

Dennis M. Murphy, CPA, CIRA
Permanent Receiver: Emvest
630 N. Rosemead Blvd., Suite 100
Pasadena, CA 91107
phone: (626) 794-1557
fax: (626) 794-7298
email: ed@emvest.info
website: <http://emvest.info>

Case Reference:

U.S. Securities & Exchange Commission (SEC) v.
Emvest Mortgage Fund, LLC, Emvest, Inc., and
Milon Lyle Brock
United States District Court
Southern District of California
Case No.: 04cv2295-DMS(LSP)
Receiver Appointed: 12/03/04

Dear Emvest Member:

October 29, 2008

Here is a brief report on the status of the Fund:

1. Summary of Operations:

Worldwide financial markets have seen overwhelming change take place in the past few weeks and months. The news every day describes turmoil and challenges not seen since the Great Depression of the 1930's. A \$700 billion "bailout" plan was recently approved, real estate prices are down, foreclosures are up, mortgages are difficult to obtain, liquidity has left the financial markets, and the survival of many financial institutions is in question. As Receiver, I continue to try to minimize negative effects of this downturn by staying very closely involved with management of the portfolio and by working with borrowers as they face these very difficult times.

In these very challenging times, the Fund's operations continue in a relatively stable manner, accurate and timely financial reports are routinely prepared, solid financial controls are in place, information is posted on the Fund's web site for all to see, I continue to run the business on a daily basis, and my focus continues to be on running the Fund in a transparent and prudent manner. Although the goal has always been to liquidate the Fund's assets by the 12/31/08 target date, the turmoil and uncertainty in the marketplace make that target date appear now to be unrealistic to achieve. The entire portfolio is still for sale, and updated details of each loan are regularly posted on the Fund's web site for all to see and evaluate; however, it is highly unlikely that the Fund's liquidation process shall play out by the end of 2008. There is now so much uncertainty in the marketplace that it is not clear how long it shall actually take to liquidate the Fund.

Here is a summary of operations related matters:

1.1 Continued Monthly Distributions to Members: The Court Order filed on 3/2/05 allowed me, at my discretion, to "resume making monthly distributions to the Members of up to 6% annually, as long as justified by the Fund's revenue". As Receiver, I resumed making regular monthly distributions in March 2005 at an annual rate of 6%, and this policy still continues.

Please note that as the loan portfolio has decreased in size, the Fund's income has also decreased accordingly. The Fund is now at the point where the regular 6% monthly cash payment to Members shall be made partially from portfolio income and partially from a return of Member equity. Since Members have come to rely on the regular monthly payments, since the Fund has an adequate cash reserve, and since the Fund is in the process of being liquidated, the

Court and I agree that continuing to make the 6% monthly cash payments is prudent under these circumstances.

1.2 Emergency Hardship Refunds to Members: Permission was granted under the Court Order filed on 3/2/05 to “make distributions to Members based on a showing of extreme hardship or emergency, not to exceed 20% of those Members’ original capital”. The Court subsequently gave permission in extreme cases to refund up to 75% of a Member’s original capital. Most recently, in its Order filed on 8/8/06, the Court granted my request to be able “to disburse up to the book value of a Member’s equity for Members of not more than \$15,000 who face extreme hardship, in order to provide additional help”. I continue, as appropriate, to make hardship disbursements to Members, and the process continues to work as intended.

1.3 Voluntary Reduction of Receiver’s Fees: Since I have been concerned about preserving Members’ equity in this highly volatile and unpredictable environment, I voluntarily reduced the fixed Fund management fee (with Court approval) from \$12,500.00 per month \$9,000.00 per month starting in January, 2008. Non-operations fees continue to be excluded from this fixed fee. This fee payment process continues.

1.4 Loan Portfolio Status: The Fund’s loan portfolio has been affected by the same weak market conditions that continue to be widely reported, and fund management continues to require substantial close attention. Progress continues to be made towards liquidation of the portfolio, as shown on the attached financial statements. The portfolio principal balance was \$14,968,831 as of 12/31/06; it is down to \$3,110,722 as of 9/30/08, plus Real Estate Owned (“REO”) of \$3,766,536. An aggressive marketing plan is being followed to speed the sale of properties that have been taken back through foreclosure. I have also made a series of site visits to foreclosed properties and has met with local brokers to market the properties aggressively. The uncertainty and the lack of liquidity in the market (which means that new mortgages are more difficult to obtain) means that finding qualified buyers has been much more difficult than in the past.

2. Financial Statements:

Monthly financial statements which conform to Generally Accepted Accounting Principles (“GAAP”) continue to be prepared on a timely basis, and continue to be posted regularly on the Fund’s web site (<http://emvest.info>). In addition, these financial statements are included with the periodic reports sent to Members. Attached as Exhibit #1 are Financial Statements as of 9/30/08 for the Fund, including a Balance Sheet, Income Statement, Recap of Members’ Equity, and a Schedule of Accrued Interest.

