

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT is made and entered into by and among the United States of America ("United States"), acting through the United States Department of Justice, on behalf of the Department of Housing and Urban Development ("HUD"), collectively the "Agencies," on the one hand, and Litchfield Financial Corporation, its subsidiary Land Finance Company and its immediate parent Textron Financial Corporation, collectively "Litchfield," on the other. Litchfield and the Agencies identified above shall be collectively referred to in this Settlement Agreement as the "Parties."

WHEREAS the Interstate Land Sales Full Disclosure Act, 15 U.S.C. §§ 1701 *et seq.* ("Act"), requires certain developers, as that term is defined in Section 1701(5) of the Act, to file a statement of record with HUD and to furnish a property report to purchasers of lots subject to the Act, prohibits developers from engaging in improper or fraudulent practices in connection with the sale of lots subject to the Act, and provides that failure to provide a property report to a purchaser authorizes the purchaser to rescind the purchase transaction;

WHEREAS Buyers Source, Savannah, L.L.C., a Virginia limited liability company, Buyers Source, Valley Group, L.L.C., a Virginia limited liability company, and Buyers Source, Sugarmill, L.L.C., a Virginia limited liability company, and related entities (collectively "Buyers Source") have been primarily engaged in the sale of lots, including lots located in subdivisions in Savannah Lakes, South Carolina, Sugarmill Woods, Florida, and Apple Valley, Ohio (hereinafter the "Subdivisions");

WHEREAS the Agencies allege that, in connection with lots located in the Subdivisions, Buyers Source was a developer under the Act and failed to file a statement of record with HUD or to furnish property reports to certain purchasers of lots located in the

Subdivisions and engaged in a series of fraudulent sales practices in connection with the sale of lots located in the Subdivisions (collectively the "Prohibited Practices");

WHEREAS the Agencies have commenced a civil action against Buyers Source and other third parties in connection with the Prohibited Practices;

WHEREAS based upon the results of its investigation, HUD contends that Buyers Source issued notes that failed to notify purchasers of their two-year statutory right of revocation when property reports are not provided, that Litchfield provided financing to Buyers Source for the sale of the subdivision lots, and that Litchfield, among other things, aided and abetted Buyers Source in violation of the Act;

WHEREAS Litchfield denies that it is subject to the Act, and denies that it aided or abetted Buyers Source or otherwise violated the Act;

WHEREAS the Settlement Agreement shall not constitute an admission of wrongdoing, liability, or legal fault on the part of Litchfield for any conduct underlying this Settlement Agreement, nor shall it be construed as an admission that any person or entity acted wrongfully, unjustifiably or otherwise;

WHEREAS, to avoid litigation and further expense, and to reach a mutually satisfactory settlement;

NOW, THEREFORE, in consideration of the mutually negotiated promises, covenants, and obligations in this Settlement Agreement, the Parties reach a fully final settlement as set forth below:

1. This Settlement Agreement is effective on the date of signature of the last signatory to the Settlement Agreement (hereinafter the "Effective Date"), provided that

Litchfield may rescind this agreement by notifying Samuel C. Kaplan at the United States Department of Justice, in writing, on or before 5:00 pm EST on November 17, 2003.

2. Within forty-five (45) days of the Effective Date of this Settlement Agreement, Litchfield shall offer to all of the consumers who made notes to Buyers Source that Litchfield acquired or holds and who currently have outstanding obligations to Litchfield under the terms of those notes (hereinafter the "Open-Loan Consumers"), a choice of the following options ("Settlement Options"):

- a) tendering to Litchfield, or Litchfield's successor or assign, the Open Loan Consumers' deeds to their lots as consideration for full satisfaction of their obligations under the promissory notes secured by these lots (hereinafter the "Promissory Notes"); or
- b) a \$9,000 reduction in and recast of the Open-Loan Consumers' principal balance, effective at the later of their February 2004 payment or the date that they satisfy the condition set forth in paragraph 5; or
- c) a \$4,000 cash payment to the Open-Loan Consumers, effective within 30 days of the later of their acceptance or the date that they satisfy the condition set forth in paragraph 5, together with a \$3,000 reduction in and recast of the Open-Loan Consumers' principal balance, effective at the later of their February 2004 payment or the date that they satisfy the condition set forth in paragraph 5.

