

Cherry Tree Mortgages Limited - in Administration

Joint Administrators' progress report for the period
13 April 2009 to 12 October 2009

5 November 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report prepared by the Joint Administrators (the "Administrators") of Cherry Tree Mortgages Limited (the "Company" or "Cherry Tree"), under Rule 2.47(3)(a) of the Insolvency Rules 1986.

This report provides an update on the work the Administrators' have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 12 October 2009.

Objective of the Administration

The Administrators are pursuing the objective of achieving a better result for the creditors of the Company as a whole, than would be likely if the Company were wound up (without first being in Administration).

The specific aim of the Administration is to:

- Protect and control the Company's portfolio of assets; and
- Realise these assets, including debtors and mortgage portfolios, on a managed basis.

Creditors' Committee

There were insufficient nominations to enable the formation of a Creditors' Committee in Cherry Tree.

Outcome for unsecured creditors

Based on the quantum of claims recorded in the Company records, the Administrators anticipate that there will be funds available to allow a distribution to be made to creditors.

The Administrators are therefore beginning the process of establishing in principle the claims of unsecured creditors. This is in line with the proposals as agreed by creditors on 18 December 2008. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

Extension of the Administration

On the application of the Administrators, the High Court made an Order extending the period of the Administration to 30 November 2010.

Future reports

The Administrators will next report to creditors in approximately six months time or when the Administration comes to an end, whichever is sooner.

Signed:



DA Howell
Joint Administrator
Cherry Tree Mortgages Limited

Section 2: Joint Administrators' actions to date

Overview

The principal activity of Cherry Tree is investment in the equity release mortgage portfolio of More 2 Life Limited with funding procured from LB SF No 1 – in Administration.

Administrators' actions to date

Upon their appointment, the Administrators took immediate action to identify and protect Cherry Tree's assets, principally comprising 400 equity release policies in which the Company held beneficial title.

A sale process was undertaken after specialist agents conducted a valuation exercise of the portfolio.

In July 2009, contracts were exchanged with a third party ("the Purchaser") to sell the entire mortgage portfolio for a total consideration of £14,201,068. Other Lehman Group companies, LB SF No.1 – in Administration and Mable Commercial Funding Limited – in Administration, were also party to the agreement and received some consideration from the Purchaser for certain of their assets.

Following exchange of contracts, the Purchaser paid a deposit to Cherry Tree of £1.75m on 30 July 2009.

The transaction was completed on 15 October 2009, on which date, Cherry Tree received the balance of the consideration, being £12,451,068.

The remaining assets are an intercompany debt due from another Lehman Group company in Administration and the potential value from surrendering tax losses. Work is being carried out by the Administrators' staff to determine the best methods to realise these assets.

Extension of the Administration

On 28 July 2009 the Administrators made an application to Court to extend the period of the Administration. The Court made an Order extending the Administration until 30 November 2010.

The application was made for the following

reasons:

- Entering into an insolvency process other than Administration has the effect of breaking the Group of Companies for tax purposes. The Administrators are aware that there are potential tax losses within this Company which may have value to this estate, and which would be lost if the Company entered into another insolvency process;
- The Administrators have not yet determined the most appropriate exit route from Administration.

Section 3: Statutory and other information

Court details for the Administrations:	High Court of Justice, Chancery Division, Companies Court Court no: 8953 of 2008
Full names:	Cherry Tree Mortgages Limited
Trading names:	Cherry Tree Mortgages Limited
Registered numbers:	05529374
Registered address:	25 Bank Street, London E14 5LE
Company directors:	CJ Patrick, EW Marley Shaw
Company secretary:	Clifford Chance Secretaries (CCA) Limited
Shareholdings held by the directors and secretary:	None of the directors own shares in the Company.
Date of the Administration appointments:	13 October 2008
Administrators' names and address:	DA Howell, DY Schwarzmann and AV Lomas of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
Appointer's name and address:	The directors of the Company, 25 Bank Street, London E14 5LE England.
Objective being pursued by the Administrators:	Achieving a better result for creditors as a whole than would be likely if the Companies were wound up (without first being in Administration).
Division of the Administrators' responsibilities:	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Directors of Cherry Tree Mortgages Limited (the "Company") have appointed Anthony Victor Lomas, Derek Anthony Howell and Dan Yoram Schwarzmann of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT as joint administrators of the Company. The joint administrators will act jointly and severally so that all functions may be exercised by any or all of them.
Details of any extensions for the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2010.
Proposed end of the Administrations:	The Administrators are not yet in a position to determine the most likely exit route from these Administrations and wish to retain the options available to them.
Estimated dividend for unsecured creditors:	There will be a dividend to unsecured creditors, but it is too early to estimate the quantum and timing of such a dividend.
Estimated values of the prescribed part and net property:	There is no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to these Administrations and these are the main proceedings.

Section 4: Financial information

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 22 May 2009, creditors resolved that the Administrators' remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached is an Appendix is a summary of the Administrators' time costs for the period 1 April 2009 to 30 September 2009, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed. We previously provided a time cost analysis for the period 13 October 2008 to 31 March 2009.

