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Creditors' Trustee*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re : Chapter 11
: :
Doral Financial Corporation, : Case No. 15-10573 (JPM)
: :
Reorganized Debtor. :
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**DORAL FINANCIAL CREDITORS' TRUST'S
FOURTEENTH SEMI-ANNUAL STATUS REPORT FOR THE PERIOD
FROM MAY 1, 2023 THROUGH OCTOBER 31, 2023**

DORAL FINANCIAL CREDITORS' TRUST

FOURTEENTH SEMI-ANNUAL STATUS REPORT FOR THE PERIOD FROM MAY 1, 2023 THROUGH OCTOBER 31, 2023

Background

The Doral Financial Creditors' Trust (the "Trust") is a Delaware statutory trust that was formed for the benefit of the creditors of Doral Financial Corporation ("DFC" or the "Debtor"). On March 11, 2015, the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On August 10, 2016, the Bankruptcy Court entered an order confirming the *Amended Plan of Reorganization Proposed by Doral Financial Corporation and the Official Committee of Unsecured Creditors of Doral Financial Corporation* (the "Plan") which became effective on October 28, 2016 (the "Effective Date").

On the Effective Date, Drivetrain, LLC was appointed as the trustee (the "Trustee") of the Trust to liquidate the assets of the Trust and administer the claims filed against the Debtor. Also on the Effective Date, substantially all of the assets of the Debtor vested in the Trust pursuant to the Plan, including various causes of action (the "Causes of Action"), interest in and proceeds from a loan portfolio (the "I/O Strips"), 100% of the equity of the reorganized Doral Financial Corporation which holds certain Puerto Rican tax assets, and other miscellaneous assets (collectively, the "Trust Assets"). The Trust Assets included \$5.0 million in cash earmarked to fund the startup and operational costs of the Trust.

On the Effective Date, the Trustee allowed certain claims against the Debtor (the "Allowed Claims"), the holders of which received a distribution of cash and interests in the Trust (the "Interests"). The Trustee has reserved cash and Interests on account of the remaining claims filed against the Debtor (the "Disputed Claims").

The Trustee, for U.S. federal income tax purposes, made an election pursuant to Treasury Regulation section 1.468B-9 to treat the cash and Trust Interests reserved for Disputed Claims (the "Disputed Claims Reserves") as a disputed ownership fund (the "DOF") within the meaning of that section. As a separate taxable entity, the Trust will allocate taxable income or loss to the DOF, with respect to any given taxable year for which there are Disputed Claims Reserves. As Disputed Claims are resolved, the Trustee will distribute assets from the DOF to the Trust as, when, and to the extent, such Disputed Claims either became allowed or are otherwise resolved.

The Plan provides that, for federal income tax purposes, the Trust was deemed to be formed in two steps. The contribution by the Debtor of the Trust Assets was treated first as a deemed transfer of the Trust Assets to the holders of Allowed Claims, and to the DOF who is the beneficial holder of the Disputed Claims Reserves (collectively, the "Beneficiaries"). This was followed by a deemed transfer by each Beneficiary of its interest in the Trust Assets to the Trust, in exchange for Interests. The Beneficiaries are treated as the grantors of the Trust and the Trustee will file tax returns for the Trust as a "grantor trust" pursuant to Section 1.671-4(a) of the U.S. Treasury Regulations. The Trustee will also file tax returns for the DOF. For the year-ended

December 31, 2018, the DOF had a tax liability of \$524,088. The Trust had paid estimated taxes for 2018 of \$620,000, and the \$95,912 overpayment was applied to the 2019 tax year. There was no additional tax liability for 2019, 2020, 2021, and the first ten months of 2022. The DOF received a Federal tax refund of approximately \$12,000 in October 2020. The refund resulted from the DOF carrying back via the filing of Form 1045, Application for Tentative Refund, its entire 2019 taxable loss and applying it against 2017 taxable income as permitted and provided for by the recently enacted Coronavirus Aid, Relief, and Economic Security Act (P.L. 116-136). The DOF also received a Federal tax refund of approximately \$96,000 in July 2021. The refund resulted from prior year estimated tax payments exceeding the actual tax liability. The DOF paid estimated taxes for 2022 in 2023. In addition, the DOF paid an estimated tax payment of \$1,300 during July 2023 and may be required to make an additional estimated tax payment during December 2023.

The Trust is organized and established as a trust, among other things, to (i) administer the Trust Assets for the benefit of the Beneficiaries, (ii) review, reconcile, and where appropriate, object to, any Disputed Claims, (iii) prosecute and settle the Causes of Action, (iv) make any distributions, as provided for under the Trust Agreement (the “Agreement”) and the Plan, and (v) liquidate the Trust Assets. All costs, expenses, and obligations incurred by the Trust in administering the Plan and performing the Agreement are to be paid from the Trust Assets.