3. Litchfield shall notify the Open-Loan Consumers of the Settlement Options in the form of a letter (hereinafter "Letter"), a copy of which is attached as Exhibit A, sent

via registered mail, address correction requested. After the Effective Date, Litchfield shall not accept any consumer's offer to pay off or otherwise reduce the obligation on their note (beyond their February 2004 payment) without first ensuring that the consumer received a copy of the Letter. For any consumer who requests additional information with respect to option 2(b) or 2(c), Litchfield shall provide to HUD copies of all correspondence sent in response to the consumer. Litchfield shall make a commercially reasonable effort to locate those Open-Loan Consumers whose letters are returned to sender. The Open-Loan Consumers shall have sixty (60) days from receipt of the Letter to accept one of the Settlement Options. Litchfield may, in its sole discretion, allow Open-Loan Consumers more time within which to accept one of the Settlement Options. In the event that the Open-Loan Consumer fails to respond to the Letter within the 60-day period and Litchfield does not extend the deadline, Litchfield shall have the ability to exercise all rights that it may have with respect to the Promissory Note.

4. Within thirty (30) days of Litchfield's receipt of the Open-Loan Consumer's acceptance of the option described in paragraph 2(a) and the Open-Loan Consumer's satisfaction of the condition set forth in paragraph 5 (the "Eligibility Date"), Litchfield, or its successor or assign, shall effect the full satisfaction of the Open-Loan Consumer's obligations to Litchfield. In the event that compliance with applicable legal procedures, such as the Uniform Commercial Code, delays full satisfaction, Litchfield shall be accorded a reasonable period to effect such satisfaction. The Open-Loan Consumer is obligated to convey good and clean title (excluding claims, liens, or encumbrances of, by, or through Buyers Source, or any related entity, principal, agent, employee, or customer other than the Open Loan Consumer himself), and specifically to pay all taxes, fees, and dues associated

with the lot until the earlier of: (a) the date that Litchfield effects the full satisfaction of the Open-Loan Consumer's obligations to Litchfield, or (b) 30 days following the Eligibility Date. After such time, Litchfield will assume liability for all taxes, fees, and dues associated with the lot. Litchfield agrees that it will work in good faith to effect the full satisfaction of the Open-Loan Consumer's obligations to Litchfield.

5. To obtain any of the options described in paragraph 2, Open-Loan Consumers must be current in their regularly scheduled payments through February 2004. Those who elect to retain their lots (2(b)-(c), above) are obliged to pay all interest accruing up to the time the principal is reduced. Open-Loan Consumers who are not current on their obligations to Litchfield, but who nonetheless wish to obtain the benefits of one of the options set forth in paragraph 2, may receive said satisfaction if they become current in their regularly scheduled payments through February 2004 by May 31, 2004. If the Open-Loan Consumer accepts one of the Settlement Options but does not become current on the obligations described above by May 31, 2004, and if Litchfield in its discretion does not extend the May 31, 2004, deadline, any waiver executed by such Consumer in consideration for the Settlement Option shall be null and void. If Litchfield extends the May 31, 2004, deadline and such Consumer does not become current on the obligations described above, any waiver executed by such Consumer in consideration for the Settlement Option shall be null and void.

6. Litchfield shall not revoke any outstanding offers made in writing prior to the execution of this Agreement to any consumer.

7. Within thirty (30) days of the Effective Date of this Settlement Agreement, Litchfield shall offer to pay \$1,500 by the later of December 31, 2003 or 30 days from the

date that the offer is accepted, and an additional \$1,500 by December 31, 2004, to all consumers who have paid off their loans (the "Closed-Loan Consumers").

8. Litchfield shall notify the Closed-Loan Consumers of the offer described in paragraph 7 in the form of a letter, a copy of which is attached as exhibit B, sent via registered mail, address correction requested. Litchfield shall make a commercially reasonable effort to locate those Closed-Loan Consumers whose letters are returned to sender. The Closed-Loan Consumers shall have sixty (60) days from receipt of the Letter to accept Litchfield's offer. Litchfield may, in its sole discretion, allow the Closed-Loan Consumers more time within which to accept the Offer.

9. Within 30 days of the Effective Date of the Agreement, Litchfield shall provide HUD with a list of all Open-Loan and Closed-Loan Consumers (collectively "Consumers"), the original interest rate and amount financed on each Consumer's loan, and the loan balance on each Consumer's loan.

10. By June, 30, 2004, Litchfield shall provide HUD with a list of:

- a) The names and addresses of all Consumers who elected to participate in this Settlement Agreement, and the option that they selected;
- b) The names and addresses of all Consumers who elected not to participate in this Settlement Agreement; and
- c) The names and last known addresses of all Consumers whom Litchfield was unable to contact.

11. If HUD is able to ascertain the current addresses of the consumers identified in paragraph 10(c) and provides that information to Litchfield, Litchfield shall send the

appropriate letter to those consumers not later than 30 days after receipt of the information from HUD.

