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*Counsel to the Debtors*

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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In re:	: Chapter 11
	:
Doral Financial Corporation, <i>et al.</i> <sup>1</sup>	: Case No. 15-10573 (SCC)
	:
Debtors.	: Jointly Administered
	:
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**DECLARATION OF CAROL FLATON IN SUPPORT OF CONFIRMATION OF  
(I) AMENDED PLAN OF REORGANIZATION PROPOSED BY DORAL  
FINANCIAL CORPORATION AND THE OFFICIAL COMMITTEE OF  
UNSECURED CREDITORS OF DORAL FINANCIAL CORPORATION, AND  
(II) CHAPTER 11 PLAN OF LIQUIDATION FOR DORAL PROPERTIES, INC.**

I, Carol Flaton, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer for Doral Financial Corporation (“Doral Financial”), which owns 100% of the equity in Doral Properties, Inc. (“Doral Properties”), and I

<sup>1</sup> The last four digits of the taxpayer identification number of the Debtors are: Doral Financial Corporation (2162); Doral Properties, Inc. (2283).

am an employee and Managing Director of Zolfo Cooper, LLC, the direct parent of Zolfo Cooper Management, LLC, a New Jersey limited liability company (collectively, “Zolfo Cooper”). Zolfo Cooper has been retained by the above-captioned debtors and debtors in possession (collectively, the “Debtors”) in these chapter 11 cases. I am generally familiar with the Debtors’ operations, financial condition, and restructuring efforts.

2. I make this Declaration in support of Confirmation of (I) the *Amended Plan of Reorganization Proposed by Doral Financial Corporation and the Official Committee of Unsecured Creditors of Doral Financial Corporation* [Docket No. 632] (the “Doral Financial Plan”), and (II) the *Chapter 11 Plan of Liquidation for Doral Properties, Inc.* [Docket No. 612] (the “Doral Properties Plan” and, together with the Doral Financial Plan, the “Plans”). I participated in the development of the Plans and the negotiations that led to each of the Plans, and I am familiar with the terms of each of the Plans.

3. I am over the age of 18 and competent to testify, and I am duly authorized to submit this declaration (this “Declaration”) on behalf of the Debtors. The information included in this Declaration concerning the Debtors is based upon my personal knowledge, information supplied to me by members of the Debtors’ management or its professionals, my review of relevant documents, or my opinion based upon my personal experience and knowledge of the Debtors’ chapter 11 cases. If called upon to testify, I could and would testify to the facts set forth herein on that basis.

**I. Doral Financial Plan<sup>2</sup>**

**A. Good Faith of Doral Financial and the Committee**

4. I understand that Bankruptcy Code section 1129(a)(3) requires that a chapter 11 plan be proposed in good faith and not by any means forbidden by law. In developing the Doral Financial Plan, Doral Financial engaged in extensive arm's-length negotiations with its key creditor constituencies, including the Official Committee of Unsecured Creditors (the "Committee"), which is a co-proponent of the Doral Financial Plan. The purpose of the Doral Financial Plan is to preserve potentially valuable tax attributes in reorganized Doral Financial and to liquidate Doral Financial's other remaining assets. The Doral Financial Plan also provides a structure for the distribution of Doral Financial's estate in an equitable manner. I understand that no party in interest filed an objection to confirmation challenging Doral Financial's or the Committee's good faith, and the Doral Financial Plan received the overwhelming support of the holders of General Unsecured Claims, the only class of Claims that was entitled to vote on the Doral Financial Plan.

**B. Best Interests of Creditors of Doral Financial**

5. I understand that Bankruptcy Code section 1129(a)(7) sets out a "best interests" test requiring that each holder of a claim or interest in an impaired class either (i) accept the plan, or (ii) receive or retain property that is not worth less than the amount that the holder of the claim or interest would receive or retain as of the effective date of the plan if the debtor were liquidated under chapter 7.

6. I believe that confirmation of the Doral Financial Plan satisfies this requirement because the Doral Financial Plan provides distributions to holders of Claims and Equity Interests

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<sup>2</sup> Capitalized terms used in this Section I but not otherwise defined herein have the meanings ascribed to them in the Doral Financial Plan.

having a present value, as of the Effective Date, of not less than the value such holders likely would receive if Doral Financial were liquidated under chapter 7 of the Bankruptcy Code.

