

THE FPGI CREDITOR TRUST
**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**
JUNE 30, 2001

INDEPENDENT AUDITOR'S REPORT

To the Trustee, Trust Committee and Beneficial Interests of
The FPMI Creditor Trust
Dallas, Texas

We were engaged to audit the accompanying consolidated statement of net assets in liquidation of The FPMI Creditor Trust and subsidiaries (the "Trust") as of June 30, 2001, and the related consolidated statement of changes in net assets in liquidation for the period from inception (May 10, 2000) through June 30, 2001. These financial statements are the responsibility of the Trust.

As discussed in Notes 3 and 9 to the financial statements, assets underlying the Cash Flow Instrument are subject to numerous lawsuits, which could potentially materially diminish or eliminate the value of the Cash Flow Instrument. The Trust is currently unable to predict the outcome or estimate the effect of these lawsuits and has recorded the Cash Flow Instrument at zero due to the significant uncertainty regarding its valuation. Also, the Trust's subsidiary, First Plus Bank, has been named as a defendant in numerous lawsuits. The Trust is currently unable to estimate the ultimate liability associated with these lawsuits.

Since the Trust is unable to estimate the impact of the matters described in the preceding paragraph and we were not able to apply other auditing procedures to satisfy ourselves as to the impact of these matters, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

HEIN + ASSOCIATES LLP
Certified Public Accountants

Dallas, Texas
December 5, 2001

THE FPFI CREDITOR TRUST

CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION

JUNE 30, 2001

ASSETS

Cash and cash equivalents	\$ 6,901,000
Restricted cash	432,000
Cash flow instrument	-
Investment in FirstPlus Bank	21,765,000
Other Assets	<u>103,000</u>
Total assets	<u>\$ 29,201,000</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 6,283,000
Secured residual creditor settlements payable	<u>1,200,000</u>
Total liabilities	<u>7,483,000</u>

CONTINGENCIES (Note 9)

NET ASSETS AVAILABLE FOR LIQUIDATION FOR BENEFICIAL INTERESTS \$ 21,718,000

See accompanying notes to these financial statements.

THE FPMI CREDITOR TRUST

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

FOR THE PERIOD FROM INCEPTION (MAY 10, 2000) TO JUNE 30, 2001

REVENUES:

Servicing fee income, net	\$ 4,484,000
Interest income	658,000
Other income	<u>350,000</u>
Total revenue	5,492,000

COSTS AND EXPENSES:

Equity in net loss and change in estimated value of net assets of Bank	4,554,000
Professional services and fees	3,922,000
Salaries and employee benefits	1,782,000
Interest expense	1,270,000
Occupancy and office expenses	815,000
Change in estimated values of net assets	497,000
Other expenses	<u>335,000</u>
Total costs and expenses	<u>13,175,000</u>

Change in net assets (7,683,000)

Net assets at May 10, 2000 29,401,000

Net assets at June 30, 2001 \$ 21,718,000

See accompanying notes to these financial statements.

THE FPGI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The FPGI Creditor Trust (the “Trust”) was formed under the laws of the state of Texas and created for the benefit of certain creditors of FirstPlus Financial, Inc. (the “Debtor”) pursuant to the Third Amended Plan of Reorganization (the “Plan”) filed by the Debtor and confirmed by court order dated April 25, 2000. The Disclosure Statement Under 11 U.S.C. § 1125 in Support of Debtor’s Third Amended Plan of Reorganization (“Disclosure Statement”) and the related letter to creditors should be read in conjunction with the accompanying financial statements to fully understand the various factors impacting the ultimate distribution to creditors as beneficial interest holders. These notes and assumptions related thereto shall have the meaning ascribed to such terms in the Disclosure Statement and Plan, unless otherwise defined.

The Trust was formed in accordance with the Trust Agreement for the FPGI Creditor Trust (“Trust Agreement”) by and between the Debtor and the Trustee. The objective of the Trust is the liquidation of the Trust Assets (as defined) and the distribution of the cash proceeds there from to the Beneficiaries of the Trust in accordance with the Trust Agreement.

In accordance with the Trust Agreement, the Trustee and members of the Trust Committee shall be indemnified by and receive reimbursement from the Trust against any and all loss, claims, damages, liabilities or expenses, including payment of attorneys’ fees and other costs of defending himself, which such Trustee may incur or sustain, without gross negligence or willful misconduct, in the exercise and performance of any powers and duties of the Trustee under the Trust Agreement.