12. Litchfield warrants that it is the holder or owner of the Promissory Notes, and that it has the legal right to take all actions required under this Agreement with respect to said notes.

13. As a condition of the settlement between Litchfield and the Agencies, the Agencies agree that in any action the Agencies take against Buyers Source, the Agencies will not seek rescission as a remedy from Buyers Source for the notes acquired from Buyers Source by Litchfield. The Parties agree that nothing in this Settlement Agreement shall be construed to waive, release, reduce and/or affect in any way the rights of Litchfield, and its successors and assigns, to seek recourse and/or pursue any and all claims or causes of action against third parties, including but not limited to, Buyers Source, its directors, officers, managers, members, attorneys, investors, lenders, employees, agents, representatives, subsidiaries, affiliates, successors and assigns for any and all injuries, losses, and damages relating, among other things, to Litchfield's purchase of the Promissory Notes, the Prohibited Practices, and/or this Settlement Agreement.

14. In consideration of the foregoing, the Agencies hereby waive, release, and remit Litchfield, its directors, officers, investors, lenders, employees, agents, representatives, parent, subsidiaries, affiliates, successors and assigns from any civil or administrative claim, sanction, or remedy, direct or indirect, that the Agencies have for or relating to any matter underlying this Settlement Agreement or involving Buyers Source and Litchfield, including the Act and any statute, regulation, or common law theory creating a cause of action for civil or administrative claims, sanctions, remedies, damages, or penalties.

15. Litchfield hereby waives, releases, and remits any and all claims, directly or indirectly, against the Agencies, or any employee, agent, or representative of the Agencies, for the actions of the Agencies in pursuing their rights and claims leading to the settlement of this matter.

16. Notwithstanding any other term or condition of this Settlement Agreement, specifically reserved and excluded from the scope and terms of the releases in this Settlement Agreement are any and all claims based on such obligations as are created by this Settlement Agreement.

17. The Parties agree that this Settlement Agreement or acceptance by Consumers of any of the Settlement Options constitutes the settlement of disputed claims and not cancellation of indebtedness.

18. Litchfield denies that it is subject to the Act or its regulations; however, in all future transactions involving the purchase, hypothecation, or other acquisition of promissory notes connected to the purchase of subdivision lots, Litchfield agrees:

- a) to require developers to certify whether the subdivision lots are subject to or exempt from the Act. If a developer contends its lots are exempt from the Act, Litchfield will require the developer to supply an independent legal opinion to that effect, and, such an opinion will, at a minimum, specify the exemption claimed and the factual and legal basis for the claim. The legal opinion shall be provided by an attorney selected or approved by Litchfield.

Litchfield may reasonably rely on the certifications and factual representations of developers, and independent legal opinions, but

shall not rely on factual representations that it actually knows to be false.

b) if the developer certifies that the lots are subject to the Act, Litchfield shall

- (1) verify with HUD that the developer is properly registered, if this information is readily available from HUD;
- (2) require developers to provide Litchfield with a copy of the property report that the developer is providing to purchasers;
- (3) require developers to provide signed acknowledgments from purchasers that they received copies of the property report in advance of the purchasers' execution of the sales agreement; and
- (4) if Litchfield determines that the developer is not complying with the above procedures, it shall not acquire any additional notes from the developer or its agents unless and until the developer complies.

19. Litchfield and its directors, officers, employees, and agents agree to cooperate reasonably with the Agencies in their ongoing investigation of, and any litigation arising out of said investigation with, Buyers Source and any other individual or entity related to this matter.

20. This Settlement Agreement constitutes the complete agreement between the Parties as to the matters addressed herein. This Settlement Agreement may not be amended except by written consent of the Parties.

21. Each of the Parties to this Settlement Agreement shall bear its own attorney's fees and costs, including the preparation and performance of this Settlement Agreement.

22. The Parties represent that this Settlement Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever. No provision of this Settlement Agreement shall be construed against any party by reason of such party having drafted such provision of the Settlement Agreement.

23. By this Settlement Agreement the Parties do not waive, compromise, or release any claims or causes of action against any other person or entity not expressly released by this Settlement Agreement.

24. Failure by any Party to enforce any provision of this Settlement Agreement shall not be construed as a waiver by such Party of any provision, nor in any way affect the validity of this Settlement Agreement or any part thereof.

25. If any provision of this Settlement Agreement is determined to be invalid or unenforceable for any reason, then such provision shall be treated as severed from the remainder of this Settlement Agreement and shall not affect the validity and enforceability of

all the other provisions of this Settlement Agreement as long as such severance does not materially change the Parties' rights and obligations.