The Trust is intended to qualify as a liquidating trust pursuant to United States Treasury Regulation section 301.7701-4(d). The primary purpose of the Trust is to resolve any outstanding claims, liquidate the Trust Assets, and liquidate the Trust with no objective to continue or engage in the conduct of a trade or business, and the Trust shall take no action inconsistent with such qualification except to the extent reasonably necessary to preserve or enhance the liquidation value of the Trust Assets, and consistent with the liquidating purpose of the Trust.

Pursuant to the terms of the Agreement, the Trust is managed by the Trustee and decisions by the Trustee are binding upon and conclusive to the Trust and its Beneficiaries. The Trustee performs its duty as set forth in the Agreement which became effective on the Effective Date of the Plan. The Trustee has been duly appointed as a representative of the Debtor’s estate pursuant to sections 1123(a)(5), (a)(7), and (b)(3)(B) of the Bankruptcy Code and the Plan. The Trustee is responsible for establishing cash reserves to fund the ongoing operations of the Trust and for paying costs and expenses incurred by the Trust. Such cash reserves were funded from the initial funding of \$5.0 million in cash and are expected to be further replenished by cash received by the Trust, including any proceeds from the Causes of Action, the liquidation of any other Trust Asset, and any cash in excess of the amount reserved for the Disputed Claims.

After establishing adequate cash reserves, the Trustee may make distributions to the Beneficiaries (“Distributions”) from time to time in accordance with the terms of the Agreement and the Plan.

The Trust will be dissolved no later than five years from the Effective Date; provided, however, that the Bankruptcy Court, upon motion by a party in interest, on notice with an opportunity for a hearing, may extend the term of the Trust for a finite period if (i) such extension is necessary to the purpose of the Trust, (ii) the Trustee receives an opinion of counsel or a ruling from the Internal Revenue Service (the “IRS”) stating that such extension would not adversely affect the status of the Trust as a liquidating trust for U.S. federal income tax purposes, and (iii)

such extension is obtained within the six month period prior to the Trust's fifth anniversary or the end of the immediately preceding extension period, as applicable. On October 22, 2021, the term of the Trust and the Claims Objection Deadline were extended through October 28, 2022. On October 14, 2022, the term of the Trust and the Claims Objection Deadline were extended through October 28, 2023. On October 30, 2023, the Bankruptcy Court entered an order providing for an extension of the Trust and the Claims Objection Deadline through October 28, 2024.

Upon dissolution of the Trust, any remaining Trust Assets, with the exception of the Causes of Action, will be distributed to the Beneficiaries in accordance with the Plan and Article 5 of the Agreement, provided that de minimis amounts (less than \$10,000) will be payable to charity.

After the termination of the Trust and for the purpose of liquidating and winding up the affairs of the Trust, the Trustee shall continue to act as such until the Trustee's duties have been fully performed. Prior to the final distribution of all of the remaining Trust Assets, the Trustee shall be entitled to reserve from such assets any and all amounts required to provide for the Trustee's own compensation, costs and expenses in accordance with the Agreement until such time as the winding up of the Trust is completed.

Current Activities

The following is a summary of certain material developments regarding the Trust for the period May 1, 2023, through October 31, 2023:¹

A. Distributions

- From May 1, 2023, through October 31, 2023, no distributions to holders of Interests were made.

B. Claims Reconciliations

- After a Disputed Claim becomes an Allowed Claim, the holder of such Allowed Claim receives all payments and distributions that they would have previously received had they been a holder of an Allowed Claim at the Effective Date.² From May 1, 2023 through October 31, 2023, the Trust did not resolve any Disputed Claims.
- As of October 31, 2023, there is one unresolved Disputed Claim remaining on the claims register.² The Trust is holding reserves equal to \$1,558,669 at October 31, 2023.

¹ Capitalized terms not defined herein shall have the meaning given to them in the Plan. A copy of the Plan can be found on the Bankruptcy Court's docket at docket entry number 632, or at <http://cases.gcgcinc.com/dor/key.php>.

² With respect to when a Disputed Claim becomes an Allowed Claim, the Trust has scheduled distributions to Subsequently Allowed Claims on or about the 15th of every month.