The Trust Agreement provides that the Trust shall terminate upon the earlier of (1) May 9, 2005, (2) payment of all Class 4 and 5 allowed claims, or (3) the distribution of all Trust assets. However, the Trustee, with the approval of the Bankruptcy Court may extend the life of the Trust if it is in the best interests of the beneficiaries. The Trust is classified as a liquidating trust for federal income tax purposes.

The Trust’s financial statements are presented on the liquidation basis of accounting, which requires assets to be valued at their estimated net realizable values and liabilities to be estimated at amounts to be paid in settlement of the entity’s obligations. The Trust’s estimates of net realizable values may vary from the amounts ultimately received in light of changing business, legal and economic conditions and other factors. These differences may be significant.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiary, Western Interstate Bancorp, Inc (“WIB”). All significant intercompany accounts and transactions have been eliminated in consolidation. FirstPlus Bank (the “Bank”) is also a wholly-owned subsidiary of the Trust, but is reflected as an investment, rather than consolidated in these financial statements, because the Bank is currently under a court and regulatory supervised liquidation in the State of California. Therefore, the Trust does not currently control the assets of the Bank. The accounts of FirstPlus Financial, Inc. (the “Debtor”) are not consolidated with the Trust at June 30, 2001, because its common stock was not held by the Trust at that time.

THE FPFI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity in FirstPlus Bank

As described above, the Bank is recorded as an investment of the Trust. As such, the Trust records the estimated net realizable value of the net assets of the Bank as one line item in the accompanying consolidated statement of net assets in liquidation, rather than recording the individual assets and liabilities of the Bank. Also, the Trust records the net income or loss and change in estimated value of the net assets of the Bank as one line item in the accompanying consolidated statement of changes in net assets in liquidation, rather than reporting the individual components.

Cash and Cash Equivalents

The Trust considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash represents cash received by WIB, in the normal course of its servicing business, in the form of principal and interest payments on mortgages, and premiums for mortgage insurance due to mortgage investors or mortgage insurance providers, respectively. The amounts will be disbursed to the current loan servicer or insurance provider when resolved and requested.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due, if any, plus net deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets include recognition of operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. Valuation allowances are recognized to limit recognition of deferred tax assets where appropriate. Such allowances may be reversed when circumstances provide evidence that the deferred tax assets will more likely than not be realized.

The Trust is classified for federal income tax purposes as a “liquidating trust” within the meaning of section 301.7701-4(d) of the Treasury Regulations. Accordingly, per section 7.6 of the Trust Agreement, transfers to the Trust shall be treated as if all the transferred assets, including all the Trust Assets, had been first transferred to the Beneficiaries and then transferred by the Beneficiaries to the Trust. The Beneficiaries shall be treated as the grantors of the Trust and the owners of the Trust.

Use of Estimates and Certain Significant Estimates

The preparation of the Trust’s financial statements in conformity with generally accepted accounting principles requires management of the Trust to make certain estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. Significant assumptions are required in the consideration of unresolved legal issues related to implementation of the Plan as well as actions against certain assets of the Trust. Additionally, significant assumptions are required to value the Cash Flow Instrument, as described in Note 3, and in valuing the assets of the Bank (see Note 4). It is at least reasonably possible these estimates could be revised in the near term and those revisions could be material.

THE FPFI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated Costs of Liquidation

Financial statements prepared on the liquidation basis of accounting often include an accrual of the estimated costs to complete the liquidation. Due to the uncertainty of the economic life of the Trust and the cost to defend the litigation described in Note 9, management of the Trust believes a meaningful estimate of the remaining cost to complete the liquidation of the Trust is not currently possible, and no such estimate has been included in the accompanying financial statements.

3. CASH FLOW INSTRUMENT

Prior to bankruptcy, the Debtor originated, marketed, and serviced home equity loans. As part of its business, the Debtor sold the home equity loans it generated into securitization trusts in exchange for cash, which cash was used by the Debtor to repay warehouse lines of credit utilized to fund the origination of the home equity loans. In these securitization trusts, the Debtor retained residual interests that provide cash payments over an extended time back to the Debtor. These residual interests, called "Residuals" in the Plan and Disclosure Statement, primarily represent the excess of interest income earned on the home equity loans over certain costs to service and administer the loans, interest expense paid to bond holders, and loan losses. A detailed explanation of the securitization process and the creation of the Residuals begins on page 7 of the Disclosure Statement.

