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9 UNITED STATES DISTRICT COURT
10 EASTERN DISTRICT OF CALIFORNIA
11 SACRAMENTO DIVISION
12

13 SECURITIES AND EXCHANGE
COMMISSION,

14 Plaintiff,

15 v.
16

17 SECURE INVESTMENT SERVICES, INC.,
18 AMERICAN FINANCIAL SERVICES, INC.,
LYNDON GROUP, INC., DONALD F.
19 NEUHAUS, and KIMBERLY A.
20 SNOWDEN,

21 Defendants.
22
23

Case No. 2:07-cv-001724 GEB CMK

**DECLARATION OF DENNIS
ROOSSIEN IN SUPPORT OF
EXAMINER'S STATEMENT AND
BRIEF REGARDING MOTIONS
TO ABANDON POLICIES**

Date: June 30, 2008

Time: 10:00 a.m.

Courtroom: 10

Date: July 28, 2008

Time: 9:00 a.m.

Courtroom: 10

24 I, Dennis L. Roossien, Jr., declare under penalty of perjury that the following is true and
25 correct:

26 1. I have assisted the Examiner in the discharge of his duties in this matter,
27 including having many conferences with investors, the Examiner, the Receiver, and various
28 other involved parties. I am therefore familiar with the essential facts of this case, the relative

1 concerns of investors and their various interests, and the nature of the comments of investors
2 and the views of the Examiner relative to the matters raised in the Receiver's various motions
3 to abandon policies. Additionally, I have also been involved in receiverships similar to this
4 matter since 2003, and, as a result, I am familiar with the viatical/life settlement industry in
5 general, the secondary market for insurance policies, and the various factors involved in
6 making determinations as to the relative options available to attempt to salvage value in the
7 wake of a scheme of the nature that is the subject of this action.

8 2. The investors who are impacted by the Receiver's Motions can be divided into
9 four groups. The first group consists of the investors who paid money to the Defendants and
10 received a book-entry interest in a particular policy that the Defendants continued to own (in
11 other words, receivership owned policies). The other three groups consist of investors who
12 paid money to the Defendants and received a direct ownership interest in a policy, meaning
13 that their name is recorded at the insurance company as the owner of the policy (in other
14 words, these are multi-owner policies). These three groups consist of those who are in favor of
15 having the Receiver salvage those policies, those who are against having the receiver salvage
16 those policies, and those with whom the receiver has been unable to communicate either
17 because the investors cannot be located or because the investors are unable to understand the
18 nature of the situation.

19 3. Each of these four groups have somewhat different interests. The first group
20 has the most valuable policies, and those that can serve as collateral for the loan. This group of
21 investors has an interest in being treated separately from the other half of the investors. This
22 group's policies can be salvaged either by sale or by a loan against the policies to pay
23 premiums because the Receiver has the ability to sell or pledge these policies. Presently, this
24 group's policies are serving as collateral for the loan that is allowing the Receiver to pay
25 premiums on all of the policies. This group has an interest in not paying the premiums for
26 policies that cannot be salvaged.

27 4. The second group consists of investors who own interests in multi-owner
28 policies, but who wish for the Receiver to attempt to salvage these policies as well. These

1 investors have signed documents transferring their percentage ownership to the policies. This
2 group stands as innocent victims of the fraud who, by circumstance, hold ownership rights that
3 are less valuable than those of the first group. These investors have an interest in being treated
4 the same as the first group of investors. These investors also have an interest in persuading the
5 third and fourth groups to join them because unless considerably more investors in the third
6 and fourth groups join them, their collective shares of the subject policies are still not high
7 enough to make their policies worth keeping.

8 5. The third group consists of investors who are situated the same as the second
9 group, but who do not want the Receiver to attempt to salvage their policies. This group has an
10 interest in proceeding separately and without the costs associated with the receivership. This
11 group also has an interest in maintaining the status quo because if a multi-owner policy were to
12 mature tomorrow, the death benefit would be paid directly to those owners. These investors
13 would be paid roughly twice the value of their investment. Very likely, the funds that the
14 receivership has advanced to this point would not be repaid, or at least not without substantial
15 efforts to place a lien and/or to litigate with the insurance carriers and to collect sums from the
16 individual investors. So, these investors have an interest in having the rest of the investors pay
17 the premiums on their policies, and then collecting the death benefit. On the other hand, these
18 investors also have an interest in not overplaying their hand, so to speak, because unless they
19 really have an alternative means of paying the entire premiums on the policy, either through
20 personal funds or an alternative loan, then the abandonment of the policies will result in a total
21 loss of their investment.

