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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
	:	
Doral Financial Corporation,	:	Case No. 15-10573 (SCC)
	:	
Reorganized Debtor	:	

DORAL FINANCIAL CREDITORS' TRUST'S
FIRST SEMI-ANNUAL STATUS REPORT FOR THE PERIOD FROM
OCTOBER 28, 2016 (THE PLAN EFFECTIVE DATE) THROUGH APRIL 30, 2017

DORAL FINANCIAL CREDITORS' TRUST

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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 Company 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 become 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.

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 and reconcile, including where appropriate, object to, any Disputed Claims, (iii) prosecute and settle the Causes of Action, (iv) make any distributions, as provided for under the Creditors’ 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 section 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 (“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 Creditors’ 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 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.

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 compensation, costs, and expenses in accordance with the Agreement until such time as the winding up of the Trust is completed.

Current Activities

Since the Effective Date, the Creditors' Trustee has overseen, among other things, the following:[1]

- Contribution by DFC of $79.7 million in cash and substantially all of its assets to the Trust in accordance with the Plan.

- Service of a notice regarding the entry of the Confirmation Order, the occurrence of the Effective Date, and the deadline for filing requests for the payment of Professional Fee Claims.

- Distributions to holders of Allowed Claims including $700,000 on account of Allowed Administrative Claims, $625 on account of Allowed Priority Claims, and $51,667,040 on account of Allowed Class 2 General Unsecured Claims.

- Payment of $956,450 of the fees and expenses of 11 professionals for services rendered through the Effective Date, each as approved by the Bankruptcy Court. As of April 30, 2017, all holdbacks and professional fees incurred through the Effective Date have been paid.

- Establishment of the Doral Creditors' Trust Disputed Ownership Fund ("DOF") on November 18, 2016 and the transfer into the DOF all of the cash reserved on account of Disputed Claims.[2]

- Issuance of 199,030,268 Creditors' Trust Interests (in book form only) to holders of Allowed Claims and issuance of 72,100,614 Creditors' Trust Interests (in book form only) to the DOF on account of Disputed Claims.

- Obtained Bankruptcy Court approval on March 29, 2017 sustaining the objection by the Trust to the proof of claim filed by Ronald Stewart[3], former Senior Vice-President at Doral Financial Corporation. The claim was filed in the amount of $11,953,400 and a cash reserve related to the claim was established upon the Effective Date in the amount of $3,102,908 pursuant to the Reserve Order. The Order sustaining the objection to the Ronald Stewart claim capped the claim at $242,000 thereby creating excess reserves in the amount of $3,040,089.

- Continued efforts at resolution of Disputed Claims including informal requests for documents served on claimants. As of the date of this report and including the Ronald Stewart claim, 65 Disputed Claims remain unresolved representing $17,787,361 in reserves

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[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.gcginc.com/dor/key.php.

[2] Cash reserved on account of Disputed Claims is held in the DOF in accordance with the terms of the *Order Granting Joint Motion for an Order Establishing a Reserve Amount with Respect to Undetermined Claims in Connection with Distributions Under Chapter 11 Plan*, entered October 18, 2016 [Dkt. No. 753] (the "Reserve Order").

[3] *Order Sustaining Objection of the Creditors' Trust to Proof of Claim Filed by Ronald Stewart [Claim No. 50]* was entered March 29, 2017 [Dkt. No. 841].

- Continued evaluation of 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.

- Negotiated pre-suit settlement of preference claims against Williams & Connolly LLP, pre-petition attorneys for Doral Financial Corporation, for $200,000 in cash.

- Prepared and filed US Income Tax Returns for the Trust and DOF. Issued beneficiary letters on April 18, 2017 to the grantors of the Trust identifying each grantors' share of income, loss and Effective Date asset valuation.

Causes of Action

Pursuant to the Plan, the Trust was vested with all claims and causes of action belonging to the Debtor. The following describes certain potentially material claims of the Trust.

- D&O Claims - the Trust has potential causes of action against the former directors and officers of DFC ("D&O Claims"). Pursuant to the Plan, the Official Committee of Unsecured Creditors of Doral Financial Corporation (the "Committee") was granted standing and power to prosecute, settle, abandon, or compromise the D&O Claims on behalf of the Trust. Pursuant to the Plan, the Trust shall pay the costs of the Committee, including legal fees and expenses incurred in prosecuting the D&O Claims. To date, the Committee has not commenced a lawsuit asserting any D&O Claims. The Committee continues to evaluate its options with respect thereto.

- Avoidance Actions

    - Paul Hastings LLP - on March 17, 2017, the Trust commenced a lawsuit against Paul Hastings LLP ("Paul Hastings"), former counsel to DFC. The complaint filed by the Trust alleges that within ninety days prior to DFC's filing of its voluntary petition for relief under chapter 11 (the "Filing Date"), Paul Hastings received preferential transfers in the total amount of $5,325,897.31. The suit seeks avoidance and recovery of those payments pursuant to 11 U.S.C. §§ 547 and 550.