The Debtor has many different secured creditors. For the most part, these secured creditors loaned money to the Debtor, which loans are secured by the Residuals retained by the Debtor. The Debtor believed there was substantial value in its Residuals in excess of what was owed to the secured creditors and created a cash flow instrument representing such excess value, which was pledged to the Trust. The Cash Flow Instrument, as defined in the Plan, is the instrument executed by the Debtor at Closing providing for certain Cash payments from the Debtor to the Trustee on behalf of the Trust in accordance with Section 6.5.9 of the Plan.

Determination of the fair value of the Cash Flow Instrument requires valuation techniques based on many significant assumptions. As noted above, the basic underlying assets of the Cash Flow Instrument are certain Residual Assets owned by the Debtor, which are subject to certain Allowed Secured Claims from outside lenders. The Cash Flow Instrument will make quarterly payments from the Debtor to the Trustee of all cash flow from the Residual Assets after prior satisfaction of all Allowed Secured Claims against the Residual Assets and payment of any federal income taxes.

As noted above, there are significant assumptions related to estimating the net realizable value of the Cash Flow Instrument. The two main estimates affecting the cash flows to the underlying Residual Assets are the expected prepayment speeds and the expected default rates to be experienced on the underlying second lien mortgages. These estimates are based on prior experience and market trends. In addition, the impact of potential litigation against the securitization trusts described in Note 9 could materially diminish or eliminate the value of the Cash Flow Instrument. Additional material items necessary to determine the value of the Cash Flow Instrument include the availability and utilization of tax benefits, the amount of Class 4 Allowed General Unsecured Claims, and the amount of Estate Cash, WIB Note Cash and Settlement Note Cash to be distributed to Class 4 General Unsecured Creditors.

THE FPFI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These assumptions and estimates are subject to a number of uncertainties and accordingly are subject to significant adjustment, based on the occurrence of unpredictable future events, which could have a material impact on the carrying value of the Cash Flow instrument. Management of the Trust has estimated a range of values of the Cash Flow Instrument without consideration of the possible effects of the lawsuits. Management's estimates, which use various assumptions for possible default and prepayment rates, result in a wide variance of estimated values. This factor, along with the possible impact of the lawsuits described above, has led management to conclude it is not practicable to estimate the net realizable value of the Cash Flow Instrument and to carry it at zero. Value for the Cash Flow Instrument will not be recognized until cash is received by the Trust, or until such time the material factors impacting these estimates become more certain.

4. INVESTMENT IN FIRSTPLUS BANK

As of June 30, 2001, the Bank is a wholly-owned subsidiary of the Trust. However, as described in Note 2, the Trust's investment in the Bank is accounted for as an investment rather than consolidated in the accompanying financial statements. The investment in the Bank is reflected at the estimated net realizable value of the net assets of the Bank without an accrual for any potential liability resulting from the pending litigation against the Bank described in Note 9. However, the Bank has accrued an estimate of legal costs associated with defending the claims described in Note 9.

The following is the summarized statement of net assets in liquidation of the Bank at June 30, 2001:

Cash	\$ 890,000
Investments	7,606,000
Loans receivable, net	14,702,000
Other assets	<u>779,000</u>
Total assets	<u>\$ 23,977,000</u>
Accounts payable and accrued liabilities	\$ 2,009,000
Due to affiliates	<u>203,000</u>
Total liabilities	<u>2,212,000</u>
Net assets in liquidation	<u>\$ 21,765,000</u>

The following is a summary of the changes in net assets in liquidation of the Bank:

Revenues		\$ 16,996,000
Operating expenses		(21,759,000)
Changes in estimated values of net assets		<u>209,000</u>
Change in net assets		(4,554,000)
Net assets at May 10, 2000 at historical cost (unaudited)	26,478,000	
Trust's adjustment to liquidation basis	<u>(159,000)</u>	
Net assets at May 10, 2000 at liquidation basis		<u>26,319,000</u>
Net assets at June 30, 2001		<u>\$ 21,765,000</u>

THE FPFI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. DISPOSITION OF LOAN SERVICING BUSINESS

On August 29, 2000, WIB's loan servicing business was sold for \$28.5 million plus accrued interest of \$1.1 million. As part of the transaction, the purchaser also assumed a liability of the Debtor's to pay certain amounts of the future servicing revenues to the NIMS bondholders, which are secured by the Debtor's Residual Assets.

