

**IN THE DISTRICT COURT FOR THE FOURTH
JUDICIAL DISTRICT
OF HENNEPIN COUNTY, MINNESOTA
FILE NO. 27-CV-06-2262**

Alford, et al, Individually and on Behalf of All Others
Similarly Situated, Plaintiffs,

v.

Mego Mortgage Home Loan Trust 1997-1, et al.,
Defendants.

**NOTICE OF CERTIFIED CLASS ACTION
SETTLEMENT TO INACTIVE BORROWERS**

To: All persons (including co-borrowers) who obtained a mortgage loan from Mego Mortgage Corporation or a correspondent lender of Mego Mortgage Corporation, whose mortgage loan was acquired by Defendants from any such foregoing entity and which loan was secured by a mortgage or deed of trust on real estate located in the states of Colorado, Illinois, Indiana, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, or Washington.

Excluded from the class are: (a) Defendants and all directors, officers, agents, and employees of defendant; (b) Any person or entity who timely opts-out of this proceeding, and (c) any person who has given a valid release of the claims asserted in this suit.

You have not been sued. This notice is intended to inform you about litigation that may affect your legal rights. Please read it carefully.

A lawsuit has been preliminarily approved for settlement as a class action in state court in Minnesota on behalf of the named plaintiffs and all members of the class. This notice is not to be construed as an expression of any opinion by the District Court with respect to the merits of the respective claims or defenses of the parties. Rather, this notice is sent merely to inform you that this action is pending and advise you of legal rights you may have with respect to this action.

If you have any doubts as to whether your loan may be eligible under this settlement and/or the amount of the payment due to you for an eligible loan, you should contact the Settlement Administrator, at the address or phone number provided in the “Questions and Answers” section, prior to the claims bar deadline of September 21, 2006.

I. BACKGROUND OF THE ACTION

Plaintiffs filed the lawsuit now preliminarily approved for settlement against Defendants as a result of the purchase on the secondary market of mortgage loans claimed by plaintiffs to have been originated in violation

of certain laws. Specifically, Plaintiffs claim that certain Defendants purchased loans in which originators charged excessive fees or interest, or otherwise violated lending or consumer protection laws, all as specifically set forth in the Complaint on file and available at the Hennepin County Government Center, 300 South Sixth Street, Minneapolis, MN 55487-0421. The allegations are that the Defendants purchased and took assignment of these loans, and thereby took on liability of the originating lender for these claimed violations.

II. CURRENT STATUS AND DEFINED TERMS

On April 7, 2006, the District Court preliminarily approved the settlement class as fair, adequate and reasonable. If finally approved, the class will be certified as a settlement class and the settlement will bind the named plaintiffs and all absent class members who do not exclude themselves from the class.

“Active Loans” is defined as a class member whose loan was originally obtained from Mego Mortgage Corporation or a correspondent lender of Mego Mortgage Corporation, and, as of June 30, 2004, the loan had not been paid off, satisfied or discharged, and the loan is not a Defaulted Loan, and the borrower was not more than sixty (60) days delinquent on any payments due under the loan.

“Inactive Loans” is defined as a class member whose loan was originally obtained from Mego Mortgage Corporation or a correspondent lender of Mego Mortgage Corporation, and, as of June 30, 2004, the loan had been paid off, satisfied or discharged, or was a Defaulted Loan, or was more than sixty (60) days delinquent on any payments due under the loan.

“Defaulted Loan” is defined as a class member whose loan has been subject to any of the following events: (i) foreclosure or similar proceedings have been commenced, (ii) any portion of the mortgage payment has become 180 days past due, (iii) any obligor with respect to the Subject Loan has declared bankruptcy under Title 11 of the U.S. Code, or (iv) the servicer or any subservicer has determined in good faith and in accordance with customary servicing practices that such loan is uncollectible; provided however that any such loan shall not be deemed to be a Defaulted Loan if, as of the Determination Date, it has become fully cured and is being actively serviced in accordance with its original terms.

Based upon information provided by the current Servicer(s), the Settlement Administrator has determined that your loan qualifies as an Inactive loan. If you contend that your loan should qualify as an Active loan under the criteria outlined in the paragraph immediately above, you should promptly contact the Settlement Administrator at the address or phone number provided

for in this notice and then submit your “Proof of Claim” form as set forth below in more detail.