22 6. The fourth group consists of investors who are unable to communicate their
23 views either because of limited address information or because they are unable to fully
24 appreciate their financial position. In addition to having a mix of the interests of the second
25 and third groups, this group has an interest in not losing the value of their investment simply
26 due to a lack of communication.

1 7. Although only one investor has filed a formal objection to the Motions, a large
2 number of investors have spoken with the Examiner and/or myself concerning both the request
3 of the Receiver to transfer ownership to the Receiver, and the pending Motions.

4 8. Generally speaking, investors favor transferring ownership to the Receiver. The
5 vast majority of the conversations that have occurred have been the result of calls from
6 investors who were attempting to determine whether or not to transfer their ownership to the
7 Receiver. Generally speaking, after a relatively short discussion, investors expressed the view
8 they very much prefer the Receiver's proposed corporate solution as opposed to attempting to
9 proceed individually. Specifically, investors favor using a bank line of credit as long as
10 possible, and, if necessary, salvaging the portfolio through a sale. These investors have no
11 other alternative means of salvaging their investment and/or they view the Receiver as being as
12 efficient as any other means of collective action. In other words, these investors fall into the
13 second group.

14 9. The Examiner and I have also heard from some of the members of the third
15 group. Within this group, there is also a relatively small, but vocal, contingent that does not
16 trust the Receiver. These investors believe strongly that the life expectancies of the insureds
17 are very short, and that even if premiums were paid over a period of ten years or more, the
18 overall economic result would be positive. These investors believe that a transfer of ownership
19 should not be made to the Receiver because of various objections to the receivership, such as
20 the cost of the receivership and also the potential that the Receiver would sell the policies at the
21 present market value, which both the Examiner and the Receiver would likely estimate as
22 considerably less than the amount invested originally in the scheme. It appears that there has
23 been an active effort on the part of these investors to persuade other investors as to their point
24 of view. There have been lengthy discussions with some of these investors. It does not appear
25 that these investors have an alternative means of funding the premiums. One of the investors
26 in this group has filed a formal objection that is of record. This objection further complains
27 that there is not enough information available as to the potential life expectancy and similar
28 due diligence information. These investors believe that the Receiver should expend further

1 resources to determine the relative value of the subject policies. Since this information is not
2 readily available to the Receiver, the Receiver has declined to expend further, essentially
3 borrowed, money in order to provide additional information to this investor group. The
4 position of the Receiver appears essentially to be that if it is a choice between something or
5 nothing, the investors really do not need to know the precise value of their policies in order to
6 make a decision, and the investors in the first and second groups have an interest in not seeing
7 additional money spent on what would likely be expensive efforts to locate the insureds and
8 persuade them to provide updated medical information. The Receiver is not in a superior
9 position to obtain this information in many instances because of the nature of the contracts and
10 documentation recovered from the Defendants.

11 10. With respect to the fourth group, the Receiver has made substantial efforts to
12 contact these investors, and there remain some investors with whom there has been no contact.
13 Additionally, there have been some conversations with investors who plainly do not understand
14 the nature of their investment. Some of these investors have joined the second group. Some of
15 these investors may not have responded at all.

16 11. Having spoken with investors of various opinions and studied the matter
17 extensively, the Examiner and I are of the opinion that the collective approach being pursued
18 by the Receiver is the only viable means of salvaging the policies. Having been directly
19 involved in viaticals receiverships since 2003, the Examiner and I are familiar with the
20 secondary market for insurance policies, both for what are called viaticals generally, and
21 specifically for the subcategory known as "senior life settlements" or simply "life settlements."
22 The senior life settlement market has been the subject of a number of schemes like that
23 presented in this case where investors were told that the life settlements were backed by bonds
24 that secured performance in the event of delayed maturity, or they were presented with
25 unrealistic and unsound life expectancy projections. In view of these misrepresentations, it is
26 not unusual for investors to pay as much as 50% of the face value of an insurance policy. In
27 contrast, the insured likely sold the policy to the involved broker for perhaps 10% of its face
28 value. Informed, sophisticated secondary purchasers of life settlement contracts typically pay

