

**FOR IMMEDIATE RELEASE MARCH 9, 2009**

**CESSATION OF OPERATION AT CSMC NOT RELATED TO SUIT AGAINST  
RICHARD JUNGEN AND OTHERS**

Milwaukee, Wis. The cessation of operations at CSMC, Inc. d/b/a Central States Mortgage Company today “is in no way the result of any action by Dick Jungen or any of the persons named in CSMC’s so-called ‘racketeering’ lawsuit filed last month” said Stephen Kravit, attorney for Dick Jungen and other defendants in that suit.

“Until last Thursday, CSMC reported positive cash flow to its clients and employees and a rosy plan for the future. Suddenly, management said there was a crisis. On Friday, Members United Corporate Federal Credit Union, which has a longstanding line of credit with CSMC and a loan balance outstanding of more than \$33 million, declared default and demanded payoff of its loan by March 13. Over the weekend, the board worked with management to consider its options.

“The board uncovered a serious cash flow deficiency. The matter is being investigated. It was reported that present management collected significant sums from sales or refinancing of CSMC mortgages, but used those funds for operations rather than paying off the mortgages of the underlying lenders. This all occurred long after the departures of Dick Jungen, Elaine Jungen, Chuck Miller and Jerry Poehnelt.

“It is false and defamatory to state or imply that the lawsuit filed by CSMC against my clients has anything to do with the activity of present management which is under investigation, or the current insolvency of CSMC. It is false and defamatory to claim that my clients caused \$15 million in losses, or any losses to Central States that were not due to deteriorating market factors. My clients vigorously deny any ‘racketeering’ activity, or any responsibility for the current cash issues. We are confident the lawsuit will be dismissed because no trustee or receiver would allow what remains of the insolvent CSMC’s funds to be used to pursue this attention diverting, meritless litigation.”

The controlling directors of CSMC are all presidents of credit unions. “My clients believe this action was brought at the behest of the credit union president directors to mask their own responsibility for the decline of CSMC, and divert attention from their significant management oversight failures. The management oversight failure by the credit union president directors now appears terminal for Central States” Kravit said.

## **Background Information**

CSMC filed a complaint on February 2, 2009 against Interim Funding, LLC, Dick and Elaine Jungen, Jerry Poehnelt, Kevin Dwyer and Chuck Miller, alleging a number of claims involving the relationship of Interim Funding, LLC and CSMC. CSMC claims that its board did not know of Interim Funding, or that IF was owned by the individual defendants.

CSMC's complaint is inaccurate, and incredulous. Interim Funding LLC was formed in July, 1997 when the owners of CSMC and IF were one and the same. It was organized to fund loans that did not meet the market guidelines for sale into the secondary markets, and until 2008, generated millions of dollars in funds for CSMC. All IF lines were personally guaranteed by its owners. When the market for such loans began to turn bad in the first half of 2008, the owners of IF personally contributed \$1.2 million in cash to keep it going, all to the benefit of CSMC and its lenders.

The members of IF went to banks and obtained separate lines of credit to fund these types of loans for one to two years to get them eventually saleable into the secondary markets. These lines were personally guaranteed by all members of IF. This company created a product for CSMC loan officers that allowed them to do more loans than they could have at most mortgage companies in the area, thereby creating a market niche and a leg up on competitors. CSMC earned loan origination fees, closing and document preparation fees, title business for CSMC's captive title company, and a customer for a future re-finance when these buyers could qualify for a new loan. This product created millions of dollars of income otherwise not available to CSMC.

From the beginning all the CSMC loan officers knew who the owners of IF were because they knew these loans were underwritten and approved for closing by one or more members of IF. If there were issues with the loan file, they would have to communicate with one of the owners to solve the issue for approval of the loan. Eventually IF grew from a million dollar line of credit to multiple lines from many different banks, with up to \$50 million in lines.

For ten years, it was a very profitable venture for all entities involved: CSMC, IF, and the banks. In 2007 there began a major shift in the mortgage marketplace as the beginning of the non-conforming (subprime) mortgage meltdown started. The IF banks began to get nervous, and starting in 2007 and going into 2008 they started cutting back on available lines of credit, or choosing not to renew the lines when they matured. There was still heavy demand at CSMC for these types of loans. Soon, there were too many deals in the pipeline to get them purchased on a timely basis. By mid-2008, the Board

of CSMC asked IF to shut the program down. Loans already in the pipeline were finalized with the Board's knowledge and approval.

The complaint alleges that until June 2008 no one on the CSMC Board or any CSMC shareholders ever had any knowledge of who owned IF. This is categorically false. From day one all the loan officers, processing staff, closing department staff, several employees of the company that were either former directors that came to work for IF, or employees that went on to work at a shareholder credit union and eventually became CSMC directors, well knew who the owners of IF were. One is Craig Lester, former President of Glacier Hills Credit Union, who came to work for CSMC as President of Premier Title. He oversaw preparation of many of the legal documents prepared for CSMC/IF deals that required one of the IF members' signature. Lester is the current CEO/President of CSMC. Lester attended every Board meeting for many years and heard all the discussions about the businesses in those meetings, and undoubtedly read and approved the complaint.

Another employee with full knowledge was Ralph Brunner, former Deputy Commissioner of Credit Unions for the State of Wisconsin. He left the state job in 1996 and went to work for CSMC. He eventually became the President of Premier Title before Mr. Lester. He became a shareholder in CSMC in 1998. He so liked the way IF worked, that at one time he asked if he could become one of its owners. About that time a Board vacancy occurred when Mr. Lester left Glacier Hills Credit Union to work for CSMC. Lester resigned from the board because he was also an employee, and was replaced by Brunner. At least two directors and credit union presidents specifically knew for years who the owners of IF were, contrary to the allegations in the complaint.

There are many other examples of full knowledge about IF at CSMC. All kinds of marketing materials included IF as an affiliate company of CSMC; the employees of IF were paid through the CSMC payroll with CSMC checks; IF employees were allowed to participate in all the CSMC company benefit programs including the 401k with company matches; IF used the same accounting and computer system as CSMC' and the same loan servicing software CSMC owned; and there were shared employees who did work for both companies. CSMC's auditors knew who owned IF and its relationship to CSMC, and never stated in their management letter to the Board any concerns about this joint working arrangement. IF was noted in footnotes to audited statements as an affiliate of CSMC. At one time Premier Title was doing so much construction loan work that they could not keep up with the inspections of on site work competed for draw requests. Premier Title contracted with IF to do inspections on a contract basis. But now CSMC wants the public to believe that CSMC did not know who the owners of IF were.

Unless the CSMC Board members were living under rocks, all employees, the current president/CEO and past directors were well aware of IF's ownership group and the success it contributed to CSMC. Its difficulties were the same ones other major mortgage lenders experienced in the last two years - declining values, job losses, and credit deterioration.

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