3rd AMENDED AND RESTATED PRIVATE PLACEMENT MEMORANDUM

of

RUBICON MORTGAGE FUND, LLC

a California Limited Liability Company

3575 Mt. Diablo Boulevard, Suite 215
Lafayette, California 94549

$200,000,000

Membership Interests

Minimum Investment Amount: $100,000

June 1, 2019

Rubicon Mortgage Fund, LLC (the "Fund") is a California limited liability company. The Manager of the Fund is Rubicon Realty Advisors Inc. (the "Manager") (formerly known as Rubicon Management LLC), a California corporation. In 2013 the managing entity, Rubicon Management LLC, was converted via California state law from a limited liability company to a corporation and its name was changed to Rubicon Realty Advisors Inc. The Fund will engage in business as a mortgage lender for the purpose of making and arranging various types of loans to the general public and businesses, acquiring existing loans, and selling loans, all of which are or will be secured, in whole or in part, by real or personal property throughout the United States, primarily in California. The Fund is licensed as a California Finance Lender ("CFL"). The Fund may also engage in other real estate activities. This 3rd Amended and Restated Private Placement Memorandum amends and restates in full the private placement memorandum previously issued by the Fund dated as of January 1, 2016. All references herein to the "Offering" or the "Memorandum" are to the offering as made by and described in this 3rd Amended and Restated Private Placement Memorandum dated as of June 1, 2019.

The Fund is hereby offering to investors ("Investors"), pursuant to this Memorandum, an opportunity to purchase Membership Interests ("Membership Interests") in the Fund up to the maximum aggregate amount of Two Hundred Million Dollars ($200,000,000) (the "Maximum Offering Amount") (the "Offering"). The minimum investment amount per Investor is One Hundred Thousand Dollars ($100,000) (the "Minimum Investment Amount"); provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount. Investors will become "Members" in the Fund.

The Fund will deposit the Investors' accepted subscription funds into the Fund's bank account, and the Investors will, thereby, become Members of the Fund. A capital account ("Capital Account") will be established for each Member on the books and records of the Fund. Each Member will share in distributions of the Fund's profits and losses based upon such Member's capital account balance ("Capital Account Balance"). Investors will have the option, exercisable upon subscription, to receive monthly distributions of Net Profits from Fund operations, or to allow all or a portion of their proportionate share of the Net Profits of the Fund to be reinvested in additional Membership Interests of the Fund. In all other respects, however, an investment in the Fund is illiquid and subject to substantial restrictions on withdrawal. (See "Withdrawal and Other Events of Dissociation.") Fund income will be taxed to the Members as ordinary income, regardless whether it is distributed to the Members or reinvested and otherwise tax exempt entities, such as Individual Retirement Account and Keogh plans may pay tax on a portion of their share of the Fund income if the Fund engages in certain transactions. This offering involves tax and other risks. (See "Business Risks," "Investment Risks," "Income Tax Considerations," and "ERISA Considerations.")

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THIS OFFERING IS MADE IN RELIANCE ON AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION PROVIDED BY SECTION 4(2) OF THE SECURITIES EXCHANGE ACT OF 1933, AS AMENDED (THE "ACT"), AND RULE 506 OF REGULATION D AND REGULATION S PROMULGATED THEREUNDER.

THIS INVESTMENT INVOLVES A DEGREE OF RISK THAT MAY NOT BE SUITABLE FOR ALL PERSONS. ONLY THOSE INVESTORS WHO CAN BEAR THE LOSS OF THEIR ENTIRE INVESTMENT SHOULD PARTICIPATE IN THE INVESTMENT. (SEE "BUSINESS RISKS" AND "INVESTMENT RISKS.")

CERTAIN TERMS OF THE OFFERING

	Investments [1]	Selling Commissions [2]	Proceeds to Fund [2, 3]
Per Membership Interest	$1,000	$0	$1,000
Maximum Offering Amount	$200,000,000	$ 0	$200,000,000

1. This Offering will continue until (i) the Maximum Offering Amount is raised, or (ii) the Offering is withdrawn by the Fund. Investors will be admitted on a first in first out basis when their subscription funds are required by the Fund to purchase loans, to create appropriate reserves, or to pay Fund expenses.

2. The Membership Interests will be offered and sold directly by the Fund, by the Manager or its employees, for which it will receive no selling commissions. Membership Interests may also be sold through third parties, who may receive selling commissions or fees to be negotiated on a case-by-case basis. Broker-dealer agreements may be entered into. There is no firm commitment to purchase or sell any of the Membership Interests. All selling commissions or fees to third persons incurred in the sale of Membership Interests will be paid by the Manager, which may act as the originator of investments by the Fund. The Fund may pay finders fees between zero to three percent (0-3%) ("Finders Fees").

3. When the assets of the Fund reach Ten Million Dollars ($10,000,000), then the Manager may be reimbursed by the Fund for the Fund's initial organizational and syndication expenses including, but not limited to, legal expenses, printing costs, selling expenses and filing fees. At the Manager's discretion, the Manager may also be reimbursed for all other Fund expenses paid by the Manager.

DISCLOSED TO ANYONE, OTHER THAN AUTHORIZED PERSONS SUCH AS ACCOUNTANTS, FINANCIAL PLANNERS, OR ATTORNEYS RETAINED FOR THE PURPOSE OF RENDERING PROFESSIONAL ADVICE RELATED TO THE PURCHASE OF SECURITIES OFFERED HEREIN. IT MAY NOT BE REPRODUCED, DIVULGED, OR USED FOR ANY OTHER PURPOSE UNLESS WRITTEN PERMISSION IS OBTAINED FROM THE FUND. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANY PERSON EXCEPT THOSE PARTICULAR PERSONS WHO SATISFY THE SUITABILITY STANDARDS DESCRIBED HEREIN.

THE SALE OF MEMBERSHIP INTERESTS COVERED BY THIS MEMORANDUM HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS SET FORTH IN SECTION 4(2) OF THE ACT AND RULE 506 OF REGULATION D AND REGULATION S THEREUNDER. THESE SECURIITES HAVE NOT BEEN QUALIFIED OR REGISTERED IN ANY STATE IN RELIANCE UPON THE EXEMPTIONS FROM SUCH QUALIFICATION OR REGISTRATION UNDER STATE LAW. THESE SECURITIES ARE "RESTRICTED SECURITIES" AND MAY NOT BE RESOLD OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT COVERING DISPOSITION OF SUCH MEMBERSHIP INTERESTS IS THEN IN EFFECT, OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

THERE IS NO PUBLIC MARKET FOR THE MEMBERSHIP INTERESTS AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. SUMS INVESTED IN THE FUND ARE ALSO SUBJECT TO SUBSTANTIAL RESTRICTIONS UPON WITHDRAWAL AND TRANSFER, AND THE MEMBERSHIP INTERESTS OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

NON-U.S. INVESTORS HAVE CERTAIN RESTRICTIONS ON RESALE AND HEDGING UNDER REGULATION S OF THE ACT. DISTRIBUTIONS UNDER THIS OFFERING MIGHT RESULT IN A TAX LIABILITY FOR THE NON-U.S. INVESTORS. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE HIS, HER OR ITS TAX LIABILITY.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM, AND ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON. ANY PROSPECTIVE PURCHASER OF MEMBERSHIP INTERESTS WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE MANAGER IMMEDIATELY TO DETERMINE THE ACCURACY OF SUCH INFORMATION. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALES HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE FUND OR IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

PROSPECTIVE INVESTORS SHOULD NOT REGARD THE CONTENTS OF THIS MEMORANDUM OR ANY OTHER COMMUNICATION FROM THE FUND AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH PROSPECTIVE INVESTOR IS ENCOURAGED TO CONSULT WITH HIS, HER, OR ITS OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONALS WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO HIS, HER, OR ITS OWN TAX SITUATION, PRIOR TO SUBSCRIBING FOR MEMBERSHIP INTERESTS.

THE PURCHASE OF MEMBERSHIP INTERESTS BY AN INDIVIDUAL RETIREMENT ACCOUNT ("IRA"), KEOGH PLAN OR OTHER QUALIFIED RETIREMENT PLAN INVOLVES SPECIAL TAX RISKS AND OTHER CONSIDERATIONS THAT SHOULD BE CAREFULLY CONSIDERED. INCOME EARNED BY QUALIFIED PLANS AS A RESULT OF AN INVESTMENT IN THE FUND MAY BE SUBJECT TO FEDERAL INCOME TAXES, EVEN THOUGH SUCH PLANS ARE OTHERWISE TAX EXEMPT. (SEE "INCOME TAX CONSIDERATIONS" AND "ERISA CONSIDERATIONS.")

THE MEMBERSHIP INTERESTS ARE OFFERED SUBJECT TO PRIOR SALE, ACCEPTANCE OF AN OFFER TO PURCHASE, AND TO WITHDRAWAL OR CANCELLATION OF THE OFFERING WITHOUT NOTICE. THE MANAGER RESERVES THE RIGHT TO REJECT ANY SUBSCRIPTIONS IN WHOLE OR IN PART.

THE MANAGER WILL MAKE AVAILABLE TO ANY PROSPECTIVE INVESTOR AND HIS, HER, OR ITS ADVISORS THE OPPORTUNITY TO ASK QUESTIONS AND RECEIVE ANSWERS CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING, THE FUND OR ANY OTHER RELEVANT MATTERS, AND TO OBTAIN ANY ADDITIONAL INFORMATION TO THE EXTENT THE MANAGER POSSESSES SUCH INFORMATION.

THE INFORMATION CONTAINED IN THIS MEMORANDUM HAS BEEN SUPPLIED BY THE MANAGER. THIS MEMORANDUM CONTAINS SUMMARIES OF DOCUMENTS NOT CONTAINED IN THIS MEMORANDUM, BUT ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCES TO THE ACTUAL DOCUMENTS. COPIES OF DOCUMENTS REFERRED TO IN THIS MEMORANDUM, BUT NOT INCLUDED AS AN EXHIBIT, WILL BE MADE AVAILABLE TO QUALIFIED PROSPECTIVE INVESTORS UPON REQUEST.

CALIFORNIA EXEMPTION

THE SECURITIES OFFERED IN THIS MEMORANDUM HAVE NOT BEEN QUALIFIED UNDER THE CALIFORNIA CORPORATE SECURITIES LAW OF 1968, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM QUALIFICATION PURSUANT TO CALIFORNIA CORPORATIONS CODE SECTION 25102.1(D)(1). IN ADDITION, ALL INVESTORS SHOULD BE AWARE THAT IT IS UNLAWFUL FOR INVESTORS TO CONSUMMATE A SALE OR TRANSFER OF ANY SHARES OR INTEREST THEREIN, OR TO RECEIVE CONSIDERATION FOR SUCH SALE OR TRANSFER, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

NOTICE TO ALL NON-U.S. INVESTORS GENERALLY

THE DISTRIBUTION OF THIS PRIVATE PLACEMENT MEMORANDUM AND THE OFFER AND SALE OF MEMBERSHIP INTERESTS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES MAY BE RESTRICTED BY LAW. THIS PRIVATE PLACEMENT MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. PROSPECTIVE NON-U.S. INVESTORS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS AND THE TAX CONSEQUENCES WITHIN THE COUNTRIES OF THEIR CITIZENSHIP, RESIDENCE, DOMICILE AND PLACE OF BUSINESS WITH RESPECT TO THE ACQUISITION, HOLDING OR DISPOSAL OF THE MEMBERSHIP INTERESTS OFFERED HEREBY, AND ANY FOREIGN EXCHANGE OR OTHER NON-U.S. RESTRICTIONS THAT MAY BE RELEVANT THERETO.