The amounts available to individual class members reflect an evaluation of the claims and potential recovery considering the facts as known to counsel after discovery and careful investigation, the likelihood of prevailing at trial, and the likelihood that this litigation, if not settled now, would be further protracted and involve complex issues of fact and law. The amounts shown below are also based upon an evaluation of the potential recovery available under state statutes, the effect of Inactive status on potential recovery, and certain potential defenses regarding the loans.

Inactive status of a loan may affect the value of a claim because many statutes provide as damages forgiveness of future interest, which would not be relevant if a loan was Inactive. Also, an Inactive loan would be more likely to face a statute of limitation defense and if Inactive due to default, could face potential counterclaims and defenses, including defenses against class treatment, that would not be faced by Active loans. Thus, Active loans generally have a higher cash settlement value than Inactive loans.

To obtain the exact amount of a class member’s payment under the terms of the proposed settlement, please consult the following charts:

SETTLEMENT AMOUNTS FOR SUBJECT LOANS:

States	Active Loans	Inactive Loans Not Defaulted	Defaulted Inactive Loans
PA	\$ 426.55	\$ 130.84	\$ 50.00
WA	\$ 426.55	\$ 130.84	\$ 50.00
NJ	\$ 644.63	\$ 116.31	\$ 50.00
OH	\$ 644.63	\$ 116.31	\$ 50.00
IN	\$ 644.63	\$ 116.31	\$ 50.00
TN	\$ 644.63	\$ 116.31	\$ 50.00
MI	\$ 644.63	\$ 116.31	\$ 50.00
NC	\$ 819.09	\$ 174.46	\$ 50.00
CO	\$ 993.56	\$ 232.62	\$ 50.00
MD	\$ 993.56	\$ 232.62	\$ 50.00
IL	\$1247.31	\$ 951.60	\$ 50.00

Based on existing information and assumptions on the number and type of qualifying loans, plaintiffs’ class counsel estimates that the aggregate settlement payments which could be made available for payment to class members, for payment of costs of administration, and for payment of court awarded fees and costs to plaintiffs’ counsel (not to exceed approximately \$415,000) would approximate \$1.7 million.

III. EFFECT OF SETTLEMENT ON CLASS MEMBERS

If you elect to be excluded from the class, you will not be bound by the terms and releases of the settlement or judgments of dismissal and orders in the above-captioned

action, but you will not be entitled to share in the benefits or receive any money from this settlement. Any class member who does not request to be excluded will automatically be included in this action as members of the class represented by the named plaintiffs, will be subject to and deemed to consent to the jurisdiction of the Minnesota Court and its orders, and will be deemed to have released and thereafter be forever barred from any claims against the released parties in respect to the loan, all as more fully explained in the Stipulation of Settlement available at the Hennepin County Government Center, 300 South Sixth Street, Minneapolis, MN 55487-0421. Such release also provides that the Court will forbid any participating class member from making any claims that the payment obligations under the loan are in any way invalid.

Specifically, each participating class member, by operation of the release and judgment, shall be deemed to have fully, finally and forever released, settled, compromised, relinquished, and discharged any and all of the released persons of and from any and all settled claims, and without further action by that person, they will be deemed (i) to have consented to dismiss with prejudice any and all settled claims and any outstanding actions in the litigation, (ii) to have released and forever discharged defendants and released parties from any and all settled claims, (iii) to be subject to an order of the Court forever prohibiting, barring and enjoining them or any person acting in concert with them from instituting or further prosecuting against defendants or any released party, in any forum whatsoever, including but not limited to any state, federal, or foreign court or regulatory agency, any settled claim, and to be forever prohibited, barred and enjoined from making any claim, assertion or defense that any obligation under the Subject Loan is in any manner invalid, void, voidable, or not payable, by virtue of the settled claims, and deemed to have affirmed all remaining obligations of the loan in accordance with their terms.

Each of the participating class members whose loan is not a Defaulted Loan and who has not yet fully paid his or her loan or has not discharged their mortgage loan in bankruptcy, acknowledges and agrees that: (i) his or her loan is not rendered invalid or otherwise unenforceable in any manner because of any of the settled claims, but rather is hereby reaffirmed as fully valid and enforceable in accordance with its terms; (ii) that the release of the settled claims include the release of all rights of rescission or a defense in respect to the obligations under the loan, and that the Court will bar and enjoin all participating class members and any person acting in concert with them from asserting any rescission, voidness, offset or other defense in respect to the obligations under the loan, and further finding that he or she has submitted to the jurisdiction of the Minnesota Court, and (iii) nothing in the settlement agreement shall in any way impair or lessen any participating class

member's obligation to pay such loans in full accordance with their terms.

