Mae advances funded through the Custodial Funds Clearing Account. There are two advances that were funded through the P&I account. And I don't think that we have -- have we confirmed repayment of those? Okay, we have confirmed repayment of those, too.

The Master Advance Account, the Operating Account, some of those appear to be repayments of these short-term deposits, some of that Custodial Funds Clearing Account money is repayment of short-term deposits.

The two at the bottom, Platinum Bank, $62 million was transferred from Ocala Funding to Platinum Bank. $50 million of that was to fund a purchase money deposit, in March of 2009, where Taylor Bean was the lead investor in a $300 million capital infusion at Colonial Bank which did not take place. But they had to put up $50 million, and then $50 million came out of this Ocala Funding account.

The Sovereign Bank transfer appears to be just simply a paydown on a working line of credit managed by Sovereign Bank, and I think that may be true with US AmeriBank and Henley Holdings.

But in short, this amount of cash, you know, billions of dollars, ran through that Ocala Funding account. And a chunk -- remember that $6.9 billion, I think, was deposited over this period off of the AOT. And $5 billion went back, so $1.9 billion got used for other purposes. Ocala Funding, throughout this time, is selling loans, taking in loan proceeds. And some of those are -- you know, and this is all commingled in this account.

We have not truly quantified how much of the AOT proceeds were used and how much of the Ocala Funding sales proceeds were used for these advances or funding other aspects of Taylor Bean's business.

But there, Judge, is the end of the asset reconciliation, loans and cash.

I think that, in sum, where this story takes us is to this place. Taylor Bean was very careful and protective of its servicing and investor relationships, and it did literally whatever it had to do to keep from being in default on those relationships.

And that the way that that was accomplished was by using, at least during the time period that we looked at it -- I think the indictment, Mr. Farkas' indictment, says that there were other sources misused back in time. But in the time that we looked at it, it looks like the way that Taylor Bean tried to keep up with its obligations to investors was by using that investor proceeds account, the Ocala Funding collateral account, and proceeds drawn off of the AOT and proceeds drawn out of sales by Ocala Funding of loans that Ocala

Funding may or may not have ever paid for.

So where does that leave us today? Well, there's an enormous amount of data underlying this report. The investors will be interested in the data that affects the calculations relating to them. And that will continue to be available subject to appropriate, you know, nondisclosure agreements.

We'll continue to work. As I said earlier, we've worked closely with the FDIC-Receiver and staff in Orlando, and we'll continue to do that, to work with them on issues related to actually how this money is going to be disbursed from both the Colonial and the Regions accounts, and in dealing with issues.

But as a result of this -- and we've not brought them down here to you -- but as a result of this, there are a lot of issues related to the Taylor Bean-Colonial Bank relationship that require attention and resolution. And we've been involved, and will continue to be involved, in discussions in trying to narrow those issues and resolve those that we can.

This certainly is fundamental to the filing of a plan and Disclosure Statement. That process is well underway. It has proceeded in parallel with the final days of the -- or the final months, I should say, of the -- of the reconciliation. And we expect, as indicated in the report, that the committee will join the debtor as a co-proponent of the plan.

We will continue to work with the stakeholders that we are working with and engage others in conversations to define the key issues relative to that stakeholder, to resolve differences where we can regarding claims and recoveries, and to at least narrow them where we can.

We have not done a sources and uses. We have not looked at every dollar that came in, or even every dollar that came in in a specific time period and how it was used. You've seen the level of analysis that we've done.

And here, when you're talking about the amount of money here, $5-, $10-, $15 million could go somewhere, you know, unless you're looking for it, and never be found out.

We've not done that based on the amount of time and money that that would take. However, in some of the discussions that we've had with certain stakeholders, I think there's a settlement at least by some that -- in order to orderly conclude this matter, some would like to know where the money went. And we'll continue in those discussions. We're not going to haul off and incur that kind of expense unless there's a fair amount of consensus about it.

And then we finally expect that we will continue to respond to both formal and informal discovery from stakeholders. We are under continuing subpoenas from SIGTARP, the FCC, and others, other government agencies, and we expect that that will continue.

But I think that what we've now got here is a factual predicate from which this case can really begin to move very quickly toward a conclusion, or at least that's what we hope.

I don't know if you've got any more questions. We have the entire staff here. I know we don't want this to become a free-for-all. And I know how long I've been up here.

THE COURT: Does anybody have any questions or comments?

