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UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA, SANTA ROSA DIVISION

In re: Pacific Capital Funding Group Inc., Debtor.	Case No. 26-30538 Chapter 11
In re: Pacific Capital Funding Group Inc. Pacific Private Money Group LLC Private Money Management Group LLC Pacific Mortgage Capital, LLC Pacific Note Fund Management Group LLC Pacific Private Money, Inc. Pacific Private Money Partners LLC Arrival Home Loans LLC Pacific Private Money Fund 1 LLC Pacific Southwest Note Fund LLC Pacific Freedom Fund LLC Pacific Opportunity Fund LLC Arrival Fund I, LLC	Jointly Administrated with: Case No. 26-30538 (WJL) Case No. 26-30535 (WJL) Case No. 26-30544 (WJL) Case No. 26-30539 (WJL) Case No. 26-30540 (WJL) Case No. 26-30533 (WJL) Case No. 26-30536 (WJL) Case No. 26-30543 (WJL) Case No. 26-30534 (WJL) Case No. 26-30541 (WJL) Case No. 26-30532 (WJL) Case No. 26-30537 (WJL) Case No. 26-30542 (WJL)
Affects: ☐ Pacific Capital Funding Group Inc. ☐ Pacific Private Money Group LLC ☐ Private Money Management Group LLC ☐ Pacific Mortgage Capital, LLC ☐ Pacific Note Fund Management Group LLC ☐ Pacific Private Money, Inc. ☐ Pacific Private Money Partners LLC	**REPLY IN SUPPORT OF APPLICATION OF DEBTORS AND DEBTORS-IN-POSSESSION FOR ORDER AUTHORIZING THE EMPLOYMENT OF STEVENS BECKER P.C. AS SPECIAL COUNSEL TO THE DEBTORS IN POSSESSION** Date: July 31, 2026 Time: 10:00 a.m. Location: Courtroom 220 Judge: Hon. William J. Lafferty

Case: 26-30538 Doc# 77 Filed: 07/29/26 Entered: 07/29/ 26305382607290000000000001

☐ Arrival Home Loans LLC ☐ Pacific Private Money Fund 1 LLC ☐ Pacific Southwest Note Fund LLC ☐ Pacific Freedom Fund LLC ☐ Pacific Opportunity Fund LLC ☐ Arrival Fund I, LLC ☒ All Debtors	

Pacific Capital Funding Group, Inc., Pacific Private Money, Inc., Private Money Management Group LLC, Pacific Southwest Note Fund LLC, Pacific Private Money Partners LLC, Pacific Private Money Group LLC, Pacific Private Money Fund LLC, Pacific Opportunity Fund LLC, Pacific Note Fund Management Group LLC, Pacific Freedom Fund LLC, Pacific Mortgage Capital LLC, Arrival Home Loans, LLC, and Arrival Fund I, LLC, the debtors and debtors-in-possession (collectively the "Debtors"), submit their reply in support of the Debtors' application (the "**Application**"), pursuant to section 327(e) of title 11 of the United States Code (the "**Bankruptcy Code**"), authorizing the Debtors' employment of Stevens Becker P.C. ("**Stevens Becker**"), as special counsel to the Debtors in connection with the pending investigations by the U.S. Securities and Exchange Commission, the U.S. Department of Justice, and the California Department of Financial Protection and Innovation as follows:

INTRODUCTION

The Official Committee of Unsecured Creditors (the "**Committee**") objects to the Application on two grounds. The Committee asserts that Stevens Becker holds or represents an interest materially adverse to the estate with respect to the matters on which it is to be employed as a result of Stevens Becker's now-terminated representation of Mark Hanf ("**Hanf**"), the Debtors' former principal. Next, the Committee asserts retention of Stevens Becker is not in the best interests of the estate.

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The Committee is incorrect on both counts. Stevens Becker's representation of Hanf ended no later than early January 2026, five months before these cases were commenced. Stevens Becker does not now represent an adverse interest. Nor does Stevens Becker hold an adverse interest with respect to the proposed employment stemming from the prior representation.

The Committee's argument that Stevens Becker is conflicted because it cannot zealously represent the Debtors in prosecuting claim against Hanf is a red herring. The Debtors do not seek to retain Stevens Becker to pursue such claims. Even if there is an adverse interest (and there is not), such adverse interest is not "with respect to the matter on which such attorney is to be employed." Bankruptcy Code §328(e).

The Committee's argument that the retention of Stevens Becker is not in the best interests of the estate is likewise without merit. Stevens Becker has been advising the Debtors with respect to multiple pending investigations by multiple governmental agencies since September 2025. The investigations are complex, and if counsel is changed and new counsel retained, that new counsel will have to learn the case. This will inevitably result in substantial duplication of effort at the expense of the Debtors. This is precisely the problem section 328(e) is designed to avoid.

ARGUMENT

Bankruptcy Code section 328(e) reads:

> The trustee, with the court's approval, may employ, for a specified special purpose, other than to represent the trustee in conducting the case, an attorney that has represented the debtor, if in the best interest of the estate, and if such attorney does not represent or hold any interest adverse to the debtor or to the estate with respect to the matter on which such attorney is to be employed.