IV. CO-BORROWERS AND SPOUSES

If your loan was obtained with a spouse or other co-borrower, both spouses or co-borrowers are class members, and both will have to provide their separate endorsements on any settlement payment. The settlement check will require you and any co-borrower, through your endorsement(s), to affirm your entitlement to the payment.

V. CHECK ENDORSEMENT

Class members who are eligible to receive a settlement payment must also sign an endorsement that accompanies the settlement check. The endorsement will read as follows: "By endorsing this check, the endorser(s) declare(s) under penalty of perjury that such endorser(s): (1) are entitled to receive, and are the only persons entitled to receive, benefits of the settlement in the Alford Action, (2) knowingly releases and discharges the Released Parties from the settled claims; and (3) understand and accepts the Court's bar against any claims or defenses regarding, and reaffirms all his/her/their remaining obligations on the Subject Loan. This check will be null and void if not cashed within 180 days of the date hereof." If you believe that you will not be able to sign this endorsement, please contact the Settlement Administrator prior to the claims bar date of September 21, 2006, at the address provided in the "Questions and Answers" section below.

VI. EXCLUSION FROM THE CLASS

If you do not wish to participate in this settlement, you must notify the Settlement Administrator by U.S. mail of your intention to be excluded. You must submit the "Form for Exclusion ('Opt-Out') from Class Action Settlement" submitted with this notice. The form indicating your intention to opt-out must be legible, must contain the following information, and must be signed by the class member opting-out: (1) the name of class member and any co-borrower, (2) the current address of class member and any co-borrower, (3) the telephone number of class member and any co-borrower, and (4) the e-mail address of class member and any co-borrower, if available. The letter must be signed by the class member and, even if not signed by any co-borrower, the loan will be deemed excluded from the settlement. No class member may opt-out by having an opt-out form submitted by an actual or purported agent or attorney acting on behalf of the class member, unless a fully lawful power of attorney, letters testamentary or other comparable documentation or court order accompanies the request. Further, the letter must be received on or before the opt-out deadline of September 11, 2006 and must be addressed to the following: Alford Class Action Exclusion Request, Alford Settlement Administrator,

P.O. Box 12723 Birmingham, AL 35202-2723. Failure to opt-out by the deadline, or to follow the above procedures, will result in a class member being bound by any judgments and orders in this case.

VII. OBJECTIONS TO THE SETTLEMENT AND RIGHT TO INTERVENE

If you wish, you may enter an appearance in the action personally or through your own attorney at your own expense. You may also seek to intervene if at any time you believe your interests are not being fairly and adequately represented by the class representatives and class counsel.

Any class member who wishes to be heard orally at the Fairness Hearing, or who wishes for any objection to be considered, must file a written notice of objection by July 31, 2006 and include the following information with the objection: (1) a statement of each objection asserted, (2) a detailed description of the facts underlying each objection, (3) a copy of the objector's HUD-1 form, (4) any other loan documents relied upon by the objector as a basis for the objection, (5) if the objector is represented by counsel, a detailed description of the legal authorities supporting each objection, (6) a statement of whether the objector intends to appear and argue at the Fairness Hearing, and (7) a copy of any exhibits which the objector may offer during the Fairness Hearing.

The objector must file the above documents with the Clerk of Court and serve notice of the objection to plaintiffs' class counsel and defendants' counsel at the following addresses no later than July 31, 2006:

Daniel O. Myers
Richardson, Patrick, Westbrook & Brickman, LLC
P.O. Box 1007
1037 Chuck Dawley Blvd., Building A
Mt. Pleasant, SC 29464

Patrick J. McLaughlin
Dorsey & Whitney, LLP
50 South Sixth St., Suite 1500
Minneapolis, MN 55402-1498

Objectors who fail to properly or timely file their objections with the Court or to serve them as provided above shall not be heard during the Fairness Hearing, nor shall their objections be considered by the Court. Only class members may object to the settlement, and persons who opt-out of the class may not object to the settlement agreement.

VIII. TAX CONSEQUENCES

Due to the amount of your settlement payment, U.S. Bank, acting in its capacity as Trustee, and/or the Settlement Administrator may be required to submit information regarding your settlement to appropriate taxing authorities. It is recommended that you seek

professional advice regarding the extent, if any, to which you may owe taxes on your settlement payment.