26. This Settlement Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

27. Each person who signs this Settlement Agreement in a representative capacity warrants that his or her execution of this Settlement Agreement is duly authorized, executed, and delivered by and for the entity for which he or she signs.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.

ON BEHALF OF THE UNITED STATES OF AMERICA

Dated: November 14, 2003

By: Joseph H. Hunt
Joseph H. Hunt
Director
Federal Programs Branch
United States Department of Justice
Civil Division
20 Massachusetts, N.W.
Washington, DC 20001

ON BEHALF OF THE U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

Dated: 4/17/03

By: *J.C. Weicher*

JOHN C. WEICHER
Assistant Secretary for Housing-
Federal Housing Commissioner
U.S. Department of Housing
and Urban Development
451 Seventh Street, SW, Room 9100
Washington, DC 20410-8000

ON BEHALF OF LITCHFIELD FINANCIAL CORPORATION

Dated: 10/30/03

By:



Donald C. Henderson
Senior Vice President
Litchfield Financial Corporation
40 Westminster Street, 12 Floor
Providence, RI 02903

DRAFT LETTER FROM TEXTRON BUSINESS SERVICES ON BEHALF OF
LITCHFIELD FINANCIAL CORPORATION
(OPEN LOANS)
NOTICE OF SETTLEMENT OFFER

[Date]

[Customer Name]

[Address]

Re: [Lot Description] ("Lot")
[Subdivision]

Dear

Textron Business Services Inc., which services the loan which you originated through Litchfield Financial Corporation ("Litchfield"),* is writing to inform you of a development related to the Lot you purchased from Buyers Source, and the promissory note you signed.

Litchfield acquired a number of promissory notes like yours from Buyers Source during the period 1999 through 2001. The U.S. Department of Housing and Urban Development ("HUD") believes Buyers Source sold Lots, at prices far above market value, while telling buyers that their purchases were good investments, and that these sales violated a federal law known as the Interstate Land Sales Full Disclosure Act.** As a result, HUD has sued Buyers Source and many individuals associated with Buyers Source.

Litchfield does not believe it was involved in any wrongdoing in connection with the Buyers Source account. Indeed, Litchfield believes that it is also a victim of Buyers Source's wrongdoings, and Litchfield will suffer a significant financial loss because of its relationship with Buyers Source. However, to avoid expensive and time-consuming litigation, Litchfield and HUD have agreed on a settlement. The settlement does not include Buyers Source and you are free to pursue any claims you may have against them.

The terms of the settlement include three options that are designed to provide financial assistance to you with your Buyers Source promissory note:

1. **You may cancel your obligation by deeding your Lot to Litchfield.** By doing so you will no longer own your Lot. However, your obligation to make any additional payments to Litchfield in connection with your note will be extinguished. Litchfield will give you a release of its claim against you, and you will give Litchfield a release of any claims you might have against Litchfield. If you choose this option, Litchfield will have up to thirty (30) days to complete the transaction, during which time you will continue to be responsible for all taxes, dues, and fees associated with your Lot. You will not make any further loan payments to Litchfield after your acceptance of this offer, except to the extent a payment is necessary to bring your account current through your February 2004 payment. Following your February payment, your outstanding obligation to Litchfield will be zero.

2. **You may retain your Lot and receive a \$9,000 reduction on the outstanding balance of your promissory note.** If you choose this option, Litchfield will reduce the principal of your loan by \$9,000 beginning with your March 1, 2004 payment (which will cover your reduced February payment obligation). This option will reduce both your monthly payment and your total interest costs over the life of the loan, but you will be required to continue to make payments over the term of the note. If you are interested in this option, Litchfield will promptly supply the details of those savings and obligations.

3. You may retain your lot *and* receive an upfront cash payment and a principal reduction. If you choose this option, Litchfield will give you a cash payment of \$4,000 within 30 days of your acceptance of the Agreement, and will reduce the principal of your loan by \$3,000 beginning with your March 1, 2004 payment (which will cover your reduced February payment obligation). This option will reduce both your monthly payment and your total interest costs over the life of the loan, but you will be required to continue to make payments over the term of the note. If you are interested in this option, Litchfield will promptly supply the details of those savings and obligations. If your monthly payments are, at any time, more than 90 days delinquent, and as a result Litchfield institutes foreclosure proceedings, you will be obligated to return the \$4,000 cash payment, in addition to any other liability on the Note.

If you take advantage of any of the options listed above, you will waive all claims against Litchfield, but you will not waive your rights to seek damages against Buyers Source or any of its employees or principals. You are eligible for the above options only if you have made all your payments due through your February 2004 payment, including: 1) all principal and interest payments and 2) all taxes, fees, or other obligations associated with your Lot. If you are not current on these obligations, you may still participate by choosing an option now and bringing these obligations current by May 31, 2004.