    - O'Neill & Borges LLC - on March 10, 2017, the Trust commenced a lawsuit against O'Neill & Borges LLC ("O'Neill"), former counsel to DFC. The complaint filed by the Trust alleges that within ninety days prior to the Filing Date, O'Neill received preferential transfers in the total amount of $137,660.54. The suit seeks avoidance and recovery of those payments pursuant to 11 U.S.C. §§ 547 and 550.

- Mario Levis Bankruptcy - the Trust is the successor to claims filed by DFC against the estate of debtor Mario Samuel Levis, a chapter 11 debtor in a bankruptcy case pending in the U.S. Bankruptcy Court for the District of Puerto Rico ("PR Bankruptcy Court") (Case No. 14-02953). Mr. Levis was a former executive of DFC, who was charged and indicted in the U.S. District Court for the Southern District of New York (the "District Court") and who was eventually convicted on several counts of fraud. DFC's claims against Mr. Levis are for (i) criminal monetary penalty restitution in the amount of $1,894,261.80 as ordered by the District

Court, and (ii) the recovery of moneys owed to DFC for attorneys' fees and expenses in the amount of $24,440,750.60 incurred by DFC in its defense of Mr. Levis.

On July 18, 2014, DFC filed a complaint commencing an adversary proceeding against Mr. Levis, seeking a determination from the PR Bankruptcy Court that Mr. Levis's debts to DFC are non-dischargeable through bankruptcy.

On February 13, 2015, Mr. Levis filed an objection to DFC's claim, alleging that the amounts were overstated and seeking disallowance of the claim. On March 7, 2016, DFC filed a motion for summary judgment seeking an order dismissing Mr. Levis's objection. On January 13, 2017, the bankruptcy court entered an opinion and order denying DFC's summary judgment motion. Thus, Mr. Levis' objection to DFC's claim, as well as DFC's non-dischargeability complaint, remain pending before the PR Bankruptcy Court.

- FirstBank Litigation - the Trust is the successor to claims filed by DFC against FirstBank Puerto Rico ("FirstBank") in the Superior Court of San Juan (Case No. KAC 2009-1321 (803)). DFC's complaint alleges damage for an unquantified number of millions of dollars resulting from, among other things, tortious interference, contract to the detriment of a third party, unfair competition, and damages under Article 1802 of the Puerto Rico Civil Code relating to FirstBank's employment of a former DFC employee, Calixto García-Vélez. DFC has alleged that FirstBank hired Mr. García-Vélez in contravention of the non-compete and confidentiality clauses of his employment agreement with DFC. There has been discovery exchanged in the FirstBank litigation. DFC's claims against First Bank remain pending.

- Professional Integrated Services Corp. Litigation - the Trust is the successor to certain counter-claims 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 matter remaining pending in the litigation is DFC's counter-claim against one of the plaintiffs, Lesbia Blanco, for violation of a contract with DFC. DFC has alleged damages of $1.4 million. The matter remains pending and trial is to be scheduled.

Financial Summary

The following activity has occurred at the Trust for the Effective Date through April 30, 2017:

	Cash
Balance at Effective Date	$ 0
Effective Date Funding [a]	79,706,453
Additions [b]	1,113,199
Investment Income [c]	53,902
Distributions [d]	(52,367,665)
Operating Costs [e]	(1,984,772)
Balance at April 30, 2017	$26,521,117

(a) DFC emerged from bankruptcy on the Effective Date and contributed $79.7 million in cash, along with substantially all its assets, to the Trust.

(b) Additions consist of cash receipts received on account of (i) cash received on the I/O Strips of $1,108,082, (ii) a security deposit received on DFC former Florida office location of $4,632, and (iii) miscellaneous receipts of $485.

(c) Investment income consists of interest received on account of (i) DOF accounts of $40,267, (ii) allowed claims account of $2,156, and (iii) operating account of $11,478.

(d) Plan disbursements consist of initial distributions made to the holders of Allowed Claims including (i) $700,000 on account of Allowed Administrative Claims, (ii) $625 on account of Allowed Priority Claims, and (iii) $51,667,040 on account of Allowed Class 2 General Unsecured Claims.

(e) Operating costs consist of payments made on account of (i) Professional Fee Claims filed of $956,450, (ii) pre-Effective Date operating costs of $11,338, (iii) administrative expenses of $372,652, (iv) non-legal professional expenses of $4,118, and (v) legal expenses of $640,214.

Dated: May 16, 2017

Doral Financial Creditors' Trust
By: Drivetrain, LLC

By: Lauren Krueger
Lauren Krueger
Designated Trustee
630 Third Avenue, 21st Floor
New York, NY 10017