

**IN THE CHANCERY COURT FOR LEWIS COUNTY  
AT HOHENWALD, TENNESSEE**

**IN RE:** )  
 )  
 **SENTINEL TRUST COMPANY** ) **NO. 4781**  
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**NOTICE OF FILING OF COMMISSIONER-IN-POSSESSION’S AND RECEIVER’S  
SCHEDULE OF CLAIM DETERMINATIONS AND MOTION SEEKING  
APPROVAL OF THE SCHEDULE OF CLAIM DETERMINATIONS AND  
APPROVAL OF THE METHODOLOGY PROPOSED TO CALCULATE  
DISTRIBUTIONS ON ACCEPTED CLAIMS**

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**I. NOTICE OF FILING OF SCHEDULE OF CLAIM DETERMINATIONS**

Pursuant to T.C.A. § 45-2-1504, the Commissioner-in-Possession and Sentinel Trust Company Receiver (“Receiver”) give notice of the filing with the Chancery Court for Lewis County, Tennessee (“Receivership Court”) of the Schedule of Claim Determinations, which is attached hereto as **Exhibit A**.

The Commissioner-in-Possession and Receiver have complied with T.C.A. § 45-2-1504(f)(4) by posting an earlier iteration of the Schedule of Claim Determinations on the website for the Tennessee Department of Financial Institutions on December 29, 2005, by making available for inspection at the Receiver’s business office a copy of that Schedule of Claim Determinations since January 2, 2006 and by mailing, on December 29, 2005, a notice to all Sentinel Trust Receivership estate claimants informing them of the website posting and the making available for inspection of that Schedule.<sup>1</sup> See Notice attached as **Exhibit B**. The Commissioner-in-Possession and Receiver have caused a notice of the filing of the Schedule of

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<sup>1</sup> There are slight differences between the Schedule made available on January 2, 2006 and the Schedule attached as **Exhibit A**. Those differences will be explained through the discussion set forth herein.

Claim Determinations to be published in *The Tennessean* on January 6, 15 and 22, 2006 and the *Lewis County Herald* on January 5, 12 and 19, 2006, pursuant to T.C.A. § 45-2-1504(g). See Exhibit C.

Pursuant to T.C.A. § 45-2-1504(g), any claimant that objects to the determination of his/her/its claim (i.e., denial of the claim, approved amount of claim and/or classification of claim) must file an objection in this Receivership Court within twenty (20) days of the date of this filing. Attached as **Exhibit D** is a Notice to All Sentinel Trust Receivership Claimants of Claim Determinations which informs each claimant, amongst other matters, that any objections must be filed in the Chancery Court for Lewis County, Tennessee on or before Monday, February 20, 2006.

**II. MOTION FOR APPROVAL OF THE SCHEDULE OF CLAIM DETERMINATIONS AND APPROVAL OF THE METHODOLOGY UTILIZED IN CALCULATING DISTRIBUTIONS ON ACCEPTED CLAIMS**

The Schedule of Claim Determinations sets forth amounts that have been determined as owing to the claimants and establishes a priority as to that amount so owed. It also sets forth those claims that the Commissioner-in-Possession and Receiver recommend be denied and the reasons for such denial. In some instances, the Schedule of Claim Determinations sets forth the recommendation that final determination of various claims be deferred and the reasons for that deferral. The Schedule of Claim Determinations does not establish the amounts that will be paid upon each accepted claim because it is not expected that the insolvent Sentinel Trust Receivership estate will have sufficient funds to pay the claims at 100%. However, as explained herein, the Commissioner-in-Possession and Receiver have set forth a methodology to calculate 1) the distribution of funds as to accepted claims generally and 2) an anticipated interim

distribution on such claims specifically. Through this Motion, the Court's approval of both the Schedule of Claim Determinations and the methodology for calculating distributions is sought.

**a) Requested Approval of the Schedule of Claim Determinations**

There are three basic determinations set forth in the Schedule of Claim Determinations for which approval of the Court is sought: 1) acceptance or denial of the claim, 2) establishing an approved amount as to the accepted claims and 3) the prioritization of the claims.

**i) Acceptance or Denial of a Claim**

As shown in the "Claim Priority" column of the Schedule of Claim Determinations (**Exhibit A**), the Commissioner-in-Possession and the Receiver have denied numerous claims. There are several separate reasons that have given rise to the Commissioner-in-Possession's and Receiver's denial of various of the claims. Reference to **Exhibit A** reveals that one reason for the denial of claims is noted as "Filed by Successor Trustee." This description simply means that the claim submitted by the particular bondholder claimant was already part of the claim presented by the Successor Trustee<sup>2</sup> to that bond issue. Thus, the claim was denied as being duplicative of the claim submitted by the Successor Trustee.

The explanation "Filed by DTC for Bondholders" is also presented as a reason for denial of various claims. That designation means that, as to those bondholder claims, claims had already been made by the Depository Trust Company (noted on the Schedule of Claim Determinations as "Cede and Co.") and, thus, the individual claims were duplicative and should be denied.

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<sup>2</sup> Appointment of Successor Trustees was approved pursuant to Orders of the Court entered on November 15, 2004 and December 1, 2004. The former officers and management of Sentinel Trust appealed those Orders, but the Tennessee Court of Appeals has recently affirmed the Court's Orders. In re: Sentinel Trust Company, #M2005-00031-COA-R3-CV (slip op. entered December 29, 2005).