Since the size of the Fund’s loan portfolio has been reduced from about \$15 million on 12/31/06 to about \$3.1 million on 9/30/08 (plus \$2.32 million of real estate owned), and since about \$7.3 million has been paid to withdrawing Members during 2007 and the first nine months of 2008, simply comparing current net income to historical net income is no longer a meaningful approach to assessing the Fund’s performance. A more appropriate approach is now to track the Book Value of a \$10,000 Investment, as discussed below.

As a reminder, since this is an accrual (rather than cash based) Income Statement, the net income also includes expenses for 100% of the fees billed by me as Receiver and by my attorney

although they were not actually paid. The accrued unpaid fees are shown as Current Liabilities on the Balance Sheet.

2.1. Income Statement: For the first nine months of 2008, the Fund recorded negative net income of \$889,599, which includes a Bad Debt expense of \$900,000 taken in May. This Bad Debt expense was taken as an adjustment to try more accurately to reflect the Trustee's best estimate of the current market value of the Fund's assets.

2.2. Balance Sheet: For the period ending 9/30/08, the "Allowance for Foreclosed Assets" was \$1,670,508. This includes the Bad Debt expense of \$900,000 which was taken in May. The amount of "Real Estate Owned" ("REO") of \$3,766,536 reflects real estate which has been taken back by the Fund through foreclosures. Additional foreclosures are expected, so the amount of REO is expected to grow over the short term.

2.3. Recap of Members' Equity: As of 9/30/08, the book value of a \$10,000 original investment is \$7,837 (i.e. about 78.4% of Members' original investment). After sustained growth in the value of their investment during the Receivership through 2006, the drop in Members' equity starting in 2007 is a continued reflection of the bad debt write-offs taken and of the extreme weakening of the market. When put into the context of the overall continued turbulence in the real estate and subprime mortgage markets, the Emvest Mortgage Fund continues to be in much better financial condition than many others.

3. "Member's Equity to Buy REO" Plan:

In the "Order Re: Receiver's Thirteenth Report", I obtained Court approval for a plan by which Members may use their current equity towards the purchase of any of the Fund's Real Estate Owned ("REO"). Here is how the Court approved plan works:

- a. From links to the real estate listings for the Fund's REO (posted on the Fund's web site), Members can determine whether they are interested in making an offer to purchase any of these properties at what they consider to be current market prices and terms.
- b. An interested Member should contact me directly (without using an outside real estate broker) with an offer to purchase. Members will be allowed to use 100% of their current Fund equity instead of cash towards the purchase price, and they will secure new outside financing for the balance. Since the Member will be dealing directly with me as Receiver (without an outside broker), the Member will also receive a credit equal to the "sale" portion of the real estate commission (typically 3% of the sales price). If the Member chooses instead to be represented by an outside broker, then this credit will not apply, since their outside broker will be receiving the sales portion of the commission.
- c. As Receiver, I will have the discretion (as I do now) to determine the acceptable terms of any sale. A normal escrow would be conducted for the sale.

4. New Discounted Cash-Out Plan:

Although there are currently two plans by which certain Fund Members can reduce their equity in the Fund (i.e. hardship withdrawal, and swapping equity for title to Real Estate Owned), and although a discounted cash-out plan was successfully conducted in the past, certain Members may still wish to cash out from the Fund without diluting the equity of Members who remain.


Based on the extreme uncertainty in financial markets, certain Members have again requested the ability to simply cash-out their equity now at a discount. Therefore, the Court in its "Order Re: Receiver's Fourteenth Report", filed on 10/20/08, approved a new plan by which Members may cash-out their equity at a market based discount (thus accommodating their needs) while still ensuring that those who remained in the Fund will not be any worse off (and could possibly end up better off) for staying.

Here is how this Court approved discounted cash-out plan works:

- a. An amount of not more than \$500,000 has been allocated for discounted cash-outs for a limited period of time from 11/1/08 to 12/31/08 (or sooner at the Receiver's discretion).
- b. Members shall be able to cash-out at 35% of the value of their current equity, as shown in the most recent Financial Statements at the time of the cash-out. (As of 9/30/08, Members' equity was at about 78.4% of their original investment. Hence, for example, a Member who had initially invested \$10,000 would currently cash-out at 35% of about 78.4% of \$10,000, which would result in a cash-out amount of approximately \$2,700 as of 9/30/08.)
- c. Withdrawals will be done on a first come first served basis, up to the total \$500,000 cap.
- d. No partial withdrawals will be permitted. Each Member will be required to cash out completely and to sign a release.
- e. As Receiver, I will be allowed, at my option, to stop the program on or before 12/31/08 and/or before the entire \$500,000 has been disbursed if it appears that the remaining Members will be hurt.
- f. If you are interested in this plan, please contact me directly.

Although we are experiencing unprecedented worldwide economic turbulence, we shall work through this challenge together.