7. In connection with the Doral Financial Plan, Zolfo Cooper, with the assistance of Doral Financial and its professional advisors, prepared a detailed liquidation analysis (the “Liquidation Analysis”), which estimates and compares recoveries under the Doral Financial Plan with a hypothetical chapter 7 liquidation. *See Amended Disclosure Statement for the Doral Financial Plan* [Docket No. 632], at Exhibit B. I oversaw the development of the Liquidation Analysis. To test potential recoveries in a chapter 7 liquidation under a range of different assumptions, we analyzed recoveries to creditors under each of a “high” and a “low” recovery scenario, using the following process:

8. *First*, we identified the assets available for disposition in a liquidation of the Doral Financial estate by reviewing Doral Financial’s balance sheet, financial projections, and related detailed supporting information. Doral Financial’s assets are described in greater detail in the Liquidation Analysis.

9. *Second*, we estimated that liquidation would occur over a period of three to six months, and we estimated the administrative costs of a liquidation of the Doral Financial estate, including financial and legal professional fees, contract employee compensation, and certain office-related costs, and chapter 7 trustee fees. These costs are described in greater detail in the Liquidation Analysis.

10. *Third*, we estimated aggregate claim values under each of the recovery scenarios.

11. *Fourth*, we estimated percentage recoveries in each class of creditors by applying the proceeds of a hypothetical liquidation to each class of claims according to its priority.

12. The Liquidation Analysis demonstrates that the estimated recovery under the Doral Financial Plan available to holders of Impaired Claims and Equity Interests is equal to or exceeds the estimated recovery available in a hypothetical chapter 7 liquidation. Notably, the Liquidation Analysis demonstrates that a chapter 7 liquidation would result in a diminution in the value to be realized by holders of General Unsecured Claims due primarily to the loss of the Tax Attributes, increased expenses, and delays in distributions. The Liquidation Analysis shows that, in a hypothetical chapter 7 liquidation, each holder of a General Unsecured Claim would receive approximately 27% to 34% of the Allowed amount of its Claim. In comparison, I understand that, under the Doral Financial Plan, each holder of a General Unsecured Claim is projected to receive approximately 32% to 41% of the Allowed amount of its Claim.

**C. Feasibility of Doral Financial Plan**

13. I understand that Bankruptcy Code section 1129(a)(11) requires a court to determine that a chapter 11 plan is feasible and that confirmation of such plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor. I believe that the Doral Financial Plan is reasonably likely to succeed and that Doral Financial will not require further financial reorganization or liquidation that is not contemplated by the Doral Financial Plan. The Doral Financial Plan provides for the Creditors' Trust and the Reorganized Debtor to continue doing essentially what Doral Financial has been doing to date: liquidating the few remaining assets of its estate in an orderly manner so as to maximize value for creditors. The Doral Financial Plan provides that, on the Effective Date, among other things, (i) all assets of Doral Financial that are not distributed immediately to creditors will vest in the Creditors' Trust for liquidation and further distribution to the Creditors' Trust Beneficiaries, and (ii) a new board of directors will be appointed for the Reorganized Debtor to continue Doral Financial's

limited operations and the orderly liquidation of the few assets not transferred to the Creditors' Trust (principally the Tax Attributes). This is essentially the same model that Doral Financial has employed with success during its chapter 11 case.

**D. Confirmation of Doral Financial Plan Notwithstanding Deemed Rejecting Classes**

14. I understand that if less than all classes of claims or interests either accept a plan or are unimpaired, Bankruptcy Code section 1129(b) provides that a court may confirm a plan if it "does not discriminate unfairly" and is "fair and equitable" with respect to each rejecting impaired class. I understand that the following Classes of Claims are Impaired rejecting Classes under the Doral Financial Plan: Class 3 (Intercompany Claims), Class 4 (Subordinated Claims), and Class 5 (Equity Interests) (the "Doral Financial Deemed Rejecting Classes").

15. There is no Class junior to any of the Doral Financial Deemed Rejecting Classes that is receiving or retaining any property on account of their Claims or Equity Interests.

**E. Exculpation Provisions in Doral Financial Plan**

16. I understand that the Doral Financial Plan provides for exculpation to the fullest extent permitted by law for Doral Financial, the Committee, the Indenture Trustees, and certain related parties in connection with, among other things, negotiating the Doral Financial Plan (the "Doral Financial Exculpation"). The Doral Financial Exculpation constitutes an integral aspect of Doral Financial's arm's-length negotiations with certain key parties that resulted in the Doral Financial Plan. It is my further understanding that the Doral Financial Exculpation will benefit individuals and entities that were actively and integrally involved in the Chapter 11 Case and who have made, and will continue to make, substantial contributions to the Chapter 11 Case.