The explanation of “Dependent Upon Bankruptcy Proceedings” is listed as a reason for denial of claims set forth in relation to the Charlotte, North Carolina/Roseland Project bond issue. These claims are being listed as “Denied” at this time because the status of these claims is dependent upon ongoing matters in the pending bankruptcy case that is intertwined with that bond issue default -- In re CP-CHA Roseland Limited Partnership, #04-31630 (U.S. Brky. Ct. W.D.N.C.). Presently, the bankruptcy debtor, the Receiver and various bondholder representatives are working toward a consensual bankruptcy plan, a principal goal of which would be to provide for the sale of the general partner’s interest to create funds for payment of administrative claimants, priority claimants, a partial payment to a convenience class, with the remainder going to the current bondholders of that bond issue. The consensual bankruptcy plan envisions a forbearance period and a successor trustee replacing the Receiver. It also envisions that all Charlotte/Roseland claims made in the Sentinel Trust Receivership (“Receivership”) will be mooted because they would be handled through the successor trustee under the provisions of the consensual plan. Because of these developments, the Commissioner-in-Possession and Receiver have determined that it would be prudent to wait for the ultimate acceptance or rejection of that consensual plan prior to establishing approved amounts in relation to the claims submitted under the Charlotte/Roseland bond issue. All of these matters will be the subject of a further filing with this Court in the near future, with notice to all Charlotte/Roseland claimants and/or bondholders. For these reasons, the claims related to the Charlotte/Roseland bond issue have been, at this time, denied. If the consensual bankruptcy plan is not confirmed in the North Carolina bankruptcy proceedings or if the appropriate approvals from this Court are not obtained, then the Commissioner-in-Possession and Receiver will revisit the status of these claims.

In a few instances, a claim is denied because it was withdrawn; thus, the explanation of “Claim Withdrawn.”

Many claims are denied with the reason given being “Collateral Proceeds Paid.” This description of the denial indicates that the collateral recovered regarding the various defaulted bond issues had already been distributed by the Receiver, pursuant to Order of this Court, with a pro rata payment having already been made to the bondholders. Simply put, there are no more funds available for payment regarding the particular defaulted bond issues wherein this reason is given for denial of the claims. These denied claims are typically claims from bondholders of defaulted bond issues seeking payment of further principal and interest owed on their bonds. They arise from situations, which have been presented and approved through Orders of the Court, where the proceeds from the sale of collateral were not sufficient first, to pay the expenses and charges incurred or accrued<sup>3</sup> in relation to the default and then, to pay the entirety of the principal and interest debt owed to the bondholders.

Similarly, many claims are denied with the reason being “Collateral Proceeds Exhausted.” This description of the explanation for denial of the claim means that either 1) the collateral proceeds recovered on a defaulted bond had been distributed prior to the institution of the Receivership and, thus, no more funds were available (see e.g., Rusk County, Texas) or 2) the collateral proceeds received on the defaulted bond issue by the Receiver have been paid out without the ability to pay any amount to the bondholders of that defaulted bond issue (see

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<sup>3</sup> As set forth in previous motions seeking approval of distribution of defaulted bond issue collateral (and as approved through Court Orders), the proceeds from the sale of the collateral go first to pay the expenses incurred (both prior to and subsequent to the institution of the Receivership) by Sentinel or the Receivership as well as the fees, charges and interest payable to Sentinel or the Receivership allowed under the Sentinel Fee Schedules. The remainder is then distributed to the bond issue bondholders pro rata based on their holdings.

e.g., Jefferson County/Pine Bluff).<sup>4</sup> In either instance, the situation is one in which the claim is denied because there are no more funds available to distribute as to the defaulted bond issue under which the claim was made.

In relation to the claims made upon the Niceville, Florida/Okaloosa Health Care defaulted bond issue, the description of the reason for denial of the claim in the Schedule of Claim Determinations (**Exhibit A**) is “Balance on Deposit Exhausted.” The Niceville/Okaloosa bond issue was not in default at the time of the institution of the Receivership. At the time of the institution of the Receivership, there was approximately \$69,000.00 that was supposed to be on deposit with Sentinel Trust regarding that bond issue. In October 2004, that bond issue fell into default, and the Receiver has spent (and, thus, would have a priority administrative expense claim) in excess of that amount in pursuing matters relating to the collateral underlying that bond issue. It is anticipated that a sale of the collateral, once presented and approved by the Court, will yield a material payment to the bondholders. But, because disbursement of the amount previously on deposit at Sentinel Trust (or disbursement of a pro rata amount of what was to have been on deposit) regarding this defaulted bond issue will be exhausted to address administrative expenses, there will be no funds available for payment of the claims. Accordingly, the Niceville/Okaloosa claims have been denied because the amount of pro rata funds that would have been available will be exhausted in payment of administrative expenses incurred on that bond issue.

