

LIQUIDATING TRUST

Dear Beneficiaries:

We continue to focus on maximizing returns to Beneficiaries through continued prosecution of our correspondent litigation and managing the timely and efficient wind down of the remaining Trust assets and activities.

Recent Highlights of the Trust's Activities

In the fourth quarter 2016, the Trust settled seven correspondent litigation cases and generated settlements of \$168.2 million. The settling defendants included American Mortgage Network Inc., First Mariner Bank, Plaza Home Mortgage, Inc., Primary Capital Advisors LC, Southtrust Mortgage dba Equibanc, Wells Fargo Bank NA and Wells Fargo Financial Retail. The Trust has reached settlements totaling approximately \$353.7 million for the year 2016 and \$398.0 million since the inception of the Trust.

The Trust filed an additional nine cases against correspondent lenders in the Federal District Court in Minnesota in December 2016/January 2017. In the December 2016 Financial Statements, the Trust has increased its estimated cost to operate the Trust to reflect expected liabilities associated with pursuing these new cases. In addition, the Trust increased its expected costs to operate the Trust to accrue expected liabilities for trial costs associated with certain of the pending correspondent cases proceeding to trial in 2018.

As of December 31, 2016, Net Assets for the Trust were \$315.5 million, an increase for the year 2016 of \$186.3 million.

Correspondent Lender Litigation

As of the date of this letter, the Trust is litigating 37 cases against correspondent lenders of Residential Funding Company LLC, for indemnity and breach of contract, which are pending in Federal District Court in Minnesota, Minnesota State Court and Federal Bankruptcy Court for the Southern District of New York.

Since inception of the correspondent litigation, the Trust produced over 3.2 million documents or, 48.7 million pages, and as of the first quarter 2017, the Trust is nearing completion of fact discovery in the cases filed prior to 2016. The Trust continues to be engaged in pre-trial discovery activities, primarily expert work in preparation for the expert discovery phase of the certain of the cases filed prior to 2016 which will occur beginning in the second quarter 2017. The expert phase of the cases filed prior to 2016 is expected to conclude at the end of 2017. The

Financial Statements reflect additional liability for pursuit of certain of the cases through trial which is expected to occur in 2018.

Assets

With the servicing transfer of the Mortgage Portfolio to LoanCare, LLC complete, the Trust has worked with LoanCare to aggressively pursue claim recoveries on our insured loan portfolio and develop strategic alternatives to optimize the disposition of our loan population. As of the end of 2016, our remaining gross balances on mortgage assets totaled \$294.1 million with a carrying value of \$174.7 million

Other Recoveries

The Trust successfully negotiated settlements with 15 Correspondent Lenders for \$5.2 million on a pre-litigation basis related to indemnity and breach of contract claims.

Claims

We continue to make progress resolving complex claims that have been reserved for in the Disputed Claims Reserve, reducing the number of active claims by two in the fourth quarter, from 35 to 33. The remaining Administrative Priority, Secured, and Convenience (“APSC”) claim that remained open at the end of the fourth quarter was resolved after the end of the year and completed all the APSC claims.

A special unit distribution from the Disputed Claims Reserve was completed in the fourth quarter. The special distribution was made to claimants who had Units separately held in the Disputed Claims Reserve for the sole satisfaction of their claims, as specified in the December 20, 2013 order of the Bankruptcy Court. We are in the process of reconciling the remaining claims and have been in contact with all of the claimants to work toward a final resolution.

Subsequent to December 2016, the Trust entered into a final stipulation with United States Department of Housing and Urban Development (“HUD”) which allowed the HUD claim as a general unsecured claim.

Regulatory

The Trust, as successor to the Debtors in the Bankruptcy case, is party to a settlement with the Department of Justice (“DOJ”) and completed its requirements review of mortgage loans for potential violations under the Servicemembers Civil Relief Act (“SCRA”) in October 2016. The

remaining obligation for the Trust with regard to SCRA is to work with and monitor Rust Consulting to ensure remediation activities are conducted as required.

The Office of Mortgage Settlement Oversight (“OMSO”) concluded their true-up of final expenses for the National Mortgage Settlement and returned \$3.2 million back to the Trust in December 2016 which concluded all activities with OMSO as required in DOJ settlement.

Administrative Expenses Set Aside

The Administrative Expenses Set Aside holds cash and other assets for the payment of Trust operating expenses. As of December 31, 2016, the Administrative Expenses Set Aside of \$279.3 million consisted of \$50.6 million in cash and \$228.7 million in pledged proceeds from future asset sales and/or recoveries.

Activity related to the Administrative Expenses Set Aside is as follows (in \$000’s):

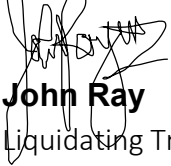
	Quarter ended December 31, 2016	Year ended December 31, 2016	Effective Date through December 31, 2016
Balance, Beginning of period	\$ 190,508	\$ 219,399	\$ -
• Additions - cash	90	230	286,534
• Additions - pledged proceeds from future asset sales and/or recoveries	88,688	59,657	228,639
• Withdrawals - cash	-	-	(235,887)
Balance, December 31, 2016	<u>\$ 279,286</u>	<u>\$ 279,286</u>	<u>\$ 279,286</u>

The Board determined that we would not make a distribution to our Beneficiaries during the fourth quarter 2016. The Board will continue to assess feasibility of a distribution considering various positions of the Trust and the status of the correspondent litigation.

The Trust’s fourth quarter 2016 financial report has been posted on our website at <http://www.rescapliquidatingtrust.com/#financial-statements>.

The Board and management of the Trust continue to work diligently towards the goal of maximizing value for Beneficiaries in the most efficient manner possible. We look forward to reporting on the results of our efforts.

Sincerely,



John Ray

Liquidating Trust Manager