

# CHURCH EXTENSION OF THE CHURCH OF GOD, INC.

March 26, 2007

Dear Noteholder or Creditor of Church Extension of the Church of God ("CE"):

This letter and the accompanying schedules will update you regarding the progress of the Plan for Noteholder Repayment (the "Plan"). As of December 2006, CE has distributed just over 50% of the original claim balances pursuant to the Plan. A distribution in March 2007 brings the total to almost 52%. We, the members of the Reconstituted Board of Directors of CE and the remaining staff of CE continue to execute the Plan for your benefit, with the advice and counsel of our legal and professional advisors and with oversight from Jeff Marwil, Conservator. According to our latest recovery analysis and assuming there are no significant setbacks, **we are now expecting a total recovery of between 60% and 65% of your original claim balance.**

During 2006, approximately \$635,000 was generated from the sale of various assets. The remaining real estate portfolio includes commercial property, several church properties, and undeveloped land. We continue to actively market these properties and anticipate that they will be sold within the next 12 months.

The affordable housing portfolio now consists of three HUD financed apartment complexes in Memphis, TN. The sale and transfer of these properties is expected to occur in 2007 and is likely to provide a significant benefit for CE's creditors. The transfer of all USDA Rural Development properties was substantially completed in 2006.

In 2006, over \$4.0 million was collected in principal payments on the remaining portfolio of church loans, contracts, and notes receivable. The church loan portfolio is nearly completely liquidated. The three church loans remaining are all in various stages of default and we are making every effort to collect including the use of foreclosure. In a successful foreclosure, CE will eventually become the owner of the church property that is the underlying collateral. We will then have to sell that property to recoup our funds. We have one church loan that is in foreclosure and we expect to obtain that property by June of this year at the latest.

The remaining value of the real estate contracts and notes receivable including the amount left to collect on the seller financed portion of the sale of our retirement home facilities is approx. \$4.5 million. We continue to weigh our options for accelerating the collection of these funds.

## **Enclosures**

### Summary of Cash Activity

This cash activity statement details the cash receipts and disbursements for the period of June 2002 through December 2006.

### Summary Status Report

This summary report reflects the net proceeds received from the liquidation of CE assets as well as the principal payments received on the portfolio of financial assets.

### Updated Statement of Account

Your statement of account has been updated to reflect distributions through December 31, 2006. The distribution made in March 2007 is not included in this report so that you will have a year-end 2006 statement.

**Litigation**

The Conservator originally initiated four lawsuits. Two were complaints against former business partners (one of these was successfully settled during 2004). One was a complaint against the former auditing firm used by CE and one was a complaint against the former Board of Directors and certain Officers of CE (there was also a class action lawsuit pending for each of these lawsuits).

It was reported in last year's update that settlements were reached in all pending lawsuits. We are happy to report that all settlements were completed during 2006 with one exception. The settlement on the lawsuit against Curtis Cluff and Partners in Action, Inc. was not completed and, therefore, that litigation is still ongoing. The settlements with the former auditing firm and the former Board of Directors and Officers were completed and provided over \$7.0 million of distributable funds for noteholders and creditors. Most of these funds were paid out in a special distribution in August 2006.

We would like to thank the Integrity Advisors Group for their role in assisting the settlement of the Directors and Officers lawsuit. Integrity Advisors Group made a \$4 million contribution that was a crucial factor in that settlement. Those funds were included in the \$7 million that was paid in August 2006.

**Future Distributions**

We will continue to make periodic distributions as the remaining assets are liquidated. We are unable to predict the timing or the amounts of these distributions. It is not likely that distributions will occur in any regular fashion. As always, the ability to make distributions is solely dependent on having cash available from the sales of the remaining assets and the collections of the notes and mortgages receivable. The ability to make distributions is also affected by our estimates of future costs related to the liquidation effort. As indicated in our estimates of a total recovery of between 60% and 65%, there is still value to be realized in the remaining assets of CE and there will be additional distributions to the noteholders and creditors.

As we move closer to finishing our work of fully executing this Plan, we will update you on any significant events or changes in our recovery expectations.

Sincerely,



Frank Johnson  
Chair of Reconstituted Board of Directors



Barry L. Bentley  
Asset Restructure Officer