Two claims in the Tyler Health Care Facility/Park Place defaulted bond issue grouping of claims have been denied. The first -- the “Jo Snow Guardian” claim -- is a claim for personal

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<sup>4</sup> These situations arose in contexts similar to those described in relation to “Collateral Proceeds Paid” immediately above, except in these instances, the collateral proceeds were exhausted without any funds remaining to distribute to bondholders.

injuries which occurred after the bond issue had fallen into default and which the Commissioner-in-Possession and Receiver consider improper and, thus, have denied. The second -- the "Reliance Health Care" claim -- is a claim made by Reliance Health Care, which is the local Texas receiver appointed by a Texas state court when the Tyler, Texas/Park Place bond issue fell into default. The Reliance Health Care claim purports to be on behalf of all of the claimants that have claimed in the Texas state court proceeding. Many Tyler, Texas/Park Place claimants who/which have filed a claim in the local Texas proceeding have also filed a claim in this Receivership. Indeed, notice of the Receivership claims procedure, including the claims bar date, was sent to all of the persons and entities who/which had filed in the Tyler, Texas/Park Place Texas state court action. The Commissioner-in-Possession and Receiver maintain that the appropriate claims to recognize are those of the claimants who filed in this proceeding and not as to any claim on behalf of someone who did not act upon the notice provided to them of the Sentinel Receivership proof of claim procedure. Thus, the Commissioner-in-Possession and Receiver consider the Reliance Healthcare claim as duplicative of the existing claims in relation to the Tyler, Texas/Park Place bond issue or otherwise improper and have denied the Reliance Healthcare claim for those reasons.

In relation to the Washington County, Mississippi/Greenville defaulted bond issue, the explanation of denial on the Schedule of Claim Determinations states "Declared No Value." Prior to the institution of the Receivership, the former Sentinel Trust management had given notices to the bondholders of this defaulted bond issue that the bonds were of, and should be treated as, having "no value." In essence, there are no funds available in relation to this

defaulted bond issue.<sup>5</sup> Accordingly, the claims as to the Washington County, Mississippi/Greenville bond issue are noted as denied on the Schedule of Claim Determinations.

Claims by the Nashville based law firm, Waller, Lansden, Dortch & Davis, PLLC (“Waller Lansden”) have given rise to some denials.<sup>6</sup> Waller Lansden filed a proof of claim which sets forth numerous “files” on which professional services were rendered. Some of those files are for amounts owed that are less than \$200.00. The Commissioner-in-Possession and Receiver have denied those claims because of the *de minimus*/non-material amounts being claimed. See Exhibit A -- “De Minimus” explanation of the denials on page 1. Also, and in some instances in addition to the “De Minimus” explanation, Waller Lansden has claimed amounts for services rendered on bond issues that have no funds available for payment of claims and, thus, those claims are being denied for the earlier-explained reason “Collateral Proceeds Exhausted.” Finally, in one instance -- the Jefferson County, Arkansas/Pine Bluff defaulted bond issue -- Waller Lansden’s claim is considered as withdrawn because it was paid, pursuant to Order of the Court entered on August 29, 2005, at fifty percent (50%) of its invoice amount. Waller Lansden and the Commissioner-in-Possession/Receiver had agreed that, if the fifty percent (50%) amount was approved and paid, then Waller Lansden would withdraw its claim regarding the Jefferson County, Arkansas/Pine Bluff bond issue.

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<sup>5</sup> This is also a “Collateral Proceeds Exhausted” situation as described in footnote 4 *infra*.

<sup>6</sup> The treatment of the Waller Lansden claims is one area where the Schedule of Claim Determinations attached as **Exhibit A** differs from that which was made available on January 2, 2006. The January 2, 2006 iteration of the Schedule aggregates Waller Lansden’s claims together, for an approved amount of \$180,242.23. The Schedule of Claim Determinations set forth herewith as **Exhibit A** separates the Waller Lansden claims per bond issue or category of work performed. As to some of those categories or bond issues, a “denial” of the claim is set forth which differs from the January 2, 2006 version of the Schedule. See Exhibit A at p. 1.

Finally, the Schedule of Claim Determinations indicates that the Receiver will forego *de minimus* portions of its claim<sup>7</sup> so as to be consistent with the treatment given other claims (i.e., various Waller Lansden claims) that were denied as *de minimus*. See Schedule of Claim Determinations at p. 2, 8 and 15.

In sum, and reserving opportunity to reply to any response in opposition to the denials of claims, the Commissioner-in-Possession and Receiver move for approval of the claim denials as set forth in the Schedule of Claim Determinations (**Exhibit A**).

**ii) Establishment of Approved Amounts as to Accepted Claims**

The Approved Amounts set forth in the Schedule of Claim Determinations for the accepted claims (but not the amount of payment that should be expected by any particular claimant) were established in relation to those claims as to which the books and records of Sentinel Trust indicated that a positive balance of funds should have been on deposit in the Sentinel Trust Company SunTrust Pooled Fiduciary Account (“Pooled Fiduciary Account”),<sup>8</sup> on behalf of the bond issue from which the claim arose. In the case of the Successor Trustees, the Approved Amounts were the totals of all of the positive balances/funds on deposit in the Pooled Fiduciary Account for the bond issues to which the entity or person became Successor Trustee. In the case of the Vault Check claimants,<sup>9</sup> the Approved Amounts were the amounts of each

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<sup>7</sup> In the Schedule of Claim Determinations attached as **Exhibit A**, the various component claims that make up the Receiver’s claim have been separated and treated individually. This is different than the aggregate treatment given to the Receiver’s claim in the January 2, 2006 iteration of the Schedule of Claim Determinations.

<sup>8</sup> The SunTrust Pooled Fiduciary Account is a Sentinel Trust bank account that was used by former Sentinel Trust management to receive monies to be held in trust and to make disbursements called for in relation to bond issues. It appears, however, that the Pooled Fiduciary Account was also used by Sentinel Trust’s former officers and management to commingle funds from various sources and to distribute funds for purposes other than those related to the bond issue for which deposits were made and for which deposits were to be held in trust.