MR. RAY: Yes, Your Honor. I'm Hugh Ray of the Federal Home Loan Mortgage Corporation and the Federal Home Finance Agency.

Could we ask that these slides be appended to the record, because it would be really helpful if they could make them an exhibit.

MR. DANTZLER: Just so long as -- and I just want to be clear. We didn't offer this as a proffer. These are instructive and demonstrative. But we'll figure out a way, though.

Can we file these? Is there a way?

THE COURT: Yes, I think a disc, if you will furnish a disc, and then we can put it on the docket and people can access it.

MR. DANTZLER: Okay.

MR. RAY: And, Your Honor, I would just like for two seconds to compliment them on the work that they've done. There was an allegation made that they were dragging their feet. This is not foot-dragging.

And to the extent that anybody has been complaining that Freddie Mac was holding anybody's money, I think that that's not so, and it's pretty conclusive that that's not so.

If you paid for property and if somebody wants to ask some questions, I think we know where to find the answers now in terms of where things went and what happened.

I do believe, in all honesty, that this is one of the clearest explanations of what happened to those 7,800 loans that anyone could ask for. We paid for them, they're ours. I think Freddie Mac has been legitimately trying to protect its confidential information here.

And we stand ready to cooperate with the debtor going forward, have meetings with them, and share with them what information we do have.

And we would like to express our appreciation for this information.

THE COURT: Any other comments or questions?

MR. CALIFANO: Your Honor, just briefly.

Your Honor saw from many references to Colonial and the way that the two businesses operated prior to August '09 the relationship, the interrelationship.

And, Your Honor, to tell this story that the debtors said -- and I have to join with Mr. Ray in commending the debtor and their professionals for putting this together, and putting it together really so quickly. I think we were all overly ambitious when we thought this could be done last October. And it wasn't foot-dragging, it was just a lot of work and developing information from a number of sources.

And you have to understand, the debtor's professionals are handicapped by not having the experience in the business. These are all people who came in. And the business people who ran TBW, for better or worse, were not there. So I think it's a monumental task.

And when we were here in September, Your Honor -- and I haven't been here since September for a number of reasons. And one reason was that we didn't have to get into the litigation that was teed up and that Mr. Dantzler referenced.

I mean, we could have spent months litigating over who had jurisdiction over this information and whether the receiver, the FDIC-Receiver, had to cooperate with the estate or whether the estate could access the information. And that didn't happen. And that was embodied in the stipulation.

And for months the debtor's professionals have worked with the cooperation and the input of the FDIC's employees, and they've operated without the interference of lawyers, so they've worked together.

And the FDIC has reviewed this information, especially the Colonial side, because I think Your

Honor can see it's two halves of one story. You have the Colonial information and you need the TBW information to get a comprehensive impression of what happened here.

As I said, this was developed through cooperation. And while the FDIC doesn't warrant the report and the FDIC doesn't approve it or say that, you know, this is the FDIC's report, it's the debtor's report, but the FDIC has had a hand in it, its employees, the FDIC does support it, and the FDIC believes, you know, based on the information that they have that it is accurate.

I do want to say that we are continuing to work with the debtor. This is new territory. I think as I said to you back in September, the FDIC has never done this, worked side by side with a debtor, put the two insolvency schemes really together. So it's new territory.

But I would say, you know, to the credit of the FDIC's employees and the debtor, they've worked together. We continue to work together. We hope to have a comprehensive resolution of a great majority of these issues, or propose one, including some of the new borrower issues that have arisen.

I just wanted to put that on the record, Your

Honor.

THE COURT: Thank you.

And that was Mr. Califano. He didn't say.

Mr. Weiss.

MR. WEISS: Thank you, Your Honor.

I just wanted to follow up on some of the comments that Mr. Ray made. As Mr. Dantzler says, there's a tremendous, enormous amount of data that's behind what he has presented today. And as Your Honor knows from the pleadings that we have filed and Bank of America have filed and Deutsche Bank have filed, we still don't have access to that information.

Freddie is still refusing to allow us access to this enormous amount of data in order to determine if we agree with the results and the determinations of the debtor.

We're entitled to the information. We should be able to look at the information. We filed pleadings with the Court. We have a hearing next week on a motion for an in-camera inspection to begin, hopefully, to see this data. But we are stalemated at this point by Freddie, who's seen the information.

I just wanted to bring that to the Court's attention.

THE COURT: Thank you.

MR. RAY: Your Honor, I've got to reply to that. I can't let that stand.