OTHER STATE EXEMPTIONS

THE SECURITIES OFFERED IN THIS MEMORANDUM HAVE NOT BEEN QUALIFIED IN ANY STATE. IN ADDITION, ALL INVESTORS SHOULD BE AWARE THAT IT MAY BE UNLAWFUL FOR SUCH INVESTOR TO CONSUMMATE A SALE OR TRANSFER OF ANY INTEREST OF ANY SHARES, OR TO RECEIVE CONSIDERATION FOR SUCH SALE OR TRANSFER, WITHOUT THE PRIOR WRITTEN CONSENT OF THEAPPROPRIATE STATE DEPARTMENT, EXCEPT AS PERMITTED IN EACH STATE'S INDIVIDUAL RULES. NOTWITHSTANDING THE FOREGOING, THE FUND ANTICIPATES THAT IT WILL NOT BE REQUIRED TO QUALIFY SUCH SECURITIES IN RELIANCE UPON APPLICABLE EXEMPTIONS FROM QUALIFICATION AVAILABLE UNDER EACH STATE'S SECURITIES LAWS.

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FORWARD LOOKING STATEMENTS

Investors should not rely on forward-looking statements because they are inherently uncertain. Investors should not rely on forward-looking statements in this Memorandum. This Memorandum contains forward-looking statements that involve risks and uncertainties. We use words such as "anticipated," "projected", "forecasted", "estimated", "prospective", "believes," "expects," "plans," "future," "intends," "should," "can," "could," "might," "potential," "continue," "may," "will," and similar expressions to identify these forward-looking statements. Investors should not place undue reliance on these forward-looking statements, which may apply only as of the date of this Memorandum.

SUMMARY OF THE OFFERING

The following information is only a brief summary of, and is qualified in its entirety by, the detailed information appearing elsewhere in this Memorandum. This Memorandum, together with the exhibits attached including, but not limited to, the Operating Agreement of the Fund (the "Operating Agreement"), a copy of which is attached hereto as Exhibit A, should be read in their entirety before any investment decision is made. All capitalized terms used herein but not defined herein shall have the meaning ascribed to them in the Operating Agreement. If there is a conflict between the terms contained in this Memorandum and the Operating Agreement, then this Memorandum shall prevail.

The Fund	Rubicon Mortgage Fund, LLC (the "Fund") is a California limited liability company located at 3575 Mt. Diablo Boulevard, Suite 215, Lafayette, California 94549. The Fund will engage in business as a mortgage lender for the purpose of making and arranging various types of loans to the general public and businesses, acquiring existing loans, and selling loans, all of which are or will be secured, in whole or in part, by real or personal property throughout the United States, primarily in California.
The Manager	Rubicon Realty Advisors Inc. is a California corporation located at 3575 Mt. Diablo Boulevard, Suite 215, Lafayette, California 94549. The Manager will manage the Fund. The Manager and its Affiliates will receive the Manager's Fees, but the Fund shall retain all loan organization income.
The Offering	The Fund is hereby offering to Investors an opportunity to purchase Membership Interests in the Fund up to the maximum aggregate amount of Two Hundred Million Dollars ($200,000,000). The minimum investment amount per Investor is One Hundred Thousand Dollars ($100,000); provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount.
Selling Commissions	No portion of the gross proceeds of this Offering will be used for the purpose of paying selling commissions and fees incurred in the sale of Membership Interests. The Manager will pay any selling commissions and fees incurred in the sale of Membership Interests. The Fund may pay finders fees between zero to three percent (0-3%) ("Finders Fees").
Suitability Standards	Membership Interests are offered exclusively, to certain individuals, Keogh plans, IRAs and other qualified Investors who meet certain minimum standards of income and/or net worth. Each purchaser must execute a Subscription Agreement and an Investor Questionnaire making certain representations and warranties to the Fund, including such purchaser's qualifications as an "Accredited Investor" as defined by the Securities and Exchange Commission in Rule 501(a) of Regulation D. (See "Investor Suitability.")

Capital Accounts	Upon the Fund's deposit of an Investor's accepted subscription Funds into the Fund's bank account effective the first (1st) day of the month following receipt of such funds, such Investor will, thereby, become a Member of the Fund and a Capital Account will be established for such Member on the books and records of the Fund. Each Member will share in distributions of the Fund's Profits and Losses based upon such Member's Capital Account Balance.

Monthly Distributions	Each month, the Manager will distribute the Fund's accrued Net Profits, to the extent that there is cash available and provided that the monthly distribution will not impact the continuing operations of the Fund as follows: (i) First, to the Members until they receive an annualized six percent (6%) on their capital accounts ("Target Rate of Return"). Nevertheless, the Manager has the discretion to adjust the interest rate based on changes in the national mortgage rates and various indexes (LIBOR, Prime Rate, etc.), provided, however, that at no time shall the Target Rate of Return be less than six percent (6%) annually; and (ii) Second, the remaining Net Profits, if any, will be distributed (a) 60% to the Members on a pro-rata basis, and (b) 40% to the Manager as a Performance Fee. Nevertheless, the Manager has the discretion to waive its Performance Fee. Nevertheless, there is no clawback in subsequent months for profits the Manager earns. "Net Profits" means the Fund's monthly gross income less the payment of the Fund's monthly operating expenses such as insurance (which may include directors and officers liability (D&O), errors and omissions liability (E&O), cyber liability and crime insurance), legal, accounting, Management Fee (see "Compensation to Manager & Affiliates"), amounts due by the Fund on any loans or lines of credit, audit costs, taxes, and an allocation of income for a loan loss reserve ("Loan Loss Reserve"). The annual insurance expense shall not exceed 1/10 of one percent of the Fund's outstanding capital. Costs of any software used primarily for legal and accounting purposes for the Fund shall be permissible expenses. All distributions will be made on a monthly basis, in arrears. By the end of the Fund's fiscal year and after completion of its annual audit, the Manager will make every effort to distribute the Net Profits allocated to each Member on his, her or its Schedule K-1. However, the amount of income reported on each Member's Schedule K-1 may differ somewhat from the actual distributions made during the fiscal year due to, among other things, the priority of distributions, the loan Loss Reserve, and other factors unique to the tax accounting of limited liability companies, such as the treatment of investment expenses.
Reinvestment Election	Upon subscription for Membership Interests, Members must elect to (i) receive monthly cash distributions from the Fund in the amount of that Member's share of cash available for distribution, or (ii) allow the monthly distributions to be reinvested by purchasing additional Membership Interests, or (iii) a combination of (i) and (ii) above. An election to reinvest all or a portion of the monthly distributions is revocable at any time, upon a written request to revoke such election. Such election shall become effective on the first (1st) day of the month following receipt of the election. If no election is made, then the monthly distribution will be a cash distribution. An election to reinvest distributions is revocable with thirty (30) days notice to the Fund. Cash distributions reinvested by

	Investors who make such an election will be used by the Fund to make further mortgage loans or for other proper Fund purposes.
Member Withdrawal	A Member may withdraw as a Member of the Fund and may receive a return of capital provided that the Member provides the Fund with a written request for a return of capital at least thirty (30) days prior to such withdrawal. The Fund will use its best efforts to honor requests for a return of capital subject to, among other things, the Fund's then cash flow, financial condition, compliance with regulatory and other limitations, such as ERISA thresholds, and prospective loans. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal requirement if a Member is experiencing undue hardship. The Fund will attempt to honor all requests for withdrawal where the normal business cycle of loan payoffs and new investors provides sufficient funds to accommodate requests for withdrawal without negatively impacting the Fund or other Membership Interests, which determination will be made by the Manager in the Manager's sole and absolute discretion. The Manager may, at any time, cause the Fund to repurchase Membership Interests from Members desiring to resign from membership or as a part of a plan to reduce the capital of the Fund. There is no guarantee that the Fund will have sufficient funds to cause the redemption of Membership Interests. Therefore, the investment in the Fund should be considered illiquid. The effect of redemption on Members who do not sell their Membership Interests will be an increase in the Members' percentage interest in the Fund and therefore an increase in the Members' proportionate interest in the future earnings, losses and distributions of the Fund and an increase in the relative voting power of each remaining Member. Notwithstanding anything to the contrary herein, redemption shall be at the sole and absolute discretion of the Manager and the Manager shall not be compelled to redeem or repurchase Memberships Interests. The redemption of Membership Interests shall be subject to the Fund's availability of sufficient cash to pay the expenses of the Fund, maintain the Loan Loss Reserve (as defined below) and pay the redemption or withdrawal amounts to other Members who requested withdrawal or redemption in the order of the request. No redemption may be made that would render the Fund unable to pay its obligations as they become due. The Fund shall not be required to sell its assets to raise cash to affect redemption. A redeeming Member shall have the rights of a Transferee (as defined in the Operating Agreement) until such time as the Fund has actually redeemed the Membership Interests, that is, the Member shall be entitled to receive distributions, but shall not be entitled to vote. Redeemed Membership Interests revert to "authorized but unissued Membership Interests and the former holder retains no interest of any kind in such Membership Interests.
Return of Capital	The Fund may return all or a portion of a Member's capital at the Manager's discretion. Any such return of capital would not be considered a distribution and would not be included in the determination of such Member's return on investment.

Term of the Fund	The term of the Fund will end on December 31, 2027, with provision for a ten (10) year extension at the sole discretion of the Manager, unless dissolved sooner. A vote of the majority of the Members is required to extend the term beyond December 31, 2037. The Fund will dissolve and terminate sooner under any of the following circumstances: the sale of all or substantially all of the Fund's assets; any event that makes the Fund ineligible to conduct its activities as a limited liability company under the Act; or, otherwise by operation of law.

Fund Expenses	The Fund will also bear the cost of the annual tax preparation of the Fund's tax returns, any state and federal income tax due, legal fees, accounting fees, insurance premiums, filing fees, and any required independent audit reports required by agencies governing the business activities of the Fund.
Reports to Members	Annual reports concerning the Fund's business affairs, including the Fund's annual income tax return, will be provided to Members who request them in writing. Each Member will receive his, her, or its respective K-1 Form.
No Guaranty	The loans funded and/or purchased by the Fund will NOT be guaranteed by any government agency. Some loans may be personally guaranteed by third parties, however, exercising the remedies under any such guaranty is limited and would require lengthy and costly legal action.
No Liquidity	There are substantial restrictions on transferability of Membership Interests. Investors should not purchase Membership Interests unless they intend to hold them for the full term of the Fund.