<sup>9</sup> The Vault Check claimants are claimants who filed proofs of claim in relation to checks that were located by the Receiver in the vault at Sentinel Trust’s Hohenwald, Tennessee office. These checks represented payments that were owed to the “payees” of the checks regarding principal and interest payments on previously redeemed bond issues. The overwhelming bulk of these “Vault Checks” were checks sent out and returned due to erroneous or

check, the funds to cover said checks being funds that were supposed to be on deposit in the Pooled Fiduciary Account.

The bulk of the other Approved Amounts arise from claims of bondholders of numerous defaulted bond issues,<sup>10</sup> which had positive balances/funds supposedly on deposit in the Pooled Fiduciary Account. Those Approved Amounts were calculated based on the par value of the bond held by the claimant in comparison to the amount that was shown on deposit in the Pooled Fiduciary Account for that bond issue. These claimants had previously been given notice of the Approved Amounts as to their claims, and the Receiver received no objections as to the setting of the Approved Amounts by this method.

Approved Amounts are also shown in the Schedule of Claim Determinations for two bonds that were redeemed after the institution of the Receivership -- the Jacksonville, Florida 1994 and Jacksonville, Florida 1996 bond issues. The borrower/issuer of those two bond issues fully redeemed the outstanding debt on both bond issues and now has a claim for the amounts that should have been on deposit in the Pooled Fiduciary Account. The Approved Amounts for these claims are the full amount of the funds which were, according to the Sentinel Trust books and records, supposed to be on deposit.<sup>11</sup>

In two of the defaulted bond issue contexts -- Pearsall, Texas/Harvest Communities and Tyler, Texas/Park Place -- companies, that provided post-receivership services<sup>12</sup> to the local

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inaccurate address information or which were being held because the bondholder had yet to send in the bond issue certificate to trigger the sending of the check.

<sup>10</sup> City of Pearsall, Texas/Harvest Communities; Dade City, Florida; Houston County, Georgia; Maplecrest - Metro Nashville; Thompson Place - Metro Nashville; Tyler, Texas/Park Place.

<sup>11</sup> The Jacksonville, Florida 1994 and 1996 bond issue claims were not placed on the January 2, 2006 iteration of the Schedule of Claim Determinations, but properly appear as a claim in the Schedule of Claim Determinations attached as **Exhibit A**.

<sup>12</sup> These services were provided to the nursing home facilities after local receiverships were instituted in the Houston, Texas area and in Tyler, Texas when those particular bond issues fell into default. Because these post-receivership vendors have made claims in the local receiverships, it may not be possible to finalize the Approved

nursing home facilities that stood as collateral for the defaulted bonds, have filed claims for payment of those post-receivership services. The Approved Amounts for those claimants represent the amounts the Commissioner-in-Possession and Receiver have determined as justified through the Sentinel Trust proof of claim process and are not necessarily the entire amount of the proofs of claim as submitted by those post-receivership vendors.<sup>13</sup>

As reflected on the Schedule of Claim Determinations (**Exhibit A**), the Sentinel Trust Receiver has submitted various claims to which Approved Amounts have been recommended. First and foremost, is a \$436,709.91 amount relating to the Charlotte/Roseland bond issue. The Receiver has made this claim in order to preserve the claim, on behalf of the Charlotte/Roseland claimants, against the amount shown as being held in the Pooled Fiduciary Account in relation to that bond issue, until matters in a parallel bankruptcy proceeding are settled. The Receiver has also made claim in relation to the Charlotte/Roseland funds to recoup all Sentinel Trust/Receivership fees and expenses that have been incurred regarding that defaulted bond issue (currently an amount of approximately \$15,200.00).

The Receiver also makes a claim with an Approved Amount of \$214,308.71 as against the Niceville/Okaloosa bond issue. The Receiver's claim relating to that defaulted bond issue represents the fees and expenses that have been incurred in relation to that defaulted bond issue.

The Receiver has filed a claim relating to a settlement made on behalf of the Dade City bond issue bondholders. The settlement was with the Dade City bond issue debtor which had a claim as against the Pooled Fiduciary Account under another bond issue (Newton County, Georgia), the bonds to which were subsequently redeemed at one hundred percent (100%). The

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Amounts and/or amounts ultimately paid to these vendors until the claims in those local receiverships have been finalized and paid.

<sup>13</sup> For example, amounts claimed as interest and attorneys' fees by various of these vendor claimants were not part of the Approved Amounts for those claimants.

bond issue debtor, which still held the claim concerning Newton County, Georgia, assigned that claim to the Receiver, for further payment to the Dade City bondholders, as part of the Dade City, Florida bond issue settlement. The Approved Amount of the claim is \$356,603.91, which is the amount that was supposed to be on deposit in the Pooled Fiduciary Account regarding the Newton County, Georgia bond issue.

Finally, the Receiver also has submitted claims against the amounts which are shown as funds on deposit in the Pooled Fiduciary Account for the Pearsall/Harvest Communities bond issue (claim amount of approximately \$11,500.00), and the Tyler/Park Place bond issue (claim amount of approximately \$30,000.00). Similarly, the Receiver has a claim in the Approved Amount of \$454.42 relating to a bond issue for which the Bank of Oklahoma has been substituted as Successor Trustee. All of these Approved Amounts represent claims for Receivership fees and expenses expended upon the various bond issues.