17. I believe that Doral Financial proposed the Doral Financial Exculpation based on its reasonable business judgment. In developing and drafting the Doral Financial Exculpation, Doral Financial engaged in arm's-length negotiations with the exculpated parties and considered the significant value contributed by them to the Chapter 11 Case and their support for confirmation of the Doral Financial Plan. Each of the exculpated parties contributed significantly to the Doral Financial Plan, including by devoting significant time and resources to negotiating the terms of the Doral Financial Plan and also agreeing to support the Doral Financial Plan. I understand that, if the Doral Financial Exculpation were not offered, many of the exculpated parties might not have been willing to contribute or otherwise participate in the process that led to the Doral Financial Plan, which would have had a negative impact on the Chapter 11 Case.

## **II. Doral Properties Plan<sup>3</sup>**

### **A. Good Faith of Doral Properties**

18. In developing the Doral Properties Plan, Doral Properties engaged in extensive arm's-length negotiations with its key creditor constituencies, principally the Indenture Trustee. The purpose of the Doral Properties Plan is the distribution of Doral Properties' accumulated cash to holders of AFICA Secured Claims via the Indenture Trustee, the payment of Administrative and Priority Claims, and the monetization of Doral Properties' remaining assets via the Liquidating Trust. I understand that no party in interest filed an objection to confirmation challenging Doral Properties' good faith, and the Doral Properties Plan received the overwhelming support of the holders of AFICA Secured Claims, the only class of Claims that was entitled to vote on the Doral Properties Plan.

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<sup>3</sup> Capitalized terms used in this Section II but not otherwise defined herein have the meanings ascribed to them in the Doral Properties Plan.

**B. Best Interests of Creditors of Doral Properties**

19. I believe that the Doral Properties Plan is superior to a chapter 7 liquidation for holders of the AFICA Secured Claims. I believe that a chapter 7 liquidation would take longer to resolve Administrative Claims and Priority Claims than the Doral Properties Plan, delaying distributions to AFICA Secured Claims, and would cause Doral Properties to incur more costs than the Doral Properties Plan. I understand that, in a chapter 7, it is likely that a chapter 7 trustee with no prior knowledge or experience with Doral Properties or its operations would be appointed, increasing the time to resolve Administrative Claims and Priority Claims. I understand further that a chapter 7 trustee would incur expenses in distributing the assets, which would likely include a percentage fee on assets distributed. This percentage fee, which could be significant in a chapter 7 case, will be avoided by the Doral Properties Plan.

20. I believe that holders of General Unsecured Claims and Equity Interests will receive no recovery in either a chapter 7 liquidation or under the Doral Properties Plan, due to the AFICA Secured Claims and the Indenture Trustee's Superpriority Claim. General Unsecured Claims and Equity Interests would therefore be no better off in a chapter 7 liquidation than they are under the Doral Properties Plan.

**C. Feasibility of Doral Properties Plan**

21. I understand that Bankruptcy Code section 1129(a)(11) requires a court to determine that a chapter 11 plan is feasible and that confirmation of such plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor. The Doral Properties Plan provides for the Liquidating Trust to liquidate the assets of Doral Properties' estate in an orderly manner so as to maximize value for holders of AFICA Secured Claims. I believe that the Doral Properties Plan is reasonably likely to succeed and that Doral



Properties will not require further liquidation beyond what is contemplated by the Doral Properties Plan.

**D. Confirmation of Doral Properties Plan Notwithstanding Deemed Rejecting Classes**

22. I understand that if less than all classes of claims or interests either accept a plan or are unimpaired, Bankruptcy Code section 1129(b) provides that a court may confirm a plan if it “does not discriminate unfairly” and is “fair and equitable” with respect to each rejecting impaired class. I understand that the following Classes of Claims are Impaired rejecting Classes under the Doral Properties Plan: Class 2 (General Unsecured Claims) and Class 3 (Equity Interests) (the “Doral Properties Deemed Rejecting Classes”).

23. There is no Class junior to any of the Doral Properties Deemed Rejecting Classes that is receiving or retaining any property on account of their Claims or Equity Interests.