TERMS OF THE OFFERING

This offering is made to a limited number of qualified investors. (See "Investor Suitability.") The maximum aggregate offering amount is Two Hundred Million Dollars ($200,000,000) (the "Maximum Offering Amount") (the "Offering"). The initial price per Membership Interest is One Thousand Dollars ($1,000), with a minimum investment amount per Investor is One Hundred Thousand Dollars ($100,000) (the "Minimum Investment Amount"); provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or to require a greater amount. Investors will become "Members" in the Fund, and will have the option, exercisable upon subscription for Membership Interests, to receive monthly distributions of Net Profits from the Fund operations, or to allow all or a portion of their proportionate share of Fund distributions to be reinvested in the purchase of additional Membership Interests. In all other respects, however, an investment in the Fund is illiquid and subject to substantial restrictions on withdrawal. (See "Withdrawal and Other Events of Dissociation.") Fund income will be taxed to Members as ordinary income, regardless of whether it is distributed in cash or reinvested, and otherwise tax-exempt entities (such as Individual Retirement Accounts and Keogh plans) may have to pay tax on a portion of their share of Fund income if the Fund engages in certain transactions. This offering involves tax and other risks. (See "Business Risks," "Investment Risks," "Income Tax Considerations" and "ERISA Considerations.")

The initial price of the Membership Interests was determined arbitrarily. The Manager may set the daily share value for additional Membership Interests by adjusting the book value of the assets of the Fund to reflect the fair market value of those assets and liabilities of the Fund. The adjusted book value less the liabilities, divided by the number of Membership Interests outstanding shall determine the share value. The Manager has purchased

computer software designed to perform this function. Monthly distributions will be made as described in the "Summary of The Offering – Monthly Distributions."

The Fund is hereby offering to Investors an opportunity to purchase Membership Interests in the Fund in an amount up to an amount equal to the Maximum Offering Amount. The minimum investment amount per Investor is the Minimum Investment Amount; provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount.

The Offering will continue until (i) the Maximum Offering Amount is raised, or (ii) the Offering is withdrawn by the Fund. The Fund will deposit the Investors' accepted subscription Funds into the Fund's bank account, and the Investors will, thereby, become Members of the Fund. A Capital Account will be established for each Member on the books and records of the Fund. Each Member will share in distributions of the Fund's Profits and Losses based upon such Member's Capital Account Balance. The Fund will issue new Membership Interests only on the first (1st) day of a month, unless the Manager elects to do otherwise, it's in sole discretion and on a case-by-case basis.

Each month, the Manager will distribute the Fund's accrued Net Profits, to the extent that there is cash available and provided that the monthly distribution will not impact the continuing operations of the Fund as follows:

(i) First, to the Members until they receive an annualized six percent (6%) on their capital accounts ("Target Rate of Return"). Nevertheless, the Manager has the discretion to adjust the interest rate based on changes in the national mortgage rates and various indexes (LIBOR, Prime Rate, etc.), provided, however, that at no time shall the Target Rate of Return be less than six percent (6%) annually; and

(ii) Second, the remaining Net Profits, if any, will be distributed (a) 60% to the Members, and (b) 40% to the Manager as a Performance Fee. Nevertheless, the Manager has the discretion to waive its Performance Fee.

Nevertheless, there will be no clawback in subsequent months for profits the Manager earns.

The subscription, or portions thereof, will become effective on the first (1st) day to the month following acceptance of the subscription and the transfer of an investor's subscription funds into the Fund's operating bank account(s) (the "Effective Date"). Any amounts drawn by the Fund from the subscription account prior to the Effective Date shall be treated as a loan for which the investor shall receive interest during the month prior to the Effective Date and for which the investor will receive a 1099 Statement. As of the Effective Date, the investment, or portions drawn from the subscription account, will be treated as an investment in the Fund.

"Net Profits" means the Fund's monthly gross income less the payment of the Fund's monthly operating expenses such as insurance (which may include directors and officers liability (D&O), errors and omissions liability (E&O), cyber liability and crime insurance), legal, accounting, Management Fee (see "Compensation to Manager & Affiliates"), amounts due by the Fund on any loans or lines of credit, audit costs, taxes, and an allocation of income for a loan loss reserve ("Loan Loss Reserve"). The annual insurance expense shall not exceed 1/10 of one percent of the Fund's outstanding capital. Costs of any software used primarily for legal and accounting purposes for the Fund shall be permissible expenses. All distributions will be made on a monthly basis, in arrears.

Members must elect to (i) receive monthly cash distributions from the Fund in the amount of that Member's share of cash available for distribution, or (ii) allow the monthly distributions to be reinvested by purchasing additional Membership Interests, or (iii) a combination of (i) and (ii) above. An election to reinvest all or a portion of the monthly distributions is revocable at any time, upon a written request to revoke such election.

Such election shall become effective on the first (1st) day of the month following receipt of the election. If no election is made, then the monthly distribution will be a cash distribution. An election to reinvest distributions is revocable with thirty (30) days notice to the Fund. Cash distributions reinvested by Investors who make such an election will be used by the Fund to make further mortgage loans or for other proper Fund purposes.

By the end of the Fund's fiscal year and after completion of its annual audit, the Manager will make every effort to have distributed to each Member the amount of Net Profits that will be allocated to that Member on the Schedule K-1 that he, she, or it receives for income tax reporting. However, the amount of income reported to each Member on his, her, or its Schedule K-1 may differ somewhat from the actual cash distributions made during the fiscal year covered by the Schedule K-1 due to, among other things, the loan loss reserve and factors unique to the tax accounting of Funds, such as the treatment of investment expense.

A Member who receives a distribution in violation of this Agreement will be personally liable to return such distribution to the Fund regardless of whether the Member knew that such distribution was prohibited. At the Manager's sole discretion, the Fund may require the Member to return such distribution with interest.

HOW TO SUBSCRIBE

To purchase a Membership Interest, an Investor must meet certain eligibility and suitability standards, some of which are set forth below. Additionally, an Investor must execute and deliver a Subscription Agreement, in a form substantially similar to Exhibit B, and an Investor Questionnaire, in a form substantially similar to Exhibit C, together with a check in the amount of the investment. By executing the Subscription Agreement and the Investor Questionnaire, an Investor makes certain representations and warranties upon which the Manager will rely in accepting subscriptions and agrees to invest the amount indicated on the Subscription Agreement. READ THE SUBSCRIPTION AGREEMENT AND THE INVESTOR QUESTIONNAIRE CAREFULLY.

Executing the Subscription Agreement does not in itself make a person a Member of the Fund. Membership Interests will be issued when the Investor is admitted to the Fund when the sums representing the purchase for such Membership Interests are transferred into the Fund. Subscription Agreements are non-cancelable and subscription Funds are non-refundable for any reason, except with the consent of the Manager. Each purchaser is liable for the payment of the full investment amount for which he, she, or it has subscribed. Subscription Agreements from prospective Investors will be accepted or rejected by the Manager within thirty (30) days after their receipt. The Manager reserves the right to reject any subscription tendered for any reason, or to accept it in part only. Investors will be admitted into the Fund only when their subscription Funds are required by the Fund to Fund a mortgage loan, create appropriate reserves, pay Fund expenses or for other proper Fund purposes. (See "Use of Proceeds.")

The Manager anticipates that the delay between delivery of a Subscription Agreement and an Investor Questionnaire and admission to the Fund will be less than ninety (90) days, though there can be no assurance that such delay will not be more than ninety (90) days. After having subscribed for at least the Minimum Investment Amount, an Investor may, at anytime, and from time to time, subscribe to increase such Investor's interest in the Fund so long as the Offering remains open.

READ AND COMPLETE THE SUBSCRIPTION AGREEMENT AND INVESTOR QUESTIONNAIRE CAREFULLY. BY EXECUTING THE SUBSCRIPTION AGREEMENT, EACH INVESTOR AGREES TO THE TERMS OF THIS MEMORANDUM AND THE OPERATING AGREEMENT.

INVESTOR SUITABILITY

This investment is appropriate only for Investors who have no need for immediate liquidity in their investments and who have adequate means of providing for their current financial needs, obligations, and contingencies, even if such investment results in a total loss. Investment in the Membership Interests offered involves a high degree of risk and is suitable only for an investor whose business and investment experience, either alone or together with a purchaser representative, renders the investor capable of evaluating each and every risk of the proposed investment.

Each person acquiring Membership Interests will be required to represent that he, she, or it is purchasing for his, her, or its own account for investment purposes and not with a view to resale or distribution. The Fund will sell Membership Interests to an unlimited number of "Accredited Investors". To qualify as an "Accredited Investor" an investor must meet one of the following conditions:

1. Any natural person who had an individual income in excess of Two Hundred Thousand Dollars ($200,000) in each of the two most recent years or joint income with that person's spouse in excess of Three Hundred Thousand Dollars ($300,000) in each of those years and who has a reasonable expectation of reaching the same income level in the current year;

2. Any natural person whose individual net worth or joint net worth, with that person's spouse, at the time of their purchase exceeds One Million Dollars ($1,000,000) (excluding the value of the person's primary residence);

3. Any bank as defined in Section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the Securities and Exchange Act of 1934 (the "Exchange Act"); any insurance company as defined in Section 2(13) of the Exchange Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; any Small Business Investment Company ("SBIC") licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a State, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of Five Million Dollars ($5,000,000); any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA"), if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of Five Million Dollars ($5,000,000) or, if a self directed plan, with investment decisions made solely by persons who are Accredited Investors;

4. Any private business development company as defined in Section 202(a)(22) of the Investment Advisors Act of 1940;

5. Any organization described in Section 501(c)(3)(d) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of Five Million Dollars ($5,000,000);

6. Any director or executive officer, or Manager of the issuer of the securities being sold, or any director, executive officer, or Manager of a Manager of that issuer;

7. Any trust, with total assets in excess of Five Million Dollars ($5,000,000), not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Section 506(b)(2)(ii); or

8. Any entity in which all the equity owners are Accredited Investors as defined above.

RESTRICTIONS ON TRANSFER

As a condition to this Offering of Membership Interests, restrictions have been placed upon the ability of Investors to resell or otherwise dispose of any Membership Interests purchased hereunder including, without limitation, the following:

1. The Membership Interests have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions provided for under Section 4(2) and Regulation D thereunder. Membership Interests may not be sold or otherwise transferred without registration under the Act or pursuant to an exemption therefrom.

2. There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, Membership Interests may not be resold or transferred without satisfying certain conditions designed to comply with applicable tax and securities laws, including, without limitation, provisions of the Act, Rule 144 thereunder, and the requirement that certain legal opinions be provided to the Manager with respect to such matters. A transferee must meet the same investor qualifications as the admitted Members. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

3. A legend will be placed upon all instruments evidencing ownership of Membership Interests in the Fund stating that the Membership Interests have not been registered under the Securities Act of 1933, as amended, and set forth the foregoing limitations on resale. Notations regarding these limitations shall be made in the appropriate records of the Fund with respect to all Membership Interests offered hereby. The Fund will charge a minimum transfer fee of Five Hundred Dollars ($500) per transfer of ownership. If a Member transfers Membership Interests to more than one person, except transferees who will hold title together, the transfer to each person will be considered a separate transfer.

