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**Case Reference:**  
U.S. Securities & Exchange Commission (SEC) v.  
Emvest Mortgage Fund, LLC, Emvest, Inc., and  
Milon Lyle Brock  
United States District Court  
Southern District of California  
Case No.: 04cv2295-DMS(LSP)  
Receiver Appointed: 12/03/04

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Dear Emvest Investor:

August 14, 2007

The first half of 2007 has ended, and here is a report on the status of the Emvest Mortgage Fund (the "Fund"), including a financial summary.

1. Overview of Real Estate Market and Subprime Loan Market:

A front page article in the Wall Street Journal on August 7<sup>th</sup> commented on the "subprime storm that has sunk two hedge funds run by Bear Stearns Cos., knocked American Home and dozens of other lenders out of the business, battered an already weak housing market and fueled weeks of stock-market turmoil."

As you know, the general real estate market nationwide has softened significantly over the past year. Home prices have been falling while foreclosures have been increasing. During the first half of 2007, the subprime loan market (i.e. mortgage loans made to borrowers with lower credit ratings) has also seen a dramatic decline. The Wall Street Journal, for example, recently used the term "crisis" to describe the current subprime mortgage situation. It is now common to hear of institutional subprime lenders suffering large losses, or of hedge funds losing much of their value. The Emvest Mortgage Fund has been affected by the same negative market forces, although not nearly to the same extent.

2. Financial Statements for the Period Ending 6/30/07:

Each month, detailed financial statements for the Fund are posted on the Fund's website (<http://emvest.info>). Here is a summary of the attached financial statements for the period ending 6/30/07:

a. Income Statement: For the first six months of 2007, the Fund recorded a net loss of \$118,437. This is primarily due to a "Bad Debt" expense of \$500,000 which was taken in June to reflect the possibility of future losses on certain loans in the Fund's portfolio. Although these losses have not actually happened yet, under Generally Accepted Accounting Practices (known as "GAAP"), the expense is shown when it becomes apparent that the bad debt loss may happen. The amount of \$500,000 is my good faith estimate of the total possible exposure on loan losses. (Of course, I am taking many actions to see that any possible losses are reduced or eliminated, as I shall discuss below.)

b. Balance Sheet: For the period ending 6/30/07, an "Allowance for Foreclosed Assets" was increased by \$500,000 to a total of \$586,446. This reflects the Bad Debt of \$500,000 which was taken in June. The amount of "Real Estate Owned" of \$470,000 reflects real estate which has been taken back by the Fund through foreclosures.

c. Recap of Members' Equity: As of 6/30/07, the book value of a \$10,000 original investment is \$9,397 (i.e. about 94% of your original investment). After sustained growth in the value of your investment throughout the Receivership, the recent drop in your equity is a reflection of the \$500,000 bad debt write-off taken in

June. When put into the context of the overall turmoil in the real estate and subprime mortgage markets, the Emvest Mortgage Fund is in far better shape than many others.

d. Status of the Fund's Loan Portfolio: As of 6/30/07, nine of the Fund's loans were in some stage of the foreclosure process. I have been working closely with delinquent borrowers to help them to avoid foreclosure. To speed the sale of properties that were taken back through foreclosure, a marketing plan has been implemented to increase their "curb appeal" and to restore them to "move-in condition". I have made site visits to two recently foreclosed properties and have met with local brokers to market the properties aggressively.

### 3. Converting Equity into Ownership of Individual Note or Real Estate Owned:

Please remember that you may convert your equity in the Fund into individual ownership of any of the Fund's Notes or any of the Fund's Real Estate Owned. All of the Fund's loans are for sale at their current face value. If you (or someone you know) have any interest in purchasing any of these loans or real estate owned by the Fund, please contact me for further information on how to proceed.

Here is an example of how the process works:

a. If your original investment was \$200,000, your capital account is now at about 94% of that original investment; hence you would be able to use \$188,000 of equity towards purchase of a particular note (or notes) of your choice. If you selected a note with a face of \$200,000, then you would have to contribute additional cash of \$12,000 to have that note assigned to you.

b. If you continue to use FCI (the current loan serving agent) to service the loan, then they would charge you their current rate of \$15.00 per month plus half of any late fees; they also provide you with convenient on-line access to your account activity through their web site.

c. If you have a small capital account but are interested in converting your equity into ownership of a note, please contact me. I will try to help put you together with another Fund investor so that together you have enough equity to purchase a Note.

d. The benefits of this approach are that it could be done quickly, that you would receive the monthly payments made by the borrower on the loan, and that you would receive a note for essentially the entire amount in your capital account. The negative is that you might have to foreclose on the borrower if payments were not made on the note.

Sincerely,

Dennis M. Murphy  
Permanent Receiver

Enclosures