Because expenditures of fees and expenses are continuing in relation to some of these bond issues and because recovery as to some of the defaulted bond issue collateral will occur, the Approved Amount of the Receiver's claim amounts may change from the Approved Amount set forth in the Schedule.

In relation to the Approved Amounts set forth for the category of "Other Claims," those amounts are the amounts set forth and supported by the proofs of claim submitted by the particular claimants.

Finally, there are Approved Amounts noted on the Schedule of Claim Determinations which are for the Waller Lansden law firm and one additional law firm claimant -- Watson, Spence, Lowe & Chambliss, LLP ("Watson Spence"). These Approved Amounts, some of which relate to bond issues that have been assumed by the Bank of Oklahoma as Successor

Trustee, are the non- *de minimus* amounts claimed as to bond issues that were to have funds on deposit in the Pooled Fiduciary Account. All Approved Amounts for these legal services are supported by invoices and other evidence submitted with the proofs of claim filed by Waller Lansden and Watson Spence.

In sum, and reserving opportunity to reply to any response in opposition to the Approved Amounts set forth in the Schedule of Claim Determinations,<sup>14</sup> the Commissioner-in-Possession and Receiver move for approval of the Approved Amounts as set forth in the attached Schedule of Claim Determinations (**Exhibit A**).

**iii) Prioritization of Claims**

In the attached Schedule of Claim Determinations (**Exhibit A**), the claim priority determinations are as set forth in T.C.A. § 45-2-1504(h). Those categories are as follows:

- Class 1 -- Obligations incurred by the Commissioner/administrative expenses of the Sentinel Trust Receivership;
- Class 2 -- Wages and salaries of former officers and employees, not to exceed \$600.00;
- Class 3 -- Fees and assessments due to the Department of Financial Institutions;
- Class 4 -- Deposits to the extent of \$10.00 to each depositor;
- Class 5 -- All other claims, timely filed; and
- Class 6 -- Late-filed claims.

As indicated in the Schedule of Claim Determinations (**Exhibit A**), various prioritization amongst the claims has been set forth, albeit the bulk of the claims are assigned a straight “Class 5” designation. For example, the Successor Trustees who take on the position, at least in

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<sup>14</sup> In the case of objections to the establishment of Approved Amounts, the Commissioner-in-Possession and Receiver reserve all arguments regarding the Approved Amounts and reserve the ability, in light of any objection, to change a recommended Approved Amount, whether it be to a higher or lower Approved Amount.

part, of the issuer or settlor, as well as two bond issuers (Catoosa Water Utility District and Poplar Grove Utility District), are classified as “Class 4 and Class 5.” This means that the Commissioner-in-Possession and Receiver have determined that bond issuer claimants and Successor Trustee claimants who claim, in part at least, on behalf of bond issuers and settlors should be paid the nominal \$10.00 amount set forth in T.C.A. § 45-1-1504(h)(1)(D) and then be further classified as “Class 5” claimants for the remaining Approved Amount.

Similarly, the Receiver’s claims are classified as “Class 1” or “Class 5.” Much of the Approved Amounts of the Receiver’s claims relate to fees and expenses incurred during the time of the Receivership and, thus, would warrant the classification of “Class 1” (i.e., obligations incurred by the Commissioner).<sup>15</sup> The other claims lodged by the Receiver (e.g., the Roseland claims on behalf of the Charlotte/Roseland claimants) would be “Class 5.” It is the position of the Commissioner-in-Possession and Receiver that recovery of the Approved Amount of the Receiver’s claims would be limited to the funds available for payment on the bond issue from which that claim arose and not as against the overall amount of funds available for distribution.

As is apparent from the Schedule of Claim Determinations (**Exhibit A**), several claims throughout are classified as “Class 6 - Late-filed Claims.” These claims were so designated because the proofs of claim regarding each claim were not received by the Receiver until after the July 31, 2005 claims bar date which had been established by the Court’s Order entered December 15, 2004.

Finally, as mentioned previously, the bulk of the claims fall into “Class 5 - All Other Claims, Timely Filed.” The Commissioner-in-Possession and Receiver have determined that a small group of the “Class 5” claims should be treated differently and, thus, have classified

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<sup>15</sup> See T.C.A. § 45-2-1504(h)(1)(A).

various “Other Claims”<sup>16</sup> and a portion of the Waller Lansden claims as “Class 5B,” which would be subordinate to a regular “Class 5” claim.<sup>17</sup> The focus of the proof of claim procedure is to establish claims as against the Pooled Fiduciary Account and the deficiency that exists in the amount of funds in that account as compared to the amount of funds that should have been on deposit in that account. The claims that the Commissioner-in-Possession and Receiver have classified as “Class 5B” are claims that do not relate to any particular bond issue which should have had funds on deposit in the Pooled Fiduciary Account. Rather, these “Class 5B” claims relate to matters more general in nature to the corporate business of Sentinel Trust Company. These claims are not denied and will be considered by the Commissioner-in-Possession and Receiver as being against Sentinel Trust Company, the corporate entity, and will be addressed at an appropriate time nearer the closing of the Receivership. Having said that, the Commissioner-in-Possession and Receiver have always been of the position, and reaffirm that position here, that any funds belonging to Sentinel Trust Company, which remain in excess of amounts needed to operate the Receivership and to fund the further pursuit of assets and causes of action on behalf of the Receivership, should be used to further pay “Class 5” claims pro rata. Such excess Sentinel Trust “corporate” funds should not be used to address the designated “Class 5B” claims until all of the “Class 5” claims have been paid.