1 between 10% and 30% of face value, depending on a number of factors. These factors include
2 the ready availability of close communication with the insured, including access to medical
3 records upon demand. Additionally, it is preferred that the ownership of the policy be in a trust
4 or similar vehicle that allows for easy transfer of ownership, since insurance companies can be
5 very difficult to deal with in the case of secondary owners of life settlements. At the very least,
6 sophisticated purchasers require a transfer of the entire ownership so as to avoid the plight of
7 owners such as those in group two described above.

8 12. In the case of the subject policies, there are a number of factors that diminish
9 the value of these policies. First, a lender or secondary purchaser would expect to obtain full
10 ownership. Second, the underlying contracts with the insureds and the nature of the records
11 kept by the predecessor entities now in receivership are such that updated medical is not
12 readily available. Third, in the absence of that information, more precise life expectancy
13 information is not obtainable. All of these factors diminish the value of these policies.

14 13. A lender will only lend sums that are consistent with the value of the subject
15 collateral. As a result, the borrowing ability of the Receiver is limited to the net value of the
16 portfolio as a whole. If viewed on a policy-buy-policy basis, the Receiver's ability to borrow
17 against the multi-owner policies is nil.

18 14. It may well be that the individual interest of the hold-out investors would dictate
19 in favor of moving forward as a group. However, the Examiner and I have seen no evidence to
20 suggest that the hold-out investors are capable of organizing themselves in such a fashion.
21 Under these circumstances, the Examiner and I anticipate that proceeding forward with only a
22 partial interest in hand, the Receiver would essentially be borrowing against the good collateral
23 in the portfolio to pay for a windfall for the non-participating investors.

24 15. The Examiner and I have considered whether or not the Court, given the broad
25 powers of equity, would have authority to effect equitable relief that would assist the situation.
26 Although the Examiner and I are of the opinion that the Court has the power to do so, it is
27 unlikely that a lender would rest a loan upon such untested waters. This is particularly true in
28 view of the adverse view of insurance carriers, who might well independently contest the

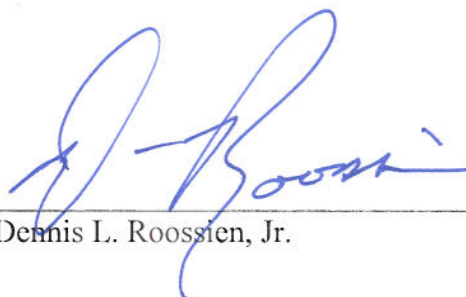
1 action of the Court simply in an effort to hamstring the viatical/life settlement industry as a
2 whole.

3 16. It may well be that a fair sale price is only roughly 10% of the face value
4 involved in this case. Bearing in mind that annual premiums are often in the range of 5% of
5 face, it is clear that even with 100% of the ownership of a policy, the Receiver's ability to lend
6 money against the portfolio is limited. Without knowing with any certainty as to when a
7 maturity might occur, the prospects of obtaining supplemental funds through a maturity is a
8 rapidly evaporating hope as the premium debt increases. Hence, the salability of the assets
9 comes increasingly to the fore.

10 17. In view of all of these considerations, the Examiner and I see no alternative but
11 to support the course of action proposed by the Receiver. The hold-out investors, whether
12 intentionally or unintentionally, render the multi-owner policies worthless. From the
13 perspective, then, of maximizing the value of the estate, it does not make sense to take from the
14 ability to salvage the better policies in order to further attempt to create a positive result for this
15 minority of investors. The Court has the ability, in equity, to grant an equal share of the net
16 salvaged amount to the investors who have offered to transfer their interests. If, on the other
17 hand, the Court concludes that equitably various investors should not share in the net recovery,
18 then the Court has the ability to even the playing field accordingly. But, it does not make sense
19 to allow the third group to continue to extract an unfair advantage at the expense of the rest of
20 the investors. Accordingly, the Examiner reluctantly supports the Motions.

21 18. I declare under penalty of perjury under the laws of the United States of
22 America that the foregoing is true and correct.

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Dennis L. Roossien, Jr.