PLAN OF DISTRIBUTION

The Membership Interests will be offered and sold by the Manager or its employees. No commissions or fees will be paid to the Manager or its employees with respect to the offer or sale of Membership Interests. No underwriters or brokers have agreed to distribute any portion of the Membership Interests. The Manager may retain the services of independent third parties to locate prospective Investors, who may receive selling commissions or fees to be negotiated on a case-by-case basis. All selling commissions or fees payable with respect to the sale of Membership Interests will be paid by the Fund.

USE OF PROCEEDS

The Fund will engage in business as a mortgage lender for the purpose of making and arranging various types of loans to the general public and businesses, acquiring existing loans, and selling loans, all of which are or will be secured, in whole or in part, by real or personal property throughout the United States, primarily in California. The Fund may also engage in other real estate activities.

DESCRIPTION OF BUSINESS

The Fund will engage in business as a mortgage lender for the purpose of making and arranging various types of loans to the general public and businesses, acquiring existing loans, and selling loans, all of which are or will

be secured, in whole or in part, by real or personal property throughout the United States, primarily in California. The Fund may also engage in other real estate activities.

LENDING STANDARDS AND POLICIES

General Standards for Mortgage Loans

The Fund will engage in the business of making loans to members of the general public, and acquiring existing loans, and selling loans, all secured in whole or in part by deeds of trust, mortgages, security agreements or legal title in real or personal property, including but not limited to, single family homes, multiple unit residential property (such as apartment buildings), commercial property, unimproved land (including land with entitlements and without entitlements), and other personal property. The Company's loans will not be guaranteed by any governmental agency or private entity, but may be guaranteed by members, shareholders, affiliates, and/or associates of the underlying borrowers. The use of loan proceeds by the borrower will not generally be restricted, except for construction loans where the use of proceeds will be controlled for the building, remodeling, and/or development of the property securing the loan.

If a loan is for construction, rehabilitation, or development of a real property, the loan will be directly secured by a security instrument encumbering the property being improved, rehabilitated, or developed and will be subject to a disbursement agreement between the Fund, as Lender, the Borrower, and the Borrower's general contractor (if any) and may be funded in installments.

The Fund may invest in loans that are themselves secured by a loan secured by a deed of trust or mortgage. In these cases the underlying loan instruments will be assigned to the Fund as collateral for its loan pursuant to agreements that govern the collection of the Fund's loan as well as the underlying loan collateral. In addition to deeds of trust or mortgages, the Fund may secure repayment of its loans by such devices as co-signers, personal guaranties, irrevocable letters of credit, assignments of deposit or stock accounts, personal property, Membership Interests, and limited liability company interests.

Fund loans will be made pursuant to a strict set of guidelines designed to set standards for the quality of the security given for the loans. Such standards are summarized as follows:

(a) ***Priority of Mortgages.*** The lien securing each Fund loan will generally be a first (1st) position lien on the real property which is to be used as security for the loan; provided, however, it could be junior to one or more other deeds of trust or mortgage encumbrances. In addition, the Fund may fund loans secured by a pledge of the ownership interest in the borrowing entity ("Mezzanine loans"), provided that, the aggregate loan-to-value ratios in Section (c) below are met.

(b) ***Location of Real Property Securing Loans.*** Most deeds of trusts and mortgages will be secured by real property located in California. Notwithstanding the foregoing, the Fund reserves the right to make loans in other jurisdictions.

(c) ***Loan-to-Value Ratios.*** The Fund intends to make or purchase loans according to the loan-to-value ratios set forth below. These ratios may be increased if, in the judgment of the Manager, the loan is supported by sufficient credit worthiness of the borrower, other collateral and/or desirability and quality of the property, personal guaranties, prior loan history with the borrower, market conditions, if mortgage insurance is obtained, or other compensating factors to justify a greater loan-to-value ratio. The word "value" as used in the term "loan-to-value ratio," shall mean the appraised value of the security property as determined by an independent written appraisal, Broker Price Opinion ("BPO") or the Manager at the time the Fund makes the loan or which is "current" at the time the Fund makes or purchases a loan. An appraisal or BPO will be considered to be "current" if the Manager has inspected the security property and made a reasonable determination that the value

of the security property has not declined since the date of the appraisal or BPO. It should be noted that the Manager does not primarily rely on third party appraisals or BPOs, but rather uses these documents as secondary support if they are provided. The term "loan" includes both the amount of the Fund's loan and all other outstanding debt secured by any senior deed of trust on the security property. The amount of the Fund's loan combined with the outstanding debt secured by any senior deed of trust on the security property will not exceed a specified percentage of the value of the security property as determined by an independent written appraisal or the Manager at the time the loan is made, according to the following table:

Type of Security Property	**Loan-to-Value Ratios**	
	1st Trust Deeds	**Junior Trust Deeds**
Residential -- 1 to 4 units	75%	75%
Residential -- 1 to 4 units (Non-Owner Occupied)	75%	75%
Commercial Property (including apartments, stores, office buildings, etc.)	75%	75%
Construction	75%	75%
Construction (Non-Owner Occupied)	75%	75%
Unimproved Land	60%	60%

The above loan-to-value ratios will not apply to purchase-money financing offered by the Fund to sell any real estate owned by the Fund (i.e., property which is acquired through foreclosure) or to refinance an existing loan that is in default at the time of maturity. In such cases, the Manager, in its sole discretion, shall be free to accept any reasonable financing terms that it deems to be in the best interests of the Fund.

Upon analysis in approximately twenty-four (24) months, the Manager may re-evaluate the portfolio and loan-to-value ratio maximums set by the Fund and may revise the loan-to-value ratio maximums at that time if it considers it to be in the best interests of the Fund. The Manager will inform Members of the new loan-to-value ratios when and if the Manager re-evaluates them.

In general, the Fund will seek to maintain a weighted loan-to-value ratio for the Fund of approximately Sixty Percent (60%) to Seventy Five Percent (75%); provided that the maximum loan-to-value ratio for the Fund shall not exceed Seventy Five Percent (75%), unless the Manager determines in its sole discretion that it is in the best interests of the Fund to exceed such ratio in any single or multiple instances.

(d) ***Terms of Loans.*** Most Fund loans will be for a period between six (6) months to two (2) years. A loan may, however, be as short as one (1) month or exceed the foregoing terms if the Manager believes, in its sole and absolute discretion, that the loan is in the best interests of the Company. Loans originated whose term exceeds the life of this Fund will be sold, at the best prevailing rate, on the open market upon the dissolution of the Fund. Most loans will provide for monthly payments of principal and/or interest, with many Fund loans providing for payments of interest only and a "balloon" payment of principal payable in full at the end of the term. These loans require the borrower to pay the loan in full on the maturity date, to refinance the loan, extend the maturity of the loan, or sell the property to pay the loan in full at maturity. The Fund may allow Six to Twenty Four (6-24) month extensions for a fee paid by Fund borrowers. Finally, the Fund may also charge exit fees on loans based on the existing loan balance at maturity. These exit fees may range from Zero Percent (0%) to Ten Percent (10%) of the remaining loan balance at maturity.

(e) ***Interest Rates.*** Most Fund loans will provide for a higher interest rate than the mortgage rates prevailing in the geographical area where the security property is located.

(f) ***Escrow Conditions.*** Fund loans will be funded through an escrow account handled by either a title insurance company, public escrow company, attorney, the Manager, or Affiliate. The escrow agent will be instructed not to disburse any of the Fund's funds out of the escrow for purposes of funding the loan until:

(1) TITLE INSURANCE. Satisfactory title insurance coverage will be purchased for all loans, with the title insurance policy naming the Fund as the insured and providing title insurance in an amount not less than the principal amount of the loan unless there are multiple forms of security for the loan, in which case the Manager shall use its sole business judgment in determining whether and to what extent title insurance shall be required. The nature of each policy of title insurance, including the selection of appropriate endorsements affecting coverage shall be selected by the Manager. Title insurance insures only the validity and priority of the Fund's deed of trust or mortgage, and does not insure the Fund against loss from other causes, such as diminution in the value of the security property, appraisals, loan defaults, etc.

(2) COURSE OF CONSTRUCTION INSURANCE. Course of construction insurance will be obtained for all construction loans.

(3) FIRE AND CASUALTY INSURANCE. Satisfactory fire and casualty insurance will be obtained for all loans containing improvements, naming the Fund as loss payee. Appropriate liability insurance will be obtained on all unimproved real property.

(4) MORTGAGE INSURANCE. The Manager does not intend to arrange for mortgage insurance, which would afford some protection against loss if the Fund foreclosed on a loan and there existed insufficient equity in the security property to repay all sums owed. If the Manager elects in its sole discretion to obtain such insurance, the minimum loan-to-value ratio for residential property loans may be increased.

(5) PAYEE AND BENEFICIARY NAME. All new loan origination documents (notes, deeds of trust, etc.) and insurance policies will name the Fund as payee and beneficiary. Loans will not be written in the name of the Manager or any other nominee, except in the case of multiple lender or fractional loans. In those cases where the Fund purchases all or a portion of a loan from the Manager or an affiliate or third party, the Fund will obtain an endorsement to the original title insurance policy which names the Fund as the insured or co-insured, as appropriate. In addition, the Fund will make certain that the policy(ies) of fire and casualty insurance insuring the security property (although such policies may not specifically name the Fund as loss payee) do provide that the holder of the loan and/or its assignee is the loss payee.

(g) ***Fractional Interests.*** The Fund may also participate in loans with other lenders (including other LLCs or Partnerships organized by the Manager), by providing Funds for or purchasing a fractional undivided interest in a loan meeting the requirements set forth above. The Manager will treat the Fund equally with all other limited liability companies and other entities controlled by the Manager when making such fractional loans.

(h) ***Diversification.*** Most loans will be between One Hundred Thousand Dollars ($100,000) and Five Million Dollars ($5,000,000). Once the Fund raises Ten Million Dollars ($10,000,000), no Fund loan will exceed fifteen percent (15%) of the face value of its current portfolio of loans unless determined by the Manager to be in the best interests of the Fund.

(i) ***Leverage.*** The Fund may borrow funds in the ordinary course of business. The Manager may arrange to borrow money for the Fund up to the greater of (1) Ten Million Dollars ($10,000,000) or (2) Fifteen Percent (15%) based on the face value of its current portfolio of loans.

(j) ***Contingency Reserve Fund.*** A contingency reserve fund may be established by the Manager in its business judgment and maintained for the purpose of covering unexpected cash needs of the Fund. Contingency reserve funds will not be invested in mortgage notes.

(k) ***Acquiring Loans from Other Lenders.*** In the event the Fund acquires loans from other lenders, the Fund will receive assignments of all beneficial interest in any loans purchased.

(l) ***Purchase of Loans from Affiliates***. The Fund may purchase loans from the Manager or Affiliates so long as it meets the lending requirements set forth above.