IX. FINAL FAIRNESS HEARING

The District Court will hold a hearing to decide whether to approve the settlement. You may attend and you may be able to speak, but it is not required. The Fairness Hearing will be held on October 5, 2006 at 8:45 a.m. the Hennepin County Government Center, 300 South Sixth Street, Minneapolis, MN 55487-0421. At this hearing, the Court will consider whether the settlement is fair, reasonable and adequate. If there are objections or requests to be heard, the Court may consider them. The Court may also decide the amount of attorneys' fees and costs to be paid to plaintiffs' class counsel.

QUESTIONS AND ANSWERS

1. WHAT DO I NEED TO DO TO PARTICIPATE IN THE ACTION?

If you believe you are a member of the class and desire to participate in this settlement, you should completely fill out the enclosed "Proof of Claim" form and return it to the following address: Alford Class Action Exclusion Request, Alford Settlement Administrator, P.O. Box 11487, Birmingham, AL 35202-1487. The "Proof of Claim" must be postmarked on or before the claims bar deadline of September 21, 2006. Failure to fully follow the procedures will result in a class member receiving no payment under the settlement, but nonetheless being bound by any judgments, orders and releases in this case. Full compliance with the spouse/co-borrower endorsement requirement is a condition to entitlement to any payment. Until such conditions are fulfilled, there is no entitlement to a settlement payment, and any related amount remains the property of Defendants.

If you have any doubts as to whether your loan may be eligible under this settlement and/or the amount of the payment due to you for an eligible loan, you should contact the Settlement Administrator in writing prior to the claims bar deadline of September 21, 2006 to get answers to these questions. The Settlement Administrator can be reached at the following address: Alford Settlement Administrator, P.O. Box 12723, Birmingham, AL 35202-2723. The Settlement Administrator may also be reached by phone at the toll free number of 800-699-7012, or via email at alford@noticeclass.com. The Settlement Administrator's website may be found at www.noticeclass.com/alfordsettlement.

2. WHO REPRESENTS THE CLASS?

(a) **Class Representatives:** The names of the class representatives are listed in the Complaint on file and available at the Hennepin County Government Center, 300 South Sixth Street, Minneapolis, MN 55487-0421. These individuals are all borrowers or co-borrowers who obtained a mortgage loan from Mego Mortgage

Corporation or, a correspondent lender of Mego Mortgage Corporation, whose loan was acquired by Defendants from any such foregoing entity and was secured by a mortgage or deed of trust on real estate located in the states of Colorado, Illinois, Indiana, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, or Washington. The class representatives have assisted class counsel in coordinating the prosecution of this action and in providing information needed to pursue the claims of all class members. Each class representative will be applying for an incentive award of \$3,000, which will not be paid from amounts available for class members.

(b) **Class Counsel:** In its order granting preliminary approval certifying the class for settlement, the District Court appointed Daniel O. Myers and Karl L. Cambronne as lead counsel to represent the named plaintiffs and to represent the interests of the absent class members. The Class Members are also represented by separate counsel in various states subject to the settlement.

3. WHERE DO I GET ADDITIONAL INFORMATION?

The foregoing is only a summary of the circumstances surrounding the litigation, the claims asserted, the class, the settlement, and related matters. You may seek the advice and guidance of your own private attorney, at your own expense, if you desire. For more detailed information, you may review the pleadings, records, and other papers on file in this litigation, which may be inspected during regular business hours at the Hennepin County Government Center, 300 South Sixth Street, Minneapolis, MN 55487-0421. If you wish to communicate with the Settlement Administrator, you may do so at the contact information set out above.

/s/The Honorable Kevin Burke

Fourth Judicial District for Hennepin Co.

IF YOU HAVE ANY QUESTIONS OR CONCERNS, ADDRESS ALL INQUIRIES TO CLASS COUNSEL IN THE MANNER SET FORTH ABOVE. THE COURT AND THE CLERK WILL NOT ANSWER LEGAL QUESTIONS FROM INDIVIDUAL CLAIMANTS. BY ISSUING THIS NOTICE, THE COURT EXPRESSES NO OPINION AS TO THE MERITS OF ANY CLAIMS OR DEFENSES ASSERTED IN THIS CIVIL ACTION. PLEASE DO NOT CONTACT THE COURT.