The SIP 9 summary shows that the total time costs for the period are £114,219, which represents 273.2 hours at an average hourly rate of £418.

To date, no remuneration has been drawn.

Receipts and payments account

Set out in Section 5 of this report is a receipts and payments account for Cherry Tree.

Section 5: Receipts and Payments account to 1 October 2009

	As at 1 October 2009 GBP (£)	As at 1 April 2009 GBP (£)	Movements GBP (£)
RECEIPT			
Loan from LBIE	1,601	-	1,601
Deposit received	1,750,000	-	1,750,000
Receipts Grand Totals	1,751,601	-	1,751,601
PAYMENT			
Statutory costs	1,400	-	1,400
VAT paid	227	-	227
Payments Grand Totals	1,627	-	1,627
NET POSITION	1,749,974	-	1,749,974
CASH BALANCES			
Bank of England	-		
HSBC	1,749,974		
Money market deposits	-		
Total Cash	1,749,974		

Appendix: Summary of the Joint Administrators' time costs for the period 1 April 2009 to 30 September 2009

Classification of work	PARTNER / DIRECTOR		SENIOR MANAGER / MANAGER		SENIOR ASSOCIATE		ASSOCIATE / SUPPORT STAFF		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Disposals	5.0	3,820	99.9	43,370	-	-	-	-	104.9	47,190
Strategy and Planning	9.1	6,932	18.7	8,048	23.2	7,215.0	4.4	576.0	55.4	22,771
Tax & VAT	0.3	196	18.4	11,011	-	-	0.2	35.0	18.9	11,242
Statutory, accounting and other *										
Accounting and treasury	0.0	31	4.1	1,601	3.3	960.0	10.5	1,868.0	17.9	4,460
Branches and Subsidiaries	0.3	196	-	-	-	-	-	-	0.3	196
Creditors and Counterparties	3.0	2,355	-	-	-	-	-	-	3.0	2,355
Intercompany	1.2	599	4.7	1,594	3.2	786.0	0.2	16.0	9.3	2,995
Interdependencies	0.1	43	2.3	935	4.3	1,353.0	0.8	150.0	7.5	2,481
Investigations	2.0	1,570	0.0	-	-	-	-	-	2.0	1,570
Reporting	2.5	1,963	13.4	5,088	27.8	8,660.0	8.3	1,611.0	52.0	17,322
Statutory and Compliance	2.2	1,638	-	-	-	-	-	-	2.2	1,638
Grand Total	25.7	19,343	161.5	71,647	61.8	18,974	24.4	4,256	273.4	114,220

* Note that the attached narrative for Statutory, accounting and other work stream, is a consolidation of the work types listed above.

The Joint Administrators' policy for charging for disbursements is:

Photocopying is charged at 3p per sheet for creditors and bulk copying
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)
All other disbursements are charged at cost

Costs to date (£)
-

Current charge out rates	Business Recovery Services	Specialist*	The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The remuneration is to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration	
Grade	Max £/hr	Max £/hr		
Partner	785	1,070	*Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown give an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to creditors in the next statutory report.	
Director	590	890		
Senior manager	450	810		
Manager	390	590		
Senior Associate	320	395		
Associate / Support Staff	200	200		

Appendix: Narrative of time costs

Asset Disposal - £47,190

Identified and reconciled equity release mortgage portfolio loan books which Cherry Tree holds;

- Worked with retained Lehman staff on loan reconciliation process
- Reviewed sale and purchase agreement between mortgage originator and Cherry Tree;
- Reviewed pricing and transfer mechanism for equity release mortgages;
- Prepared information memorandum for interested purchasers of mortgage book;
- Completed valuation of loan books using actuarial model;
- Met with parties interested in purchasing loan book;
- Costed and documented hold option;
- Commenced negotiation process with prospective purchasers;
- Worked with Linklaters and PwC Tax team to draft sale and purchase agreement;
- Liaised with Administrators of Mable Commercial Funding Limited and LB SF No. 1 on relationship and interest in any transaction involving the Cherry Tree loan books; and
- Finalised sign off of loan book transaction.

Strategy and planning - £22,771

- Reviewed financial information;
- Prepared detailed fee summary;
- Performed fee analysis for Administrators' update;
- Analysed timesheets for completeness and accuracy;
- Weekly review of activity on the estate by PwC staff;
- Worked on options surrounding mortgage portfolio asset – sell or hold;
- Answered and directed queries from teams;
- Signed off on loan portfolio transaction; and,
- Applied to court to extend the period of administration to 30 November 2010.

Tax & VAT - £11,242

- Review draft sale agreements on the disposal of assets in Cherry Tree and advise on likely tax implications;
- Company dormant in 2007 and prior periods; First tax return for the period 1 December 2007 - 12 October 2008, is currently being prepared.

Statutory, accounting and other - £33,017

- Managed Cherry Tree Administration database;
- Dealing with statutory issues;
- Reconciliation of Bank accounts;
- Review, reconciliation and verification of equity release mortgage loan portfolio, principally the "A1", "C1" and "C2" loan books; and
- Prepared Administrators' progress report.