(m) ***Property Acquisition.*** Properties acquired by the Fund will be acquired through the Fund's lending activities, including but not limited to, properties acquired as a result of a borrower defaulting on a loan. The Fund may establish limited liability companies that are wholly owned subsidiaries of the Fund to own and hold title of a property which the Fund has acquired and intends to improve, rent, and/or sell. These wholly owned subsidiaries will be single purpose entities ("SPE") created solely for the purpose of owning, improving, renting and/or selling the properties the Fund acquires. The Manager (or an Affiliate) shall serve as the sole manager of these SPEs.

(n) ***Mezzanine Position Loans.*** The Fund may fund Mezzanine loans as an alternative to loans secured by real property. Generally, a Mezzanine loan is a type of subordinate real estate financing that is secured by a pledge of One Hundred Percent (100%) of the equity ownership interests in the entity that owns the real property. The Manager shall authorize the Fund to make such a loan if the Manager believes in its sole business judgment that it is in the best interests of the Fund to do so.

(o) ***Non-Performing Loans.*** The Fund may, when commercially reasonable, purchase, take back, receive, or otherwise acquire non-performing loans secured by real property located throughout the United States ("Nonperforming Notes" or "NPNs"). Nonperforming Notes are typically loans that are in default, behind in payments, or are secured by properties that have little to no equity remaining due to devaluation or excessive leverage. The Fund's primary intent, as it pertains to Nonperforming Notes is to acquire the Nonperforming Notes at a discount and subsequently refinance, modify or otherwise reform the Nonperforming Note to become a performing Note. Alternatively, the Fund may also foreclose and/or acquire the properties securing the Nonperforming Notes, using the general standards and criteria set forth below. The Fund will use an opportunistic investment strategy to identify and invest in Nonperforming Notes, unless the Manager, in its sole and absolute discretion, determines it is no longer in the best interests of the Fund.

Credit Evaluations

The Manager will generally look to the underlying property securing the loan and the loan-to-value ratios described above to determine whether to make the loan to the borrower and, to a lesser extent, may consider the income level and general creditworthiness of a borrower and secondary sources of security for repayment. The Fund may acquire loans made to borrowers who are in default under other obligations (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations.

Loan Packaging

The Manager or its affiliate will assemble and/or obtain all necessary information reasonably required in the sole discretion of the Manager to make a funding decision on each loan request. For those loans funded by the Fund, the documents assembled and obtained for the purpose of making the funding decision will become the property of the Fund.

Loan Servicing

It is anticipated that all Fund loans and REO's will be managed by the Manager or Affiliate, or in limited cases another outside service provider (in either case, the "Servicer").

Most loans will require payments at the end of each thirty (30) day period commencing on the last day of the first full month of the loan, computed on the principal balance during such thirty (30) day period. Borrowers will make their checks payable to the Fund.

The Fund will require the Servicer to adhere to the following Payment, Delinquency, Default, and Foreclosure practices, procedures and policies:

(a) ***Payments.*** Generally, payments will be payable monthly, on the first (1st) day of each month. Interest is generally prorated to the first (1st) day of the month following the closing of the loan escrow.

(b) ***Delinquency.*** Generally, loans will be considered delinquent if no payment has been received within ten (10) days of the payment due date. Notwithstanding the foregoing, if the envelope with Borrower's payment has the proper remittance address, sufficient postage and a post mark date on or before the eleventh (11th) day from the payment due date, then a payment will not be considered delinquent. Borrower will be notified of delinquency by mail on the twelfth (12th) day after the payment due date and a late charge will be assessed, which may generally be ten percent (10%) of the unpaid portion of the regularly scheduled payment or one hundred dollars ($100), whichever is greater. The Servicer will refer to and rely upon the late charge provisions in the applicable loan documents for each loan.

(c) ***Default.*** A loan will be considered in default if no payment has been received within thirty (30) days of the payment due date. Foreclosure will usually be initiated shortly after the thirty-first (31st) day after a default, with the exact timing in the business judgment of the Manager. Any costs of this process are to be posted to the borrower's account for reimbursement to the Fund.

(d) ***Foreclosure.*** Statutory guidelines for foreclosures in each state are to be followed by the Servicer until the underlying property is liquidated and/or the account is brought current. Any costs of this process are to be posted to the borrower's account for reimbursement to the Fund. If a loan is completely foreclosed upon and the property reverts back to the Fund, the Fund will be responsible for paying the costs and fees associated with the foreclosure process, maintenance and repair of the property, service of senior liens and resale expenses.

Sale of Loans

The Fund does not plan on investing in loans for the primary purpose of reselling such loans in the course of business. However, the Fund may sell loans, or fractional interests in such loans, when the Manager determines (in its sole and absolute discretion) that it appears to be advantageous for the Fund to do so, based upon then current interest rates, the length of time that the loan has been held by the Fund and the overall investment objectives of the Fund.

Borrowing/Note Hypothecation

The Fund may borrow funds for up to the greater of (1) Ten Million Dollars ($10,000,000) or (2) Fifteen Percent (15%) based on the face value of its current loan portfolio. The Manager anticipates engaging in this type of transaction when the interest rate at which the Fund can borrow funds is significantly less than the rate that can be earned by the Fund on its mortgage loans, giving the Fund the opportunity to earn a profit as a "spread." Such

a transaction involves certain elements of risk and also entails possible adverse tax consequences. (See "Business Risks — Risk of Leverage," "Income Tax Considerations" and "ERISA Considerations.")

The Fund may also in its sole discretion elect employ leverage and borrow funds from third party lenders or financial institutions for up to the greater of (1) Ten Million Dollars ($10,000,000) or (2) Fifteen Percent (15%) based on the face value of its current loan portfolio, to finance the Fund's investments in loans. Leverage usually involves a third-party loan in which the Fund's entire asset portfolio is provided as security to the lender for such loan(s). Leveraging involves additional risks that are detailed later in this Memorandum. (See "Risk Factors" below.).

THE MANAGER

The Manager of the Fund is Rubicon Realty Advisors Inc., (formerly known as Rubicon Management LLC), a California corporation. In 2013 the managing entity, Rubicon Management LLC, was converted via California state law from a limited liability company to a corporation and its name was changed to Rubicon Realty Advisors Inc. It is operated by the following officers:

Mr. Douglas C. Watson

Mr. Douglas C. Watson has been active in the real estate industry since 1990 years, working in commercial development with Spieker Properties, brokerage with CB Commercial Real Estate and for Stewart Title Insurance in the National Title Unit. These positions included experience in sales, leasing, project management and financing. He is also a licensed real estate salesperson. In 2006, Mr. Watson founded his private mortgage banking company, Rubicon Capital Partners, Inc. He previously worked for two other private commercial mortgage banking firms, successfully raising investor funds and closing loan transactions. He belongs to several local real estate associations including: The Bay Area Mortgage Association (BAMA), The Belden Club, Mortgage Bankers Association (MBA), California Mortgage Association (CMA), the California Mortgage Bankers Association (CMBA), Turnaround Management Association (TMA) and the International Council of Shopping Centers (ICSC). Mr. Watson attended the University of California at Davis. He currently resides in Lafayette, California with his wife, Jenny, and their three sons.

Mr. Douglas C. Watson is responsible for identifying loan transactions, underwriting the real estate, and raising capital necessary to fund the investments.

Mr. Vance K. Hillstrom

Since 2005 Mr. Vance Hillstrom has been part of the private mortgage banking working primarily in the capacity of underwriting debt transactions and raising investor funds. Prior to private mortgage banking, Mr. Vance Hillstrom was a trader buying and selling options on the Pacific Options Exchange and 30-year bonds on the Chicago Board of Trade; he is an expert in risk/reward situations. After transacting literally hundred of thousands of options trades in both bear and bull markets, these overlapping risk/reward skills have cogently blended with real estate transactions. He was a member of the Pacific Options Exchange from 1994-2005, serving as an Equity Option Market Maker and Lead Market Maker. He was a partner of Cole Roesler Trading Group, the largest options floor-trading group on the West Coast. Mr. Hillstrom graduated from DePauw University with an economics degree. He has his Department of Real Estate Broker License. He currently lives in Orinda, California with his family.

Mr. Vance K. Hillstrom is responsible for raising capital and loan production, including the underwriting and review of potential loan investments.

LEGAL PROCEEDINGS

Other than litigation in the normal course of business, neither the Fund nor the Manager nor the officers or directors of the Manager has been involved in any material litigation within the past five (5) years.

COMPENSATION TO MANAGER AND AFFILIATES

The following discussion summarizes the forms of compensation to be received by the Manager or an Affiliate or other third party, in its or their capacity as Manager, Mortgage Broker, and/or Servicer (collectively, "Manager's Compensation"). All of the amounts described below will be received regardless of the success or profitability of the Fund. None of the following compensation was determined through arm's-length negotiations.

Form and Recipient of Compensation	**Estimated Amount or Method of Compensation**
Finders Fee	The Fund may pay finders fees between zero to three percent (0-3%) ("Finders Fees").
Loan Origination Fees	Loan origination fees ("Origination Fees") are generally collected from borrowers and will be retained by the Fund. Notwithstanding the foregoing, the Fund may allocate and/or pay a portion or all of the Origination Fees to the Manager in the following limited circumstances: (i) to pay commissions and/or bonuses to third parties who arranged or brokered loans to the Fund; (ii) to pay commissions and/or bonuses to brokers or agents employed or retained by the Manager; and/or (iii) to ensure compliance with Section 4975 of the Code and avoid engaging in prohibited transactions. Loan Origination Fees consist of, without limitation, loan processing fees, underwriting fees, document preparation fees, escrow fees, disbursement fees, warehousing fees, administration fees and other similar charges.
Loan Extension and Modification Fees	Loan extension and modification fees are collected from borrowers and retained by the Fund. Notwithstanding the foregoing, the Fund may allocate and/or pay a portion or all of the loan extension and modification fees to the Manager in the following limited circumstances: (i) to pay such fees to third parties who arranged or brokered the extension or modification of such loans to the Fund; (ii) to pay such fees to brokers or agents employed or retained by the Manager; and/or (iii) to ensure compliance with Section 4975 of the Code and avoid engaging in prohibited transactions.
Management Fee to Manager, Affiliate or Third Party	The Manager, Affiliate or third party will manage the performing loans, non-performing loans and REOs owned by the Fund, including billing and collecting loans owned by the Fund. Such compensation (not including attorneys' fees, foreclosure fees and court costs, if needed) will be One Twelfth ($1/12^{th}$) of two percent (2%) of the total assets of the Fund, payable monthly (i.e. two percent (2%) per year) as a Management Fee.
Performance Fee	Each month, after the Members are paid an annualized six percent (6%) on their capital accounts ("Target Rate of Return") during the respective accounting period, the remaining Net Profits, if any, will be distributed (a) 60% to the Members on a

	pro-rata basis, and (b) 40% to the Manager as a Performance Fee. Nevertheless, the Manager has the discretion to adjust the Target Rate of Return based on changes in the national mortgage rates and various indexes (LIBOR, Prime Rate, etc.), provided, however, that at no time shall the Target Rate of Return be less than six percent (6%) annually. The Manager has also the discretion to waive its Performance Fee.
Reimbursement of Fund Expenses to Manager	Once the assets of the Fund reach Ten Million Dollars ($10,000,000), the Manager may be reimbursed by the Fund for the Fund's initial organizational and syndication expenses including, but not limited to, legal expenses, printing costs, selling expenses and filing fees. At the Manager's discretion, the Manager may also be reimbursed for all other Fund expenses paid by the Manager.
Definition of Manager's Fees	The definition of the Manager's Fees includes all of the fees described in the "Compensation to Manager and Affiliates".
Recovery of Deferred Compensation	The Manager may, but has no obligation to, defer all or a portion of the Manager's Fees. In such event, the Manager will be entitled to recover the deferred fees at a later time.

