



Please respond to:
Irvine

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Samuel J. Romero
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July 8, 2014

Unsecured Creditor

Re: In re Bay Area Financial Corporation
Case No.: 2:13-bk-38974-TD

Dear Unsecured Creditor:

As you likely know, this firm represents the Official Committee of Unsecured Creditors ("Committee") of the bankruptcy estate of Bay Area Financial Corporation ("Debtor"). With this letter, you will receive the Debtor's proposed First Amended Plan of Reorganization/Liquidation ("Plan") and Disclosure Statement describing the Plan, along with a ballot for voting to accept or reject the Plan. This letter will summarize some important aspects of the Plan. For the reasons discussed below, the Committee recommends unsecured creditors vote in favor of the Plan.

Summary of Plan

The Debtor's primary business consists mainly of collecting on outstanding promissory notes and selling real property that was obtained by the Debtor through foreclosure. The Committee has been closely involved with the Debtor in reviewing the Debtor's loan portfolio, collection of the notes, and the status of the sale of real properties. The Committee has also been heavily involved in reviewing and commenting on the Debtor's proposed Plan. The Plan included in this package is the product of extensive discussions and negotiations between the Committee and the Debtor. After much consideration, the Committee has determined that the Plan reflects the best opportunity for creditors to maximize their recovery.

The Plan proposes to proceed with an orderly sale of the Debtor's real estate assets and to maximize collections from its loan portfolio. The Liquidated Debtor (meaning the Debtor after Plan confirmation), through the Plan Administrator (named as Sam Biggs of Biggs & Co.) and subject to the powers of the Oversight Committee discussed below, will have duties including but not limited to: deciding when to sell assets; how to proceed on the collection of the Debtor's loan portfolio; what objections to claims to make; and, when and how to commence and resolve litigation. The Plan Administrator can only act after conferring, consulting, and obtaining the consent of the Oversight Committee, or obtaining Bankruptcy Court approval if the Oversight Committee objects or fails to give consent to a particular action proposed to be taken by the Plan Administrator.

Of Counsel to the Firm
A. Lavar Taylor
Donald R. Kurtz
Gregory J. Anderson

Oversight Committee

The Oversight Committee consists of: (1) one of the Committee members, Todd Fiorentino, who holds a note of over \$1,200,000 and has over twenty years of experience in residential and commercial real estate investments; (2) a longtime noteholder in the amount of over \$280,000, James Prause, who has over thirty years of experience in commercial real estate transactions and management; and (3) the Debtor's corporate counsel, Vincent Lombardo, who has been heavily involved in the collection activities of the Debtor over the last several years. The Oversight Committee will act in a manner similar to a board of directors and will oversee the Plan Administrator in his duties to liquidate assets and pay creditors. The Oversight Committee can act upon majority approval of the three members. Other than reimbursement for reasonable expenses, the Oversight Committee will not be compensated for their services.

Distributions to Unsecured Creditors

As to distributions to unsecured creditors, the Plan offers unsecured creditors who are owed less than or equal to \$200,000, or who wish to reduce their claim to the sum of \$200,000, the option of being paid under Class 4 or Class 5 discussed below. Creditors owed over the sum of \$200,000 will be treated in Class 5 discussed below.

Class	Payment Amount	When Payment Made	Restrictions
Class 4 Early Cash-Out	To be paid a total of 35% of your claim in full and final satisfaction of all amounts owed by the Debtor.	On the Effective Date (estimated to be September or October 2014), which is approximately thirty days after confirmation of the Plan. Although we think this is a remote possibility, if the Debtor does not have the ability to pay all Class 4 creditors the entirety of 35% of their claims on the Effective Date, the Debtor will pay Class 4 creditors a pro rata share of 70% of	1) Must be an unsecured creditor owed less than or equal to the sum of \$200,000 or willing to reduce your claim to \$200,000. 2) Must elect into Class 4 by so indicating on your voting ballot form.

		the funds on hand on the Effective Date and then the remainder plus 5% simple interest as soon as possible.	
Class 5 Deferred Payments	<p>The Debtor estimates creditors in this category will receive 54% of their claims. Please see Exhibit "8" to the Disclosure Statement and specifically the column entitled "Treatment Chapter 11" for the Debtor's analysis and estimate of how much creditors in this Class will receive.</p> <p>While the Committee is not certain what the ultimate distribution will be, the Committee believes Debtor's projection is reasonable and is hopeful it can be exceeded.</p>	<p>Payments will be made starting 90 days after Class 4 creditors are paid in full.</p> <p>Creditors in Class 5 will receive quarterly payments consisting of 70% of the funds on hand to be paid pro rata to all Class 5 creditors.</p> <p>Payments will end when all assets have been liquidated, estimated to be two to three years after the Effective Date.</p>	<p>1) If you are owed more than \$200,000, you will automatically receive payments as a Class 5 creditor unless you elect to reduce your claim to \$200,000 and elect into Class 4.</p> <p>2) If you are owed less than or equal to \$200,000, you will receive payments as a Class 5 creditor <u>unless you elect into Class 4.</u></p>

Voting

Enclosed with this letter, in addition to the Plan and Disclosure Statement, is a ballot for voting on the Plan. This ballot must be filled out completely and returned so that it is received no later than August 8, 2014 at 5:00 p.m. (PDT) by: (1) mail to Kelli Nielsen, Creim Macias Koenig & Frey LLP, 633 W. Fifth Street, 51st Floor, Los Angeles, CA 90071, (2) facsimile to 213-614-1961, or (3) e-mail to knielsen@cmkllp.com. Remember, if you wish to receive the early payment discount

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under Class 4 and are owed less than \$200,000, or are willing to reduce your claim to \$200,000, you must so indicate on the ballot and return it properly. As discussed herein, the Committee recommends unsecured creditors vote in favor of the Plan.

Should you have any questions, please feel free to contact Jim Bastian or myself at the Irvine office number indicated below or mlowe@shbllp.com. Also, please feel free to visit our BAF creditors' website to review documents and information at:

Website (case sensitive): <http://www.shbllp.com/case-information/>

Username (case sensitive): BAF

Password (case sensitive): nesve!1

Very truly yours,

SHULMAN HODGES & BASTIAN LLP



Melissa Davis Lowe

Enclosures

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