It is not true that we are the sole source of this information. He should exhaust what he has from the debtor before he even thinks about not going through the debtor. This is the debtor-in-possession here. This is not an intramural squabble between various creditors. They can allege all they want, but there's not one scintilla of proof that we've seen that they have any gripe at all against Freddie.

If they had come back, the debtor, with something that showed some sort of a wrong or some sort of a thing other than that we lost $1.8 billion, and we're in there right from the very end losing money and being, you know, short-sheeted and kited and defrauded, if they could show that we set out to do something or that there was something.

But as it is, this is a song that's been sung in this case for so long that they have forgotten to look at the words and music. There isn't anything to back up what I just heard. If there were, I would say so.

We've tried to work with them in every way possible to try to protect our confidential information. The Court has ruled on all these things. We've submitted our form of order, they've submitted their form of order.

We've learned that attorney's eyes only apparently means something like my eyes and my client's eyes, or the eyes of the lawyers in some other place, you know. All of these things are things that we're working through. But this is all -- and you hate to use the word "red herring," but it truly is.

And if anything is clear now, it's that this is a focused case toward a plan and Disclosure Statement for all of the stakeholders. We have a road to travel. But to start an intramural squabble, it just doesn't make sense. I haven't heard anything to indicate that that's justified.

THE COURT: Thank you.

MR. JOHNSON: Mr. Weiss, just for a moment. I'm sorry.

Your Honor, if I may, Jason Johnson for Freddie Mac.

I just want to address this comment that we are refusing to do something. There's been no refusal on Freddie Mac's part, Your Honor. We simply have a disagreement with some of the joinder parties over the scope of the Court's allowance of access to the attorney's eyes only. We have submitted a competing order to their order because we weren't able to hash out the exact language that was acceptable to both parties.

Freddie Mac stands ready, willing, and able to answer any questions the Court may have with respect to that. But I don't think we're here to litigate that today. But if the Court has questions, we're happy to deal with it.

But we've not been refusing to do anything. They've seen a draft NDA. We've submitted our proposed order. Once the Court enters an order, we're going to abide by it, Your Honor.

THE COURT: Very well. I don't know if I've seen that order yet. Apparently, we have a hearing next week, and I guess that's when we will deal with it.

MR. WEISS: The order was submitted, Your Honor, about ten days ago.

MR. JOHNSON: Yes, Your Honor. And there was a motion for an in-camera inspection that had been filed by Deutsche Bank prior to the hearing on Bank of America's joinder to the committee's clarification motion.

I've had some communication with counsel for Deutsche Bank about that in-camera motion being moot now that they're being granted access. But because Your Honor hasn't entered an order, we don't have it in the case.

THE COURT: I haven't seen the order. Maybe it was over the holiday. But for whatever reason, it --

MR. JOHNSON: It was shortly before that.

THE COURT: But bring me the competing orders. They normally bring them to me. So I will look for them. But it will be next week before I get to it.

MR. JOHNSON: Thank you, Your Honor.

MR. WEISS: And just to clarify what Mr. Johnson said, he referred to Deutsche Bank, but he meant BNP Paribas, my client.

MR. JOHNSON: I'm sorry. My apologies.

MR. WEISS: And I don't disagree that we have this disagreement. The problem is that Your Honor heard two weeks ago from Mr. Dantzler that the documents that have been produced to the debtor are designated as confidential, for the most part all of them, as Mr. Dantzler said, and that is sort of the hurdle we can't get through.

THE COURT: Okay. I don't have any questions at this point.

MR. DANTZLER: We'll be here again, Your Honor.

THE COURT: Nice job. This hearing is concluded. Thank you very much.

MR. DANTZLER: Thank you, Judge.

COURTROOM ADMINISTRATOR: All rise.

(Whereupon, the hearing was concluded at 11:20 a.m.)

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C E R T I F I C A T E

STATE OF FLORIDA)
COUNTY OF DUVAL)

I, Elizabeth M. Masters, Registered Professional Reporter and a Notary Public, State of Florida at Large, do hereby certify that the attached represents the proceedings before the United States Bankruptcy Court, Middle District of Florida, Jacksonville Division, before the Honorable Jerry A. Funk, Bankruptcy Judge, in the matter of In Re: Taylor Bean & Whitaker Mortgage Corp.; such transcript is an accurate recordation of the proceedings which took place. A transcript of this proceeding has been produced on July 10, 2010.

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ELIZABETH M. MASTERS, RPR

CERTIFICATE

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