In sum, and reserving opportunity to reply to any response in opposition to the classification of claims,<sup>18</sup> the Commissioner-in-Possession and Receiver move for approval of

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<sup>16</sup> The “Other Claims” are set forth on the Schedule of Claim Determinations (**Exhibit A**) at p. 13.

<sup>17</sup> The inclusion of “Class 5B” in the Schedule of Claim Determinations attached as **Exhibit A** is different than the January 2, 2006 iteration of the Schedule of Claim Determinations. But, the Cover Letter that accompanied the January 2, 2006 iteration of the Schedule of Claim Determinations gave notice of the possibility that “Class 5” might be divided into other sub-classes.

<sup>18</sup> In the case of objections to claim classification, the Commissioner-in-Possession and Receiver reserve all arguments regarding claim classification and reserve the ability, in light of any objection, to change a recommended

the classification of claims as set forth in the attached Schedule of Claim Determinations (Exhibit A).

b) **Requested Approval of Methodology to Compute Distributions Upon Approved Amounts**

Having presented the Schedule of Claim Determinations for approval, the Commissioner-in-Possession and Receiver state herein that, once the Schedule of Claim Determinations is approved, they anticipate moving for approval of an interim distribution as to accepted claims. See T.C.A. § 45-2-1504(g). Any finalization of such interim distribution would need to wait until objections to the Schedule of Claim Determinations, if any, are adjudicated by the Court and/or the Schedule of Claim Determinations is approved by the Court. But, through this filing, the Commissioner-in-Possession and Receiver present and seek approval of the methodology by which they propose to calculate the distributions upon Approved Amounts of accepted claims, including the anticipated interim distribution. Through presenting the methodology of computation, the Commissioner-in-Possession and Receiver would also seek to obtain objection from any claimant as to that methodology. Addressing objections to the methodology of the calculations now will result in a faster and more efficient consideration of a motion seeking approval for the interim distribution payments which the Commissioner-in-Possession and Receiver desire to make.

As has been the stated intent of the Commissioner-in-Possession and Receiver throughout this Receivership, the focus of the proof of claim and payment procedures has been to address the deficiency that exists in the Pooled Fiduciary Account and to address the claimants that have made claims relating to that deficiency. Based upon the books and records of Sentinel Trust and

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claim classification, including changing the classification of a claim to a lower classification (e.g., from “Class 5” to “Class 5B”) and/or to recommending that a claim be denied outright.

the proof of claim procedure, the total amount that should have been on deposit and held in trust as of May 18, 2004 (the date of the institution of the Receivership) is \$9,745,933.77. This amount was calculated by adding all of the positive cash balances that were recorded in the Sentinel Trust books and records for all of the bond issues, plus the total amount of the Vault Checks for which payment was claimed through the proof of claim process (and, thus, which should have been on deposit in the Pooled Fiduciary Account). By adding these amounts, one determines the amount that should have been on deposit and available in the Pooled Fiduciary Account as of May 18, 2004.

The amount actually on deposit in the Pooled Fiduciary Account after the taking of possession was \$1.8 million,<sup>19</sup> but through efforts of the Commissioner-in-Possession and Receiver, and through Orders of the Court, there is currently in excess of \$3.7 million in the Pooled Fiduciary Account. It would be the intention of the Commissioner-in-Possession and Receiver to use the \$3.7 million currently in the Pooled Fiduciary Account<sup>20</sup> to fund the proposed interim distribution.<sup>21</sup> Comparing the \$9,745,933.77 that should be in the Pooled Fiduciary Account with the \$3.7 million that is currently in that account results in a thirty-seven and 96/100 percent (37.96%) ratio -- actually, the ratio is .3796455. Therefore, funds are

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<sup>19</sup> This \$1.8 million amount was the balance in the Pooled Fiduciary Account after June 1, 2004 principal and interest payments were made on several bond issues whose payments were due, and said payments were made pursuant to a May 28, 2004 Order of Court.

<sup>20</sup> As of December 31, 2005, the exact amount in the Pooled Fiduciary Account was \$3,749,369.82. The Commissioner-in-Possession and Receiver recommend that \$3.7 million be used as the figure upon which to base an interim distribution for ease of calculation. The excess, plus future deposits to and interest earned on the Pooled Fiduciary Account, will be available for subsequent/final distributions. Filed herewith, under a separate Notice of Filing, is the Post-Receivership History of the Pooled Fiduciary Account as of December 31, 2005 which sets forth further information as to the Pooled Fiduciary Account.

<sup>21</sup> The Commissioner-in-Possession and Receiver believe that funds existing in the Sentinel Trust Receivership corporate/operating account (as opposed to the Pooled Fiduciary Account), plus the realization of additional Sentinel Trust assets, such as the sale of the Hohenwald, Tennessee office building, will provide ample funds to address pursuit of other asset recovery efforts and the future operational expenses of the Sentinel Trust Receivership. Filed herewith, under separate Notice of Filing, is the Sentinel Trust Receivership Schedule of Revenues, Expenses and Net Assets as of December 31, 2005 which sets forth additional information regarding the amounts available to fund the Receivership.

available for an interim distribution of thirty-seven and 96/100 percent (37.96%) of the amount that should have been on deposit in the Pooled Fiduciary Account. This percentage, when multiplied by the individual amounts that should have been on deposit for each bond issue and/or for the Vault Checks, yields a specific amount of money that would be available, via the proposed interim distribution, for each bond issue and the grouping of Vault Checks -- e.g., this yields \$1,782,658.90 as being available to distribute on the accepted claims concerning the bond issues to which the Bank of Oklahoma is Successor Trustee; it yields \$133,419.77 as being available to distribute in relation to the Vault Check claims; it yields \$163,002.44 as being available to distribute in relation to the claims lodged regarding the Tyler, Texas/Park Place defaulted bond issues, etc. Thus, with the equitable, pro rata funding of each "account" with a pro rata amount of what should have been on deposit for that account, there is equal treatment as to the funding of the proposed interim distribution (and future and/or final distributions) for each applicable bond issue and the grouping of Vault Checks.