Bankruptcy Code §328(e). The purpose of the statute is to avoid the cost, expense, and burden to the estate from having to change attorneys in the midst of a complex matter. Accordingly, the section "will most likely be used when the debtor is involved in complex litigation, and changing attorneys in the middle of the case after the bankruptcy case has commenced would be detrimental to the progress of that other litigation." H.R. Rep. No. 595, 95th Cong., 1st Sess. 328 (1977).

Counsel proposed to be retained under section 328(e) are disqualified only if counsel holds or represents an adverse interest related to the matter on which counsel is to employed: "This section permits post-petition representation by the debtor's pre-petition attorney for a special

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purpose where he holds ***no adverse interest to the debtor within the scope of the representation.***" *Film Ventures Int'l, Inc. v. Asher (In re Film Ventures Int'l, Inc.)*, 75 B.R. 250, 252 (Bank. 9th Cir. 1987) (emphasis added); *see Stoumbos v. Kilimnik*, 988 F.2d 949, 964 (9th Cir. 1993) ("[W]here the trustee seeks to appoint counsel only as 'special counsel' for a specific matter, there need only be no conflict between the trustee and counsel's creditor client with respect to the specific matter itself."); *Vining v. Taunt (In re M.T.G., Inc.)*, 298 B.R. 310, 318 (E.D. Mich 2003) ("§ 327(e) only requires that the attorney not be in conflict (i.e., not hold an interest adverse to the estate) with the trustee for the specific purpose that the special counsel designation applies.")

Whether Stevens Becker holds or represents an interest adverse to the estate as a result of its now terminated representation of Hanf is questionable. One District Court has held that "'To hold or represent an interest adverse to the estate' means (1) to hold or assert any economic interest that would tend to reduce the value of the bankruptcy estate or that would give rise to an actual or potential dispute in which the estate is a rival claimant, or (2) to possess a predisposition under circumstances that render such predisposition a bias against the estate." *Vining v. Taunt, supra*, 298 B.R. 310, 318 n.18. Stevens Becker does not hold or assert any economic interest adverse to the estate. Nor does Stevens Becker possess a predisposition in circumstances that render such predisposition a bias against the estate. Instead, Stevens Becker's duties to the Debtors are the same as they always have been, those of an advocate for the Debtors not a party with an adverse interest.

The Committee argues that as a result of its prior representation of Hanf, Stevens Becker cannot zealously represent the Debtors' interests against Hanf. However, the Debtors do not seek to retain Stevens Becker to represent the Debtors' interests against Hanf. The scope of the proposed engagement is the pending governmental investigations, not the investigation or prosecution of claims against Hanf. As a result, even if Stevens Becker's prior representation of Hanf rises to the level of an interest adverse to the estate, any purported conflict does not disqualify Stevens Becker from representing the Debtors in connection with other matters, such as the pending investigations. *Film Ventures Int'l, Inc. v. Asher, supra*, 75 B.R. at 252.

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The Committee next argues that retention of Stevens Becker is not in the best interests of the estate because Stevens Becker allegedly cannot share information obtained from Hanf, has not allocated payments received between the two clients, does not have undivided loyalty, and can easily be replaced by the Debtors' general bankruptcy counsel. None of these reasons survive scrutiny.

First, at the outset of the representation, Mr. Hanf acknowledged in the engagement agreement that the joint representation meant that confidential information could be shared with the company: "In a joint representation, our communications with each client are protected by the attorney-client privilege. That means that the privilege can be waived only if you both agree to waive it and neither of you can assert the privilege against the other (or, in other words, no communication between one of you and Stevens Becker is confidential as to the other). We will respect requests that specific information one of you imparts to us not be shared, but only so long as following such instructions does not give rise to what we in our professional judgment believe is an irreconcilable conflict of interest."

Next, any claims the estate might have against Hanf to recover a portion of the legal fees paid on his behalf will exist whether or not Stevens Becker is retained. The Committee's bare assertion that Stevens Becker does not have undivided loyalty is incorrect. Stevens Becker disengaged from representing Hanf months ago and has no ongoing duty of loyalty to him.

Last, the Debtors agree with the Committee that avoiding duplication of effort and the resulting unnecessary expense is critical. *See In re Goldstein*, 383 B.R. 496 (Bankr. C.D. Cal. 2007). This is precisely why the Debtors seek to retain Stevens Becker. Although the Committee downplays the services to be performed by Stevens Becker as ministerial, elsewhere in its objection the Committee emphasizes the complexity and magnitude of the government investigations. The Debtors agree that the investigations are complex and believe that replacing their existing counsel handling those investigations will cause significant duplication of effort to the detriment of the estates. Given the attenuated nature of the alleged conflict and the cost to the estate to retain new counsel, the Debtors submit that retaining Stevens Becker to represent it in connection with the investigations is in the best interests of the estates.

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CONCLUSION

The Debtors request that the Court overrule the Committee's objection and enter an order authorizing the Debtors to retain Stevens Becker as special counsel under section 327(e) to represent the Debtors in connection with the governmental investigations.

DATED: July 29, 2026

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