FIDUCIARY RESPONSIBILITY OF THE MANAGER

The Manager is accountable to the Fund as a fiduciary, which means that a Manager is required to exercise good faith and integrity with respect to Fund affairs and sound business judgment. This is a rapidly developing and changing area of the law, and Members should consult with their own counsel in this regard. The fiduciary duty of the Manager is in addition to the other duties and obligations of, and limitations on, the Manager set forth in the Operating Agreement.

The Operating Agreement provides that the Fund shall indemnify the Manager for any liability or loss (including attorneys' fees, which shall be paid as incurred), suffered by it, and shall hold the Manager harmless for any loss or liability suffered by the Fund, so long as the Manager determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the Fund, and such loss or liability did not result from the gross negligence, fraud or criminal act of the Manager. Any such indemnification shall only be recoverable out of the assets of the Fund and not from Members.

It is the position of the U.S. Securities and Exchange Commission that indemnification for liabilities arising from, or out of, a violation of federal securities law is void as contrary to public policy. However, indemnification will be available for settlements and related expenses of lawsuits alleging securities law violations if a court approves the settlement and indemnification, and also for expenses incurred in successfully defending such lawsuits if a court approves such indemnification.

Members may have a more limited right of action than they would have absent these provisions in the Operating Agreement. A successful indemnification of the Manager could deplete the assets of the Fund. Members who believe that a breach of the Manager's fiduciary duty has occurred should consult with their own counsel.

CERTAIN LEGAL ASPECTS OF FUND LOANS

Each of the Fund's loans will be secured by, among other things, a deed of trust, mortgage, leasehold deed of trust or leasehold mortgage, or security agreement. The Fund's authority under a mortgage is governed by applicable law and the express provisions of the mortgage.

Priority of liens on mortgaged property created by mortgages depends on their terms and on the order of filing with a state, county or municipal office, although this priority may be altered by the mortgagee's knowledge of unrecorded liens against the security property. However, filing or recording does not establish priority over governmental claims for real estate taxes and assessments. In addition, the Internal Revenue Code provides priority for certain tax liens over the mortgage.

Foreclosure

If a mortgage loan secured by a deed of trust is in default, the Fund will protect our rights by foreclosing by a non-judicial sale. Deeds of trust differ from mortgages in form, but are in most other ways similar to mortgages. Deeds of trust will contain specific provisions enabling non-judicial foreclosure in addition to those provided for in applicable statutes upon any material default by the borrower. Applicable state law controls the extent that we have to give notice to interested parties and the amount of foreclosure expenses and costs, including attorney's fees, which may be covered by a lender, and charged to the borrower.

Foreclosure under mortgage instruments other than deeds of trust is more commonly accomplished by judicial action initiated by the service of legal pleadings. When the mortgagee's right to foreclose is contested, the legal proceedings necessary to resolve the issue can be time-consuming. A judicial foreclosure is subject to most of the delays and expenses of other litigation, sometimes requiring up to several years to complete. For this reason, the Fund does not anticipate using judicial foreclosure to protect the Fund's rights due to the incremental time and expense involved in these procedures.

When foreclosing under a mortgage instrument, the sale by the designated official is often a public sale. The willingness of third parties to purchase the property will depend to some extent on the status of the borrower's title, existing redemption rights and the physical condition of the property. It is common for the lender to purchase the security property at a public sale where no third party is willing to purchase the property, for an amount equal to the outstanding principal amount of the indebtedness and all accrued and unpaid interest and foreclosure expenses. In this case, the debt owed to the mortgagee will be extinguished. Thereafter, the mortgagee would assume the burdens of ownership, including paying operating expenses and real estate taxes and making repairs. The lender is then obligated as an owner until it can arrange a sale of the property to a third party. If the Fund forecloses on the security property, the Fund would expect to obtain the services of a real estate broker and pay the broker's commission in connection with the sale of the property. Depending upon market conditions, the ultimate proceeds of the sale of the property may not equal the Fund's investment in the property. A lender commonly incurs substantial legal fees and court costs in acquiring a mortgaged property through contested foreclosure and/or bankruptcy proceedings.

Lenders also need to comply with procedure-related environmental rules and regulations. An increasing number of states require that any environmental hazards are eliminated before a property may be resold. A lender may be responsible under federal or state law for the cost of cleaning up a mortgaged property that is environmentally contaminated. As a result, a lender could realize an overall loss on a mortgage loan even if the related mortgaged property is sold at foreclosure or resold after it is acquired through foreclosure for an amount equal to the full outstanding principal amount of the mortgage loan, plus accrued interest.

In foreclosure proceedings, courts frequently apply equitable principles, which are designed to relieve the borrower from the legal effects of his immaterial defaults under the loan documents or the exercise of remedies that would otherwise be unjust in light of the default. These equitable principles and remedies may impede our efforts to foreclose.

Special Considerations in Connection with Junior Encumbrances

In addition to the general considerations concerning trust deeds discussed above, there are certain additional considerations applicable to second and more junior deeds of trust ("junior encumbrances"). By its very nature, a junior encumbrance is less secure than a more senior lien. If a senior lien holder forecloses on its loan, unless the amount of the bid exceeds the senior encumbrances, the junior lien holder will receive nothing. Because of the limited notice and attention given to foreclosure sales, it is possible for a junior lien holder to be sold out, receiving nothing from the foreclosure sale, although all legal methods of recouping the Fund's investment will be exhausted. By virtue of anti-deficiency legislation, discussed above, a junior lien holder may be totally precluded from any further remedies.

Accordingly, a junior lien holder (such as the Fund in certain cases) may find that the only method of protecting its security interest in the property is to take over all obligations of the trustor with respect to senior encumbrances while the junior lien holder commences its own foreclosure, making adequate arrangements either to (1) find a purchaser for the property at a price which will recoup the junior lien holder's interest, or (2) to pay off the senior encumbrances so that the junior lien holder's encumbrance achieves first priority. Either alternative may require the Fund to make substantial cash expenditures to protect its interest. (See "Business Risks" above.)

The Fund may also make wrap-around mortgage loans (sometimes called "all-inclusive loans"), which are junior encumbrances to which all the considerations discussed above will apply. A wrap-around loan is made when the borrower desires to refinance his, her, or its property but does not wish to retire the existing indebtedness for any reason, e.g., a favorable interest rate or a large prepayment penalty. A wrap-around loan will have a principal amount equal to the outstanding principal balance of the existing secured loans plus the amount actually to be advanced by the Fund. The borrower will then make all payments directly to the Fund, and the Fund in turn will pay the holder of the senior encumbrance. The actual ultimate yield to the Fund under a wrap-around mortgage loan will likely exceed the stated interest rate on the underlying senior loan, since the full principal amount of the wrap-around loan will not actually be advanced by the Fund. State laws generally require that the Fund be notified when any senior lien holder initiates foreclosure.

If the borrower defaults solely upon his, her or its debt to the Fund while continuing to perform with regard to the senior lien, the Fund (as junior lien holder) will foreclose upon its security interest in the manner discussed above in connection with deeds of trust generally. Upon foreclosure by a junior lien, the property remains subject to all liens senior to the foreclosed lien. Thus, if the Fund were to purchase the security property at its own foreclosure sale, it would acquire the property subject to all senior encumbrances.

The standard form of deed of trust used by most institutional lenders, like the one that will be used by the Fund or its affiliates, confers on the beneficiary the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with any condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the deed of trust in such order as the beneficiary may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the beneficiary under the underlying first deed of trust will have the prior right to collect any insurance proceeds payable under a hazards insurance policy and any award of damages in connection with the condemnation, and to apply the same to the indebtedness secured by the first deed of trust before any such proceeds are applied to repay the loan in respect of the Fund. The amount of such proceeds may be insufficient to pay the balance due to the Fund, while the debtor may fail or refuse to make further payments on the damaged or condemned property, leaving the Fund with no feasible means to obtain payment of the balance due under its junior deed of trust. In addition, the borrower may have a right to require the lender to allow the borrower to use the proceeds of such insurance for restoration of the insured property.

Redemption

After a foreclosure sale pursuant to a mortgage, the borrower and foreclosed junior lienors may have a statutory period in which to redeem the property from the foreclosure sale. Redemption may be limited to where the mortgagee receives payment of all or the entire principal balance of the loan, accrued interest and expenses of foreclosure. The statutory right of redemption diminishes the ability of the lender to sell the foreclosed property. The right of redemption may defeat the title of any purchaser at a foreclosure sale or any purchaser from the lender subsequent to a foreclosure sale. One remedy the Fund may have is to avoid a post-sale redemption by waiving the Fund's right to a deficiency judgment. Consequently, as noted above, the practical effect of the redemption right is often to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

Anti-Deficiency Legislation

The Fund may acquire interests in mortgage loans which limit the Fund's recourse to foreclosure upon the security property, with no recourse against the borrower's other assets. Even if recourse is available pursuant to the terms of the mortgage loan against the borrower's assets in addition to the mortgaged property, the Fund may confront statutory prohibitions which impose prohibitions against or limitations on this recourse. For example, the right of the mortgagee to obtain a deficiency judgment against the borrower may be precluded following foreclosure. A deficiency judgment is a personal judgment against the former borrower equal in most cases to the difference between the net amount realized upon the public sale of the security and the amount due to the lender. Other statutes require the mortgagee to exhaust the security afforded under a mortgage by foreclosure in an attempt to satisfy the full debt before bringing a personal action against the borrower. The Fund may elect, or be deemed to have elected, between exercising the Fund's remedies with respect to the security or the deficiency balance. The practical effect of this election requirement is that lenders will usually proceed first against the security rather than bringing personal action against the borrower. Other statutory provisions limit any deficiency judgment against the former borrower following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale.

In some jurisdictions, the Fund can pursue a deficiency judgment against the borrower or a guarantor if the value of the property securing the loan is insufficient to pay back the debt owed to the Fund. In other jurisdictions, however, if the Fund desires to seek a judgment in court against the borrower for the deficiency balance, the Fund may be required to seek judicial foreclosure and/or have other security from the borrower. The Fund would expect this to be a more prolonged procedure, and is subject to most of the delays and expenses that affect other lawsuits.