C. DFC Tax Assets

- The Trustee continues to evaluate the tax-related assets and claims held by DFC, including with respect to the impact of the bankruptcy case commenced by the Commonwealth of Puerto Rico under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act on such assets and claims. The Trustee served on the Official Committee of Unsecured Creditors in this Title III bankruptcy case and filed a claim on behalf of DFC. On October 6, 2021, the Financial Oversight and Management Board for Puerto Rico filed the *Amended Eighteenth Notice of Claims to Administrative Claims Reconciliation* [Docket No. 18413] (the “Notice”) in the Title III bankruptcy case. Pursuant to the Notice, DFC’s Tax Refund Claim shall be resolved utilizing the Tax Refund Procedures (as defined in the *Order (A) Authorizing Administrative Reconciliation of Claims, (B) Approving Additional Form of Notice, and (C) Granting Related Relief* [ECF No. 12274]) through the Commonwealth’s existing administrative reconciliation processes—where claims are eligible to be paid in full—rather than through the Commonwealth’s plan process.

The Trustee continues to pursue the DFC Puerto Rico Claim in Puerto Rico but has not received a final determination on its claim from the Puerto Rico Treasury Department notwithstanding (A) the Trustee’s timely response to document requests and (B) assurances from the Puerto Rico Treasury Department that a determination would be made by certain deadlines. To compel the Puerto Rico Treasury Department to decide on the tax claim, the Trustee filed a Petition for Mandamus and Declaratory Judgment (the “Mandamus”) in the Puerto Rico’s Court of First Instance on June 6, 2023. The Court of First Instance requested that the parties submit additional information on the Puerto Rico Treasury Department’s prior document requests concerning the DFC Puerto Rico Claim, to which the Trustee promptly complied. Additionally, the Puerto Rico Treasury Department filed a motion to dismiss the Mandamus. In September 2023, the Court of First Instance granted the Mandamus, denied the motion to dismiss, and provided the Puerto Rico Treasury Department with 30 days to issue a ruling on the DFC Puerto Rico Claim. The Puerto Rico Treasury Department issued an initial determination on October 13, 2023, alleging that DFC was not entitled to a refund. The Trustee sought reconsideration and provided documentary evidence for its position but has not received a response to its reconsideration request. On November 27, 2023, the Trustee filed a motion in the Court of First Instance requesting an order compelling the Puerto Rico Treasury Department to respond to the Trustee’s reconsideration request. On November 29, 2023, the Court issued an order granting the Trustee’s motion and requiring that the Treasury Department respond to the Trustee’s reconsideration request. The matter remains ongoing.

- In July 2017, the Trust received \$939,817 in tax refunds from the IRS. The Trustee continues to review the circumstances surrounding these tax refunds and has engaged in discussions with the IRS regarding the same.

Pending Affirmative Causes of Action

Pursuant to the Plan, the Trust was vested with all claims and Causes of Action related to the Debtor. The following describes certain potentially material Causes of Action of the Trust that remain outstanding.

- Professional Integrated Services Corp. Litigation - the Trust is the successor to certain counterclaims filed by DFC in a litigation pending in the Puerto Rico Court of First Instance (Case No. KDP 2010-1693 (806)). The plaintiffs in that suit filed claims against DFC (among others) for damages for breach of contract and tort. The claims against DFC were subsequently dismissed. The only matters that remained pending in the litigation were counterclaims against Lesbia Blanco, a former employee of DFC, and the estate of her deceased husband, Luis R. Diaz Garcia, for violations of a contract with DFC. DFC has alleged damages of \$1.4 million. The counterclaim defendants filed a motion for summary judgment seeking the dismissal of the counterclaim, which DFC opposed. The Puerto Rico Court of First Instance denied that motion for summary judgment and denied the counterclaim defendants' subsequent motion for reconsideration. The counterclaim defendants appealed the determination up to the Puerto Rico Supreme Court, which affirmed the Court of First Instance's determination. The case was remanded to the Court of First Instance. On May 9, 2023, the Court of First Instance issued an order acknowledging that the parties have submitted their positions concerning summary judgment and advising that the Court has taken the matter under submission. The Court of First Instance dismissed DFC's counterclaim on October 16, 2023.

Financial Summary

The following activity has occurred at the Trust for the six months ended October 31, 2023:

	<u>Cash</u>
Balance at May 1, 2023	\$3,542,742
Additions ^(a)	260,816
Investment Income ^(b)	3,464
Operating Costs ^(c)	<u>(264,682)</u>
Balance at October 31, 2023	<u>\$3,542,340</u>

(a) Additions consist of I/O strip proceeds of \$260,861.

(b) Investment income consists of interest received on account of (i) DOF accounts of \$37 and (ii) operating account of 3,427.

(c) Operating costs consist of payments made on account of (i) administrative expenses of \$ 152,698, and (ii) legal expenses of \$ 111,985.

Dated: November 30, 2023

Doral Financial Creditors' Trust
By: Drivetrain, LLC

By: /s/ Ivona Smith
Ivona Smith
Authorized Representative
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