From the prorated amount available for interim distribution, amounts for "Class 1" expenses that have been incurred by the Receivership (and are reflected as part of the Receiver's claims) would be paid. These payments of the "Class 1" administrative expenses would be made only from the amounts available to each particular bond issue upon which the expenses were incurred and would not impact upon the amounts available for interim distribution to the other bond issue claimants/Vault Check claimants. Next, small amounts of funds classified as "Class 4" claims (i.e., the \$10.00 amount to be paid to "depositors" -- the Successor Trustees, bond issuers and settlors -- who have made claims) are deducted in relation to the amounts available for the applicable bond issue. The amounts available for interim distribution (net of the "Class 1" and "Class 4" deductions, where applicable) would then be compared to the total

Approved Amount of “Class 5” claimants for each bond issue (or the Vault Checks). This then gives a percentage payment on the claim regarding each claimant’s claim if the interim distribution were to occur.

Attached as **Exhibit E** is a spreadsheet which sets forth the proposed methodology and illustrates the basic calculations for an interim distribution as discussed above. Please note that the calculations shown in **Exhibit E** assume that no objections are filed (or if they are filed, that such objections would be overruled) concerning the Schedule of Claim Determinations and the methodology of computations. Moreover, **Exhibit E**, while it specifically relates to a potential interim distribution, also demonstrates the overall methodology recommended by the Commissioner-in-Possession and the Receiver for computing any distribution on accepted claims.

**Exhibit E** is broken down into columns. Column A is an internal identification code of the Receivership. Column B identifies the bond issue, Successor Trustee or Vault Check to which the line applies. Column C sets forth the amount that should have been on deposit in the Pooled Fiduciary Account. The amounts in Column D are the Column C amounts multiplied by .3796455, which is the ratio of \$3,700,000.00/\$9,745,933.77, and, thus, represent the gross amount available for distribution. Columns E and F are the “Class 1” and “Class 4” amounts that would be deducted from each applicable Column D amount, thus, yielding the net amount available for distribution to “Class 5” claimants -- the figures shown in Column G. Thus, Column G is the total amount that would be distributed to the accepted “Class 5” claimants of the particular bond issue or other category. Column H sets forth the total Approved Amounts for the “Class 5” claimants corresponding to each line item bond issue, Successor Trustee or Vault

Check category. The “Payout Percent” -- Column I -- sets forth the percentage payment corresponding to each line item bond issue, Successor Trustee or Vault Check category.

A few further explanations regarding **Exhibit E** are needed. First, the “Class 5B” claims are not included because this interim distribution calculation assumes that, because “Class 5” claims are not being fully paid, no interim distribution will be made as to the “Class 5B” claimants.

Next, there is a “Dade City Receiver’s Settlement” claim on **Exhibit E**. As earlier noted, this claim is part and parcel of the Receiver’s claims as set forth in the Schedule of Claim Determinations (**Exhibit A**). In settlement of a lawsuit wherein Sentinel Trust was pursuing the Dade City bond issue debtor for payment of a deficiency judgment, that bond issue debtor (Chamber Health Care) assigned all rights to recover on a claim that Chamber Health Care had made in the Sentinel Trust Receivership on another bond issue (Newton County, Georgia) which previously had been paid off in full, but which had a positive cash balance in the Pooled Fiduciary Account. That settlement is to benefit all Dade City bondholders, not merely the persons who filed claims in the Receivership regarding that defaulted bond issue. Therefore, in that instance, the interim distribution would be paid to the Receiver to be aggregated with other funds from the settlement with the Dade City bond issue debtor for payment to the Dade City bondholders. This payment to the Dade City bondholders will be upon further motion and order of the Court.

The line item in **Exhibit E** concerning the “Charlotte, NC Receiver’s Claim” sets forth the amount that the Sentinel books and records show was supposed to be on deposit in the Pooled Fiduciary Account regarding the Charlotte/Roseland bond issue, as well as the other amounts that relate to an interim distribution on that claim. Earlier in this filing, the

Commissioner-in-Possession and Receiver have indicated that the Charlotte/Roseland claims are “denied” at this time because of the developments expected in the parallel North Carolina bankruptcy proceeding that is intertwined with that defaulted bond issue. That situation notwithstanding, as it relates to the Receiver’s claims which are made on behalf of the Charlotte/Roseland claimants, **Exhibit E** sets forth the calculation of the percentage interim distribution that would occur on that claim which the Receiver would either hold for the benefit of the Charlotte/Roseland claimants or tender to a successor trustee that would be installed as a result of the workout being negotiated in the parallel bankruptcy proceeding.