The decision is yours to make. To accept one of the three options contained in this offer, please complete the enclosed *Notice of Acceptance* letter and return it in the enclosed postage paid envelope. Please mail your response within 60 days after you receive this letter. If you do not, this offer will expire. Litchfield will provide you with follow-up documentation within 30 days after receipt of your response.

If you wish to decline the offer, you may keep your Lot, continue to make payments, and retain any legal rights you might have in connection with your property or the Loan. If you keep your Lot and/or pursue other possible remedies, it may be advisable for you to seek the advice of an attorney. It may also be helpful for you to determine the value of your property before pursuing other remedies.

Neither Litchfield nor HUD can act as your legal counsel or give you advice on whether to accept this offer. However, if you wish to contact Litchfield, please call _____ at (866) 666-4784. If you wish to contact HUD, please call Brian McManus at 202-708-0614, extension XXXX.

PLEASE NOTE THAT CONTACTING LITCHFIELD BY PHONE DOES NOT CONSTITUTE A RESPONSE TO THIS OFFER.

Sincerely,

Textron Business Services, Inc.
as Servicing Agent for Litchfield Financial Corporation

* The term "Litchfield" includes its subsidiary, Land Finance Company, its immediate parent, Textron Financial Corporation, and their successors and assigns.

**Briefly, the law requires developers to provide buyers with a disclosure statement about the subdivision and the lot. It also outlaws certain sales Practices that developers use. For example, HUD

contends that in this case Buyers Source sold lots at prices far above their market value while telling buyers that their purchases were good investments.

HUD included Litchfield in its investigation because Litchfield acquired a number of promissory notes from Buyers Source between 1999 and 2001. Litchfield does not believe it was involved in any wrongdoing in connection with the alleged Prohibited practices, and claims that it did not know of Buyers Source's illegal sales practices. Litchfield denies that it is subject to – or violated – the Act.

NOTICE OF ACCEPTANCE OF OFFER AND WAIVER OF CLAIMS

I wish to participate in the settlement, and I select the following option:

(choose only one of the following three options)

Option 1 _____ (To participate in the settlement by deeding your Lot to Litchfield, thereby giving up your ownership of the Lot, relieving yourself of any further obligations to pay the Note you signed when you bought your Lot from Buyers Source, and waiving any other rights you might have against Litchfield).

Option 2 _____ (To keep your Lot, receive a \$9,000 reduction in the principal of the Loan and a reduction in your monthly payments, continue to make payments over the life of the Loan, and waive any other rights you might have against Litchfield).

Option 3 _____ (To keep your Lot, receive a \$4,000 cash payment, receive a \$3,000 reduction in the principal of the Loan and a reduction in your monthly payments, continue to make payments over the life of the Loan, and waive any other rights you might have against Litchfield).

In consideration for the settlement terms offered by Litchfield Financial Corporation in accordance with the letter to the undersigned dated _____, the undersigned expressly releases (and covenants and agrees that the undersigned shall not now or hereinafter institute, maintain or assert in any way) any claims against Litchfield Financial Corporation, Land Finance Company, Textron Financial Corporation, their predecessors, successors, parents, officers, directors, employees, agents, attorneys, or assigns past or present (collectively "Litchfield"), which claims are based upon or arise out of the undersigned's purchase of a lot or lots from Buyers Source (or any entity related to Buyers Source) and any financing arrangements concerning such purchase of a lot or lots, including without limitation any claims that Litchfield violated any federal, state, local or common law obligation to the undersigned. This release does not in any manner impair or impede any rights that the undersigned has to bring an action against Buyers Source, affiliates of Buyers Source, or officers, directors, employees, agents, attorneys of Buyers Source past or present, or any assigns of Buyers Source except Litchfield.

I understand that I will not be able to participate in this settlement and that this waiver and release shall be null and void if, by May 31, 2004, I have not made all monthly payments through February 2004.

I understand that if I have chosen option 2 or option 3, I must continue to make all payments required after the terms of option 2 or option 3 are implemented until the entire remaining balance of the loan is paid. If I choose Option 3 and am at any time more than 90 days delinquent in my monthly payments and Litchfield institutes foreclosure proceedings, I understand that I will be obligated to pay back both the cash I received and any principal still outstanding.

Date:

Lot # [sender will insert]

Subdivision [sender will insert]

Name [sender will insert all names on promissory note and leave signature lines for all required signatures]

All individuals listed in the foregoing paragraph must sign this page to make it effective.