Environmental

The Fund's security property may be subject to potential environmental risks. Of particular concern may be those security properties which are, or have been, the site of manufacturing, industrial or disposal activity. These environmental risks may give rise to a diminution in value of the security property or liability for clean-up costs or other remedial actions. This liability could exceed the value of the real property or the principal balance of the related mortgage loan. For this reason, we may choose not to foreclose on contaminated property rather than risk incurring liability for remedial actions.

Under the laws of certain states, an owner's failure to perform remedial actions required under environmental laws may give rise to a lien on mortgaged property to ensure the reimbursement of remedial costs. In some states this lien has priority over the lien of an existing mortgage against the real property. Because the costs of remedial action could be substantial, the value of a mortgaged property as collateral for a mortgage loan could be adversely affected by the existence of an environmental condition giving rise to a lien.

The state of law is currently unclear as to whether and under what circumstances clean-up costs, or the obligation to take remedial actions, can be imposed on a secured lender. If a lender does become liable for clean up costs, it may bring an action for contribution against the current owners or operators, the owners or operators at the time of on-site disposal activity or any other party who contributed to the environmental hazard, but these persons or entities may be bankrupt or otherwise judgment-proof. Furthermore, an action against the borrower may be adversely affected by the limitations on recourse in the loan documents.

"Due-on-Sale" Clauses

The Fund's forms of promissory notes and deeds of trust, like those of many lenders, contain "due-on-sale" clauses permitting the Fund to accelerate the maturity of a loan if the borrower sells, conveys or transfers all or any portion of the property, but may or may not contain "due-on-encumbrance" clauses which would permit the same action if the borrower further encumbers the property (i.e., executes further deeds of trust). The enforceability of these types of clauses has been the subject of several major court decisions and legislation in recent years.

1. **Due-on-Sale.** Federal law now provides that, notwithstanding any contrary pre-existing state law, due-on-sale clauses contained in mortgage loan documents are enforceable in accordance with their terms by any lender after October 15, 1985. Due-on-sale clauses are enforceable except in those states whose legislatures exercised their limited authority to regulate the enforceability of these clauses. On the other hand, acquisition of a property by the Fund by foreclosure on one of its loans may also constitute a "sale" of the property, and would entitle a senior lienholder to accelerate its loan against the Fund. This would be likely to occur if then prevailing interest rates were substantially higher than the rate provided for under the accelerated loan. In that event, the Fund may be compelled to sell or refinance the property within a short period of time, notwithstanding that it may not be an opportune time to do so. Due-on-sale clauses will not be enforceable in bankruptcy proceedings.

2. **Due-on-Encumbrance.** With respect to mortgage loans on residential property containing four or less units, federal law prohibits acceleration of the loan merely by reason of the further encumbering of the property (e.g., execution of a junior deed of trust). This prohibition does not apply to mortgage loans on other types of property. Although many of the Fund's mortgages will be on properties that qualify for the protection afforded by federal law, some loans will be secured by small apartment buildings or commercial properties. Junior lien mortgage loans entered into by the borrower may trigger acceleration of senior loans, such as a loan by the Fund, on properties if the senior loans contain due-on-encumbrance clauses; although both the number of such instances and the actual likelihood of acceleration are anticipated to be minor. Failure of a borrower to pay off the senior loan would be an event of default and subject the Fund (as junior lienholder) to the risks attendant thereto. The courts of most states will enforce clauses providing for acceleration in the event of a material payment default after the Manager, an affiliate or a third party servicer gives appropriate notices. The equity courts of any state, however, may refuse to foreclose a mortgage when an acceleration of the indebtedness would be inequitable or unjust. Furthermore, a borrower may avoid foreclosure and reinstate an accelerated loan by paying only the defaulted amounts and the costs and attorney's fees incurred by the lender in collecting these defaulted payments.

State courts also are known to apply various legal and equitable principles to avoid enforcement of the forfeiture provisions of installment contracts. For example, a lender's practice of accepting late payments from the borrower may be deemed a waiver of the forfeiture clause. State courts also may impose equitable grace periods for payment of arrearage or otherwise permit reinstatement of the contract following a default. If a borrower under an installment contract has significant equity in the property, a court may apply equitable principles to reform or reinstate the contract or to permit the borrower to share the proceeds upon a foreclosure sale of the property if the sale price exceeds the debt.

Prepayment Charges

In the absence of state statutory provisions prohibiting prepayment fees, we expect that the courts will enforce claims requiring prepayment fees. However, in some states prepayment fees may be unenforceable for residential loans or after a mortgage loan has been outstanding for a number of years. Applicable law may limit the amount of any prepayment fee to a specified percentage of the original principal amount of the mortgage loan, to a specified percentage of the outstanding principal balance of a mortgage loan, or to a fixed number of month's interest on the prepaid amount. We may have to contend with laws that render prepayment provisions on default or other involuntary acceleration of a mortgage loan unenforceable against the mortgagor or trustor. Some state statutory provisions may also treat prepayment fees as usurious if they exceed statutory limits. We anticipate that our loans will not have prepayment provisions.

Bankruptcy Laws

The Fund may be subject to delays from statutory provisions that afford relief to debtors from the Fund's ability to obtain payment of the loan, to realize upon collateral and/or to enforce a deficiency judgment. Under the United States Bankruptcy Code of 1978, and analogous state laws, foreclosure actions and deficiency judgment proceedings are automatically suspended upon the filing of the bankruptcy petition, and often no interest or principal payments are made during the course of the bankruptcy proceeding. The delay and consequences in obtaining our remedy can be significant. Also under the Bankruptcy Code, the filing of a petition in bankruptcy by or on behalf of the holder of a second mortgage may prevent the senior lender from taking action to foreclose out the junior lien.

Under the Bankruptcy Code, the amount and terms of a mortgage on property of the debtor may be modified under equitable principles or otherwise. Under the terms of an approved bankruptcy plan, the court may reduce the outstanding amount of the loan secured by the real property to the then current value of the property in tandem with a corresponding partial reduction of the amount of the lender's security interest. This leaves the lender having the status of a general unsecured creditor for the differences between the property value and the outstanding balance of the loan. Other modifications may include the reduction in the amount of each monthly payment, which may result from a reduction in the rate of interest and/or the alteration of the repayment schedule, and/or change in the final maturity date. A court may approve a plan, based on the particular facts of the reorganization case that effected the curing of a mortgage loan default by paying arrearage over time. Also, under the Bankruptcy Code, a bankruptcy court may permit a debtor to de-accelerate a mortgage loan and to reinstate the loan even though the lender accelerated the mortgage loan and final judgment of foreclosure had been entered in state court prior to the filing of the debtor's petition. This may be done even if the full amount due under the original loan is never repaid. Other types of significant modifications to the terms of the mortgage or deed of trust may be acceptable to the bankruptcy court, often depending on the particular facts and circumstances of the specific case.

In a bankruptcy or similar proceeding action may be taken seeking the recovery as a preferential transfer of any payments made by the mortgagor under the related mortgage loan to the lender. Payments on long-term debt may be protected from recovery as preferences if they are payments in the ordinary course of business made on debts incurred in the ordinary course of business. Whether any particular payment would be protected depends upon the facts specific to a particular transaction.

RISK FACTORS

Although the Fund will attempt to comply with requests for the early withdrawal of the Membership Interests if the financial position of the Fund can accommodate it (see "Summary of the Offering – Withdrawal" above), any investment in the Membership Interests involves a significant degree of risk and is suitable only for Investors

who have NO NEED FOR LIQUIDITY in their investments. When analyzing this Offering, prospective Investors should carefully consider each of the following risks and should also carefully consider the matters discussed herein under the captions "Compensation to Manager and Affiliates", "Conflicts of Interest," "Income Tax Considerations" and "ERISA Considerations."

BUSINESS RISKS

Loan Defaults and Foreclosures

The Fund is in the business of lending money secured in whole or in part by real estate and therefore bears the risks of defaults by borrowers. Many Fund loans will be interest-only loans providing for monthly interest payments with a large "balloon" payment of principal due at the end of the term. Many borrowers are unable to repay such balloon payments out of their own Funds and are compelled to refinance. Fluctuations in interest rates and the unavailability of mortgage funds could adversely affect the ability of borrowers to refinance their loans at maturity.

The Fund will rely primarily on the real property securing the loans to protect its investment. It will to a lesser extent rely upon the creditworthiness of a particular borrower. There are a number of factors which could adversely affect the value of such real property security, including, among other things, the following:

1. **Accurate appraisals or valuations**. The Fund will rely on appraisals or the Manager to determine the fair market value of real property used to secure loans made by the Fund. No assurance can be given that any appraisals will, in any or all cases, be accurate. Moreover, since an appraisal is based upon the value of real property at a given point in time, subsequent events could adversely affect the value of real property used to secure a loan. Such subsequent events may include general or local economic conditions, neighborhood values, interest rates, new construction and other factors. It should be noted that the Manager does not primarily rely on third party appraisals but rather uses them as secondary support if they are provided.

2. **Owning/Maintaining Property**. If the borrower defaults the Fund may have no feasible alternative to repossessing the property at a foreclosure sale. If the Fund cannot quickly sell such property, and the property does not produce any significant income, the cost of owning and maintaining the property will directly affect the Fund's profitability.

3. **Changes in Laws**. Subsequent changes in applicable laws and regulations may have the effect of severely limiting the permitted uses of the property, thereby drastically reducing its value.

4. **Anti-Deficiency Laws**. Due to certain provisions of some state laws applicable to real property secured loans, generally if the real property security proves insufficient to repay amounts owing to the Fund, it is unlikely that the Fund would have any right to recover any deficiency from the borrower. (See "Certain Legal Aspects of Fund Loans.")

5. **Bankruptcy**. The recovery of sums advanced by the Fund in making loans and protecting its security may also be delayed or impaired by the operation of the federal bankruptcy laws or by irregularities in the manner in which the loan was made. Any borrower has the ability to delay a foreclosure sale for a period ranging from several months to several years simply by filing a petition in bankruptcy which automatically stays any actions to enforce the terms of the loan. It can be assumed that such delays and the costs associated therewith will reduce the Fund's profitability.

Since the Fund will be relying on its real property security to protect its investment to a greater extent than the creditworthiness of its borrowers, the Fund is likely to experience a borrower default rate higher than would be experienced if its loan portfolio was more heavily focused on borrower creditworthiness. Because of the Fund's

underwriting criteria, the Fund may make loans to borrowers who would not qualify for secured loans from institutional lenders (i.e., banks and savings and loan associations).

Limited History

The Fund is organized as a limited liability company under the laws of the State of California. The Fund has been operating since January 2008 and therefore has a limited operating history upon which an evaluation of its future performance can be made. Please note, however, that the Fund's performance is annually audited by independent auditors. There is a possibility that the Fund could sustain losses in the future.

Reliance on the Manager

The Fund has limited operating history, and there is no assurance that it will operate at a profit in the future. The Manager will make virtually all decisions with respect to the management of the Fund, including the determination as to what loans to make or purchase, and the Members will not have a voice in the management decisions of the Fund and can exercise only a limited amount of control over the Manager. The Manager gives no assurance that the Fund will operate at a profit. The Fund is dependent to a substantial degree on the Manager's continued services. In the event of the withdrawal, dissolution or bankruptcy of the Manager, the business and operations of the Fund may be adversely affected.