**Exhibit E** sets forth information regarding a particular Successor Trustee -- the Bank of Oklahoma (“BOK”) -- which warrants comment. The claims received by the Receiver relating to the bond issues over which BOK assumed Successor Trustee position consist of three categories. First and principally, the claim amount includes the large claim by BOK for the aggregate of the positive cash balances that should have been on deposit in the Pooled Fiduciary Account for those various bond issues -- i.e., \$4,695,587.98. Second, the claim amount includes \$30,469.84 which the Receiver received as proofs of claim from Waller Lansden and Watson Spence relating to pre- May 18, 2004 attorney fee billings for legal services provided regarding numerous of the bond issues to which BOK is Successor Trustee. These “attorney fees and expenses” claims were classified as “Class 5” in the Schedule of Claim Determinations and, thus, are included in the aggregate amount of “Class 5” claims lodged against the funds available for interim distribution regarding the bond issues for which BOK is Successor Trustee (i.e., Column H in **Exhibit E**). Third, as part of the Receiver’s claims set forth in the Schedule of Claim Determinations, a claim of \$454.42 in post-receivership (“Class 1”) expenses is made in relation to a bond issue to which BOK is the Successor Trustee. That small amount is shown

as being deducted, in full, from the amount that would otherwise be available to “Class 5” claimants.

Through examination of **Exhibit E**, the methodology, proposed by the Commissioner-in-Possession and Receiver regarding payment of claims, is apparent. The methodology calls for a bond issue-by-bond issue consideration. The methodology starts with a uniform percentage (in the case of the interim distribution example that ratio is .3796455 -- or approximately 37.96%) based on the amounts that should have been on deposit in the Pooled Fiduciary Account and the amount that is currently on deposit in the Pooled Fiduciary Account. The methodology then derives the gross amount of funds that should be available to distribute as to each bond issue (or group of bond issues in the case of some of the Successor Trustees) and/or Vault Check category. Claims that have priority higher than “Class 5” claims are deducted from the amounts available for distribution, but such deduction is only as to the bond issues to which the higher priority claims relate. The remaining net amount available per bond issue is then distributed based on a percentage of the net amount available to distribute on that bond issue compared with the total amount of “Class 5” claims approved for that particular bond issue.

Again, the actual numbers contained in **Exhibit E** are set forth based on the assumption that the denials, the Approved Amounts and the classification of claims set forth in the Schedule of Claim Determinations, as well as the proposed calculation methodology, remain unchanged and are approved by the Court. **Exhibit E** is presented solely for the purpose of demonstrating the methodology that the Commissioner-in-Possession and Receiver recommend to calculate distribution payments, including an interim distribution, upon the Approved Amounts of accepted claims. This methodology is presented so that the claimants to the Sentinel Trust Receivership estate may consider it and object to it at the same time any of the claimants object

to the Schedule of Claim Determinations. The Commissioner-in-Possession and Receiver assert that addressing objections and having the Court enter an Order regarding the proposed methodology of computing distribution will expedite the process of later moving for approval of an interim distribution as allowed under T.C.A. § 45-2-1504(g).

The Commissioner-in-Possession and Receiver understand that the “bottom line” question of each claimant probably centers upon what amount of money will be paid on his/her/its claim. To that end the Commissioner-in-Possession and Receiver refer all claimants to **Exhibit F** attached hereto. That exhibit sets forth what amount each “Class 5” claimant would receive if 1) the \$3.7 million currently in the Pooled Fiduciary Account was distributed according to the proposed interim distribution and 2) no objections were made (or, if made, none were sustained) regarding the Schedule of Claim Determinations and the methodology as to the computation of distribution.<sup>22</sup> Exhibit F is provided simply for illustrative purposes. A claimant should not rely upon receiving the amount shown in that exhibit as an interim distribution because objections to the matters set forth herein could be sustained and/or other factors might alter the numbers and calculations prior to the Commissioner-in-Possession and Receiver actually moving for approval of an interim distribution.

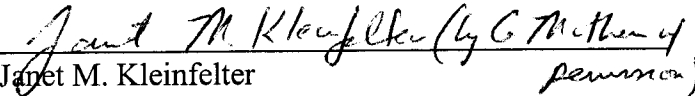
### III. CONCLUSION

For the reasons set forth herein, the Commissioner-in-Possession and Receiver respectfully move that the Court enter an Order 1) approving the Schedule of Claim Determinations (**Exhibit A**) and 2) approving the methodology set forth herein as to how a distribution upon an Approved Amount of an accepted claim will be calculated.

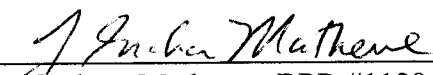
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<sup>22</sup> As noted in the heading of **Exhibit F**, the calculations focus only on an interim payment of “Class 5” claimants. It presumes that the “Class 1” and “Class 4” payments have already been made in full.

Respectfully submitted,

  
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Company*

**CERTIFICATE OF SERVICE**

This is to certify that on January 30<sup>th</sup>, 2006 copies of the foregoing Notice and Motion and Exhibits have been sent by First Class U.S. Mail, postage paid, and also by facsimile as noted, to:

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This is also to certify that copies of the foregoing Notice and Motion and Exhibits have been posted, in their entirety, upon the website of the Tennessee Department of Financial Institutions and that a copy of **Exhibit D** -- Notice to All Sentinel Trust Receivership Claimants of Claim Determinations -- has been mailed to each claimant at the address provided in the proof of claim submitted by that claimant, all having been done on or before January 30<sup>th</sup>, 2006.

  
\_\_\_\_\_  
J. Graham Matherne