A portion of the proceeds from the sale was used to pay operating expenses at WIB, shutdown costs and to pay certain claims against the servicing rights. The amount of sale proceeds disbursed to pay liens against the servicing rights was approximately \$21.5 million, with approximately \$15.2 million going to pay-off the principal balance of a bank loan, collateralized by the servicing rights, and the remainder going to pay-down servicing related accrued liabilities. Additionally, WIB paid \$7.5 million on the WIB Note to the Trust.

6. SETTLEMENT WITH SECURED CREDITORS

Pursuant to the Plan, settlements were reached with certain secured residual creditors that provided for upfront payments from the existing estate cash and proceeds from the sale of WIB's servicing business. These payments on the secured creditors debt take preference over the payments to the beneficial interests. As of the date of confirmation, the total obligation under the settlement agreements was \$14 million due to three secured creditors. As of June 30, 2001, the total outstanding obligation was \$1.2 million. The remaining balance was paid subsequent to June 30, 2001.

7. BENEFICIAL INTERESTS

Pursuant to the Plan, the Trust was established for the benefit of the holders of Class 4 and 5 unsecured allowed claims. The beneficial interests in the Trust are uncertificated. Payments to the beneficial interest holders of the Trust are defined by the Plan. The Trustee has the authority to make Distributions of Available Cash at such time or times the Trustee believes there is sufficient Available Cash to warrant a Distribution.

As of June 30, 2001 and the date of this report (December 5, 2001) all of the creditor elections have not been received and the Trust is still in the process of disputing certain claims. As of November 30, 2001, the total allowed claims of Class 4 and 5 creditors are approximately \$65,000,000 and \$19,000,000, respectively; while the Class 4 and 5 claims still in dispute are approximately \$81,000,000 and \$0, respectively.

8. INCOME TAXES

As described in Note 3, the Trust has not recorded any value for the Cash Flow Instrument due to the uncertainty of the realization of the value. Accordingly, the Trust has not recorded any deferred tax liabilities that would be associated with that value. At June 30, 2001, the Trust has no other material current or deferred tax assets or liabilities.

THE FPFI CREDITOR TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. CONTINGENCIES

The Cash Flow Instrument (backed by the Residual Assets) and the Bank are significant assets of the Trust. Shortly after the closing of the Plan, certain borrowers filed claims as members of putative classes of borrowers against various defendants, including certain FirstPlus Securitization Trusts, which hold the underlying loans that fund payments on the Residual Assets, FirstPlus Bank as an originator of loans, and certain wholesale correspondent loan originators, each of whom sold loans to the Debtor. These borrowers seek recovery of alleged excess payments and other damages from the Bank, as originator, and the securitization trusts, as assignees and holders of security interests in the mortgage loans. The plaintiffs also seek declaratory judgments that the loans are void. The claims are based on consumer protection statutes in the various states. To date, no court has certified a class of borrowers.

The Bank has commenced a proceeding to effect an orderly liquidation of claims against the Bank under California corporation law, including, if and as filed in the liquidation proceeding, the various pending state actions in which the Bank is named. This process is designed to ensure a fair and orderly treatment of Bank creditors and the Trust, as equity holder and is under the supervision of the state of California court and regulatory authorities. Management of the Trust currently believe it is reasonably possible the Bank will incur no loss, other than its legal fees, related to these claims. The maximum loss to the Bank would be the value of the Bank's net assets, which at June 30, 2001 are estimated to be \$21,765,000.

The securitization trusts have been amended to allow a legal defense fund to defend against these claims. In addition, the Trust believes it has certain protections from the Debtor's bankruptcy proceeding that may serve as a defense to the claims. However, if the claims against the securitization trusts were successful, the value of the Residual Assets (and thus the Cash Flow Instrument) would be diminished, potentially to the full extent of the value of the Cash Flow Instrument.

The ultimate disposition of these matters is not known at this time and may have a material adverse effect on the Cash Flow Instrument and the financial condition of the Bank and ultimately the Trust.

10. SUBSEQUENT EVENTS

On September 10, 2001, the common stock of FirstPlus Financial, Inc. was placed into a sub-trust of the Trust.