**E. Releases and Exculpation Provisions in Doral Properties Plan**

24. I understand that the Doral Properties Plan releases the Released Parties<sup>4</sup> from certain claims that Doral Properties or its estate may have been entitled to assert against them (the “Doral Properties Releases”), and also provides for exculpation to the fullest extent permitted by law for Doral Properties, the Committee, the Indenture Trustee, and certain related parties in connection with, among other things, negotiating the Doral Properties Plan (the “Doral Properties Exculpation”). These provisions constitute an integral aspect of Doral Properties’ arm’s-length negotiations with certain key parties that resulted in the Doral Properties Plan. It is my further understanding that these provisions will benefit individuals and entities that were

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<sup>4</sup> The “Released Parties” are defined in the Doral Properties Plan to include Doral Financial, the Indenture Trustee, the Committee, Morgan Stanley & Co. LLC, Good Hill Master Fund LP, Good Hill Master Fund II LP, and their and Doral Properties’ respective current and former directors, managers, officers, equity holders, principals, members, employees, agents, advisory board members, financial advisors, partners, attorneys, accountants, investment bankers, consultants, representatives, and other professionals, each in their capacity as such.

actively and integrally involved in the Bankruptcy Case and who have made, and will continue to make, substantial contributions to the Bankruptcy Case.

25. I believe that Doral Properties proposed the Doral Properties Releases and the Doral Properties Exculpation based on its reasonable business judgment. I understand that Doral Properties has reviewed all of its potential claims, including the potential claims to be released under the Doral Properties Plan. I understand that Doral Properties does not believe that any of its potential claims against the Released Parties have any substantial value.

26. In developing and drafting the Doral Properties Releases and the Doral Properties Exculpation, Doral Properties engaged in arm's-length negotiations with the Released Parties and considered the significant value contributed by them to the Bankruptcy Case and their support for confirmation of the Doral Properties Plan. Each of the Released Parties contributed significantly to the Doral Properties Plan. Specifically, the Indenture Trustee, Morgan Stanley & Co. LLC, Good Hill Master Fund LP, Good Hill Master Fund II LP, and certain related parties, devoted significant time and resources to negotiating the terms of the Doral Properties Plan and also agreed to support the Doral Properties Plan. The Indenture Trustee also agreed to the Superpriority Claim Settlement (as defined below), a material concession that will enable confirmation of the Doral Properties Plan. The Committee devoted time and effort to represent the interests of the general unsecured creditors and provided input on the Doral Properties Plan. Likewise, Doral Financial made significant contributions to Doral Properties' restructuring efforts, including the sale of Doral Plaza. Finally, Doral Properties' officers, directors and employees contributed significant efforts on behalf of Doral Properties prior to and during the Bankruptcy Case. I understand that, if the Doral Properties Releases and the Doral Properties Exculpation were not offered, the Released Parties might not have been willing to contribute or

otherwise participate in the process that led to the Doral Properties Plan, which would have had a negative impact on the Bankruptcy Case.

**F. Superpriority Claim Settlement**

27. I understand that section 5.07 of the Doral Properties Plan provides for a settlement of the Indenture Trustee's Superpriority Claim (the "Superpriority Claim Settlement"). Under the Cash Collateral Order, the Indenture Trustee holds, on behalf of the AFICA Secured Claims, an Administrative Claim against the Debtor for any diminution of cash collateral during the Bankruptcy Case. This claim, the Superpriority Claim, has priority over all other Administrative Claims (or any other unsecured claim) in the Bankruptcy Case. I understand that Bankruptcy Code section 1129 requires a chapter 11 plan to provide for the payment in full of all claims entitled to priority under Bankruptcy Code section 507, absent agreement by the claimant to other treatment. Due to the anticipated size of the Administrative Claims, Doral Properties anticipated that, without the Superpriority Claim Settlement, it would not have sufficient funds on the Effective Date to pay all administrative and other priority Claims in full. To have a confirmable chapter 11 plan, Doral Properties and the Indenture Trustee negotiated the Superpriority Claim Settlement, under which the Indenture Trustee agreed to subordinate the Superpriority Claim in certain instances and to accept less than full payment of the Superpriority Claim if, as anticipated, funds prove insufficient to pay the Superpriority Claim in full.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the following is true  
and correct to the best of my knowledge, information, and belief.

Dated: August 4, 2016  
New York, New York

Respectfully submitted,



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Carol Flaton  
Chief Restructuring Officer  
Doral Financial Corporation