

THE LIFE SETTLEMENTS REPORT

NEWS, INFORMATION, & ANALYSIS OF THE SECONDARY MARKET FOR LIFE INSURANCE

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TOP STORIES

- Coventry First settled the New York attorney general bid-rigging lawsuit.
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NEWS IN BRIEF

Life Partners settled a regulatory case; a survey says settlements receive only sporadic media coverage; Pang's death may have been suicide; a fundraiser was charged in a corruption case; NFP split into two groups; ISC Services will continue despite Fishman's death; women in settlements formed a networking group; Ameritrans Capital wrote down a portfolio; Life Partners expects to report a profit; Coventry started a new servicing company; Browndorf is a new sub-advisor for Marquee; the Kentucky insurance department surveyed agents; GHF Group says subscriptions exceed its target; Fortress formed a strategic alliance; and more.....4

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COVENTRY SETTLES BID-RIGGING SUIT

by Donna Horowitz

Provider **Coventry First** has settled a three-year-old bid-rigging lawsuit brought by the New York Attorney General's Office, agreeing to pay \$10.5 million to the state and another \$1.4 million to policy owners.

The settlement, in which Coventry makes no apology and admits no wrongdoing, ends litigation that had cast a taint on the life settlement market and one of its biggest players.

"We're pleased it's behind us and the industry," said Alan Buerger, chief executive of the Fort Washington, Pa.-based provider. "It was a distraction."

In a prepared statement, Coventry said it also was not assessed any fine or penalty as part of the settlement reached on Sept. 11.

But the firm is under order to refrain from certain business practices and abide

by others, and to submit summaries of its transactions to the attorney general's office at the end of every quarter for the next five years.

"It will be interesting to see to what extent the terms of this settlement cause other industry participants to change their practices," said Mark Freitag, an attorney who advises settlement market players, with the law firm of **Locke Lord Bissell & Liddell** in Atlanta.

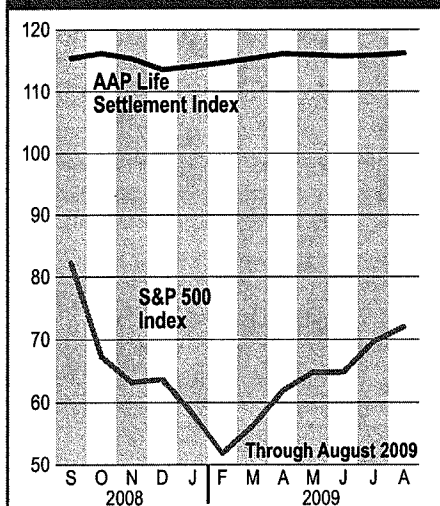
Coventry said in its statement that "the parties agreed on a set of business practices that establishes a model for the life settlement industry."

The agreement requires disclosure of compensation to policy owners, Coventry said. The firm said it has long supported legislation in New York requiring full disclosure of fees to intermediaries.

The agreement also requires Coventry

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LIFE SETTLEMENTS VS. STOCKS



Source: AA-Partners; indexes at 100 in December 2008

SEC CONTINUES PROBE OF MARKET, SECURITIZATION ISSUES

Despite a congressional hearing on securitizing life settlements that fizzled last week, federal scrutiny of the market is not letting up.

The Government Accountability Office is in the beginning stages of a broad review of the market and the Securities and Exchange Commission has set up its own task force to study the industry.

Some market players believe the SEC is trying to expand its authority over the market, although an SEC official disputed that assertion. Others in the settlement market said they see no problem with the SEC taking a greater interest if that brings more consistent enforcement of securities laws.

But market participants don't expect the SEC to wrest control of the front end of the market from state insurance regulators who are responsible for looking out for the policyholder's best interest.

SEC Chairman Mary Schapiro has long been interested in making the

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TEXAS SECURITIES BOARD INVESTIGATING BANKRUPT A&O FUND

by Maria Brosnan Liebel

The Texas State Securities Board is investigating a life settlements company accused by investors of fraud, and an Illinois judge has appointed a former federal prosecutor as trustee in the company's bankruptcy in an effort to recoup millions of investors' dollars.

A&O Life Fund LLC and six related entities have listed more than 700 creditors in Chapter 11 petitions filed Sept. 2 in the U.S. Bankruptcy Court for the Northern District of Illinois.

The A&O funds were managed by Russell Mackert of **Shepherd Capital Management** in Bellaire, Texas. He has said in court filings that \$29 million worth of policies are in danger of lapsing because money held by a Mississippi title company hired to pay policy premiums has been tied up in a separate lawsuit against that company.

But Deborah J. Fritsche, a Texas attorney representing investors, said she suspects that Mackert could be protecting the original fund managers and shuffling the life insurance policies into other funds that have not filed for bankruptcy.

Exactly how much is owed to investors is unclear. A&O's filings listed hundreds of creditors, mostly individuals, with the amounts owed as "unknown." But each A&O entity reported \$1 million to \$10 million in estimated liabilities. One investor claims in a lawsuit that his family is owed \$10 million. Many others invested tens to hundreds of thousands of dollars in the funds as part of their individual retirement accounts, according to people familiar with the matter.

The bankruptcy judge appointed Patrick M. Collins as trustee in the case. Collins is a former prosecutor in the U.S. Attorney's Office in Chicago, where he oversaw the office's corruption unit for four years and supervised

the prosecution on corruption charges against former Illinois Gov. George Ryan. Collins is now a partner with the law firm of **Perkins Coie** in Chicago.

Collins obtained a court order last Friday to get access to the Texas State Securities Board's investigative materials, he told *The Life Settlements Report* in an interview. Collins would not comment on the focus of the state investigation, but described it as "an investigation of some magnitude."

Last year, the Texas securities board and the Texas Department of Insurance filed cease-and-desist orders against **Provident Capital Indemnity**, a Costa Rican bond company that was supposed to insure A&O's life settlement investments. The securities board order stated that Provident and its representatives were selling unregistered bonds and bonded life contracts, also referred to as line of credit promissory notes with security agreements, through unregistered dealers in the state. Provident allegedly represented that the investments would return 15% annually.

In a July 31 letter to investors, Mackert said he learned of a lawsuit filed against Provident for failure to pay on a bond. "It can only be presumed" that an A&O claim to Provident will not be paid, he said.

Mississippi Unraveling

But the issue with Provident is only one of A&O's problems. Frozen accounts because of legal action against **Prestige Title Co.** in Biloxi, Miss., "was the start of the unraveling" for A&O, said Fritsche.

Lawyers Title Insurance Corp. filed the lawsuit against Prestige in February in the U.S. District Court for the Southern District of Mississippi. Lawyers Title claimed that Prestige deposited