Reliance on Key Officers of Manager.

The Manager is a corporation which consists of a few key officers whose inability to manage the corporation, whether because of death, illness, incapacity or otherwise, could adversely affect the management of the Manager, and consequently, the performance of the Fund.

Competition

Because of the nature of the Fund's business, the Fund's profitability will depend to a large degree upon the future availability of secure loans. The Fund will compete with institutional lenders and others engaged in the mortgage lending business, many of whom have greater financial resources and experience than the Fund.

Fluctuations in Interest Rates

Recent years have demonstrated that mortgage interest rates are subject to abrupt and substantial fluctuations. The Fund intends to make a large number of short to medium term (six (6) months to two (2) years) loans. The purchase of Membership Interests is therefore an illiquid investment. If prevailing interest rates rise above the average interest rate being earned by the Fund's loan portfolio, Investors may be unable to liquidate their investment in order to take advantage of higher returns available from other investments. If prevailing interest rates fall significantly below the average interest rate being earned by the Fund's loan portfolio, borrowers may elect to refinance their loans and prepay their loan from the Fund, reducing the overall yield of the Fund's loan portfolio.

Dodd-Frank Wall Street Reform and Consumer Protection Act (amending the Federal Truth in Lending, Real Estate Settlement Procedures and Equal Credit Opportunity Acts)

Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") created the Consumer Financial Protection Bureau (the "CFPB") and transferred regulatory and rulemaking authority for the federal laws regulating consumer mortgage lending to the CFPB. Title XIV of Dodd-Frank, the Mortgage

Reform and Anti-Predatory Lending Act, provides for substantial amendments to the statutes and regulations which govern consumer purpose loans secured by one to four residential properties.

Many of the final rules implementing the Dodd-Frank amendments took effect in January 2014. In part, the new rules require creditors to document and verify a consumer's ability to repay the mortgage loan; require appraisals for all higher-cost and high-cost loan transactions; restrict prepayment penalties on higher-cost loans and prohibit them on high cost loans; require creditors to establish escrow accounts for all higher-cost and high-cost loan transactions; and, require creditors to obtain written certification that a consumer has received homeownership counseling prior to closing a high cost mortgage loan. Failure to comply with the new rules implemented in Regulation Z may subject the Fund to, among other things, rescission of the loan and a loss of all finance charges and fees paid by the consumer.

Litigation Risks

The Manager will act in good faith and use reasonable judgment in selecting borrowers and making, purchasing, and managing the mortgage loans and investing in, purchasing and managing properties. However, as a lender, the Manager and the Fund are exposed to the risk of litigation by a borrower for any warranted or unwarranted allegations by a borrower regarding the terms of the loans or the actions or representations of the Manager in making, managing or foreclosing on subject properties. It is impossible to foresee the allegations borrowers will bring against the Manager or the Fund, but the Manager will use its best efforts to avoid litigation if, in the Manager's sole discretion, it is in the best interests of the Fund. If the Fund is required to incur legal fees and costs to respond to the lawsuit, the costs and fees could have an adverse impact on the Fund's profitability and distributions to Members.

Participation in Other Loans

The Fund may be participating in loans with other lenders. When participating in loans with other lenders, the Fund or its Manager may not have control over the determination of when and how to enforce a default, depending on the terms of any participation agreement with the other lenders, other lenders may have varied amounts of input into such decision-making process, including the ultimate decision-making power on if and when to enforce a default. If the Fund participates with a lender affiliated with the Manager or its principals, it is possible that the Fund would not be the lead lender, although the principal of the Manager who is affiliated with the other lender may be the decision-making party. There is no certainty who will be a lead lender in a situation where the Fund participates in ownership of a Loan with another entity.

Risks of Government Action

While the Manager will use its best efforts to comply with all laws, including federal, state and local laws and regulations, there is a possibility of governmental action to enforce any alleged violations of mortgage lending laws which may result in legal fees and damage awards that would adversely affect the Fund.

Risks of Real Estate Ownership

There is no assurance that the Fund's owned properties will be profitable or that cash from operations will be available for distribution to Members. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuations and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of property interests. The marketability and value of the Fund's properties will depend upon many factors beyond the control of the Manager and the Fund, including, without limitation:

- changes in general or local economic conditions;

- changes in supply or demand for competing properties in an area (e.g., as a result of over-building);
- changes in interest rates;
- the promulgation and enforcement of governmental regulations relating to land use and zoning restrictions, environmental protection, and occupational safety;
- condemnation and other taking of property by the government;
- unavailability of mortgage funds that may increase borrowing costs and/or render the sale of a property difficult;
- unexpected environmental conditions;
- the financial condition of tenants, ground lessees, ground lessors, buyers and sellers of properties;
- changes in real estate taxes and any other operating expenses;
- energy and supply shortages and resulting increases in operating costs or the costs of materials and construction;
- various uninsured, underinsured or uninsurable risks (such as losses from terrorist acts), including risks for which insurance is unavailable at reasonable rates or with reasonable deductibles; and
- imposition of rent controls.

Risks of Development, Renovation and Undeveloped Property

The Manager anticipates that the Fund may invest primarily in existing properties that require varying degrees of development. In addition, some properties may be under construction or under contract to be developed or redeveloped. Properties that involve development or redevelopment will be subject to the general real estate risks described above and will also be subject to additional risks, such as unanticipated delays or excess costs due to factors beyond the control of the Manager and the Fund. These factors may include (without limitation):

- strikes;
- adverse weather;
- earthquakes and other "force majeure" events;
- changes in building plans and specifications;
- zoning, entitlement and regulatory concerns, including changes in laws, regulations, elected officials and government staff;
- material and labor shortages;
- increases in the costs of labor and materials;
- changes in construction plans and specifications;

- rising energy costs; and

- delays caused by the foregoing (which could result in unanticipated inflation, the expiration of permits, unforeseen changes in laws, regulations, elected officials and government staff, and losses due to market timing of any sale that is delayed).

- Delays in completing any development or renovation project will cause corresponding delays in the receipt of operating income and, consequently, the distribution of any cash flow by the Fund with respect to such property.

Compliance with the Americans with Disabilities Act and Other Changes in Governmental Rules and Regulations

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public properties are required to meet certain federal requirements related to access and use by disabled persons. Properties acquired by the Fund or in which the Fund makes a property investment may not be in compliance with the ADA. If a property is not in compliance with the ADA, then the Fund may be required to make modifications to such property to bring it into compliance, or face the possibility of imposition, or an award, of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies affecting the use or operation of the properties, including changes to building, fire and life-safety codes, may occur which could have adverse consequences to the Fund.

Risk of Using Leverage

Interest rate fluctuations may have a particularly adverse effect on the Fund if it is using borrowed money to fund mortgage loans. The Fund's use of borrowed money to fund asset purchases, or for other purposes is limited to either the greater of (1) Ten Million Dollars ($10,000,000) or (2) Fifteen Percent (15%) based on the face value of its current portfolio of loans. Such borrowed money may bear interest at a variable rate, whereas the Fund may be making fixed rate loans. Therefore, if prevailing interest rates rise, the Fund's cost of money could exceed the income earned from that money, thus reducing the Fund's profitability or causing losses.

Usury Exemption

State and federal usury laws limit the interest that lenders are entitled to receive on a mortgage loan. In determining whether a given transaction is usurious, courts may include charges in the form of points and fees as interest, but may exclude payments in the form of reimbursement of foreclosure expenses or other charges found to be distinct from interest. If, however, the amount charged for the use of the money loaned is found to exceed a statutorily established maximum rate, the form employed and the degree of overcharge are both immaterial. Statutes differ in their provision as to the consequences of a usurious loan. One group of statutes requires the lender to forfeit the interest above the applicable limit or imposes a specified penalty. Under this statutory scheme, the borrower may have the recorded mortgage or deed of trust canceled upon paying its debt with lawful interest, or the lender may foreclose, but only for the debt plus lawful interest. Under a second, more severe type of statute, a violation of the usury law results in the invalidation of the transaction, thereby permitting the borrower to have the recorded mortgage or deed of trust canceled without any payment and prohibiting the lender from foreclosing.

Manager Not Required to Devote Full-Time to the Business of the Fund

The Manager is not required to devote its full time to the Fund's affairs, but only such time as the affairs of the Fund may reasonably require.

Competition With Clients and Affiliates of the Manager

The Manager may sponsor the formation of other investment groups like the Fund to invest in deeds of trust. When considering each loan, therefore, the Manager will have to decide which client or Fund it will choose to originate or hold the resulting note and deed of trust. This will compel the Manager to make decisions that may at times favor persons other than the Fund. The Operating Agreement exonerates the Manager from liability for investment opportunities given to other persons.

Uninsured Losses

The Manager will require title, fire and casualty insurance on the properties securing the Fund's loans. The Manager may also, but is not required to, arrange for earthquake and/or flood insurance. However, there are certain types of losses (generally of a catastrophic nature) which are either uninsurable or not economically insurable, such as losses due to war, floods or mudslide. Should any such disaster occur, the Fund could suffer a loss of principal and interest on the loan secured by the uninsured property. Additionally, the Manager does not intend to require mortgage insurance on Fund loans, which would protect the Fund from losses due to defaults by mortgage borrowers.

Shared Expenses

The Fund must pay its own operating expenses. In some cases the cost of things like insurance and the like must be allocated between the Fund and the Manager or its Affiliates. The Manager has a conflict of interest in making such allocations.

Unforeseen Changes

While the Fund has enumerated certain material risk factors herein, it is impossible to know all risks which may arise in the future. In particular, Members may be negatively affected by changes in any of the following: (i) laws, rules and regulations; (ii) regional, national and/or global economic factors and/or real estate trends; (iii) the capacity, circumstances and relationships of partners of Affiliates, the Fund or the Manager; (iv) general changes in financial or capital markets, including (without limitations) changes in interest rates, investment demand, valuations or prevailing equity or bond market conditions; or (v) the presence, availability or discontinuation of real estate and/or housing incentives.

The Fund continuously encounters changes in its operating environment, and the Fund may have fewer resources than many of its competitors to continue to adjust to those changes. The operating environment of the Fund is undergoing rapid changes, with frequent introductions of laws, regulations, competitors, market approaches, and economic impacts. Future success will depend, in part, upon the ability of the Fund to address the needs of its borrowers, sponsors and clients by adapting to those changes and providing products and services that will satisfy the demands of their respective businesses and projects. Many of the competitors have substantially greater resources to adapt to those changes. The Fund may not be able to effectively react to all of the changes in its operating environment or be successful in adapting its products, services and approach.

INVESTMENT RISKS

Any investment in the Fund offered hereby involves a significant degree of risk and is suitable only for Investors who have NO NEED FOR LIQUIDITY in their investments. When analyzing this Offering, prospective Investors should carefully consider each of the following risks and should also carefully consider the matters discussed herein under the captions "Compensation to Manager and Affiliates," "Conflicts of Interest," "Income Tax