Sincerely,


Dennis M. Murphy
Permanent Receiver

Attachment: September 30, 2008 Financial Statements

**EMVEST MORTGAGE FUND LLC
(A LIMITED LIABILITY COMPANY)
BALANCE SHEET
September 30, 2008**

ASSETS

Current Assets	
Cash in Bank	\$ 1,395,811
Accrued Interest Receivable	119,386
Total Current Assets	<u>\$1,515,197</u>
Loan Portfolio	
Mortgage Loans held	\$ 3,110,722
Loans in Process & Advanced Costs	219,711
Allowance for Foreclosed Assets	<u>(1,670,508)</u>
	\$1,659,925
Other Assets	
Real Estate Owned	\$ 3,766,536
Bond - Certificate of Deposit	<u>10,000</u>
Total Other Assets	<u>\$3,776,536</u>
Total Assets	<u><u>\$6,951,658</u></u>

LIABILITIES AND EQUITY

Current Liabilities	
Accrued Expenses - Attorney for Receiver	\$ 46,020
Accrued Expenses - Receiver	<u>217,218</u>
Total Current Liabilities	\$ 263,238
Total Members' Equity	<u>6,688,420</u>
Total Liabilities and Members' Equity	<u><u>\$ 6,951,658</u></u>

OK
Wendell
10/14/08

EMVEST MORTGAGE FUND LLC
(A LIMITED LIABILITY COMPANY)
INCOME STATEMENT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

Revenue		
Interest Income		<u>\$ 206,959</u>
Total Revenue		\$ 206,959
Operating Expenses		
Accounting/Bus Operations - Receiver	78,525	
Advance Insurance	87,646	
Attorney Expenses - Receiver	19,049	
Bad Debt	900,000	
Bank Service Charges	580	
Licenses, Fees & Permits	250	
Litigation Response - Receiver	11,380	
Loan Documentation	500	
Loan Servicing - FCI	600	
Miscellaneous	554	
Office Expense	6,888	
REO Costs	26,137	
Taxes	6,800	
Tax Issues - Receiver	7,531	
		<u>7,531</u>
Total Operating Expenses		<u>\$ 1,146,440</u>
Net Ordinary Income		<u>(939,481)</u>
Other Income/(Expense)		
Other Income	50,749	
Interest Other	-	
Other Expense	867	
		<u>867</u>
Net Other Income/(Expense)		<u>49,882</u>
Net Income		<u><u>\$ (889,599)</u></u>

EMVEST MORTGAGE FUND LLC
(A LIMITED LIABILITY COMPANY)
RECAP OF MEMBERS EQUITY
FOR THE TIME PERIOD 01/01/02 THROUGH 9/30/08

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Y-T-D</u> <u>2008</u>	<u>Totals</u>
Members' Equity at Beginning of Year	\$ -0-	\$ 3,774,359	\$ 10,646,176	\$ 15,269,624	\$ 15,003,527	\$ 15,840,643	\$ 9,105,176	
Capital Contributions	\$ 4,215,807	8,080,495	8,014,408	0	0	0	0	20,310,710
Net Income	97,702	520,460	721,953	1,147,862	2,790,958	70,881	(889,599)	4,460,217
Distributions to Members	(124,574)	(908,462)	(1,570,242)	(857,856)	(992,290)	(687,881)	(402,387)	(5,587,952)
Withdrawals to Members	(182,734)	(426,570)	(2,140,175)	(556,103)	(973,373)	(6,214,386)	(1,124,769)	(11,776,521)
Rounding						1	(1)	2
Syndication Costs	(231,842)	(394,106)	(402,496)	-	11,821	95,918	0	(920,705)
Members' Equity at End of Year	\$ 3,774,359	\$ 10,646,176	\$ 15,269,624	\$ 15,003,527	\$ 15,840,643	\$ 9,105,176	\$ 6,688,420	\$ 6,485,751

Book Value of \$10,000 Investment	\$ 9,359	\$ 9,109	\$ 8,695	\$ 8,817	\$ 9,811	\$ 9,275	\$ 7,837
-----------------------------------	----------	----------	----------	----------	----------	----------	----------

**Emvest Mortgage Fund
Schedule of Accrued Interest
09/30/08**

<u>FCI Loan #</u>	<u>Name</u>	<u>Balance at 09/30/08</u>	<u>Rate</u>	<u>Last Payment</u>	<u>End of Month</u>	<u># of Days</u>		<u>Interest Due</u>
ALG/115	Lerman	287,383.03	12.250%	09/01/08	09/30/08	29		2,797.06
FCI/1	Thomas	540,000.00	14.500%	05/08/08	09/30/08	145		31,105.48
ALG/122	Sellers	288,917.31	12.000%	04/13/07	09/30/08	536	F	26,121.29
FCI/8	Praise	160,000.00	12.950%	11/11/07	09/30/08	324	BK	9,707.18
ALG/123	Zohn	223,181.72	12.000%	07/09/08	09/30/08	83		6,090.11
FCI/17	Martinez	584,191.29	12.250%	11/26/06	09/30/08	674	F	6,862.25
FCI/20	Mendoza	348,500.00	12.500%	04/27/08	09/30/08	156	BK	18,618.49
FCI/25	Tashchyan	368,048.76	12.000%	12/21/07	09/30/08	284	F	15,851.31
FCI/27	Nelson	310,500.00	12.500%	09/09/08	09/30/08	21		2,233.05
	Grand Totals	3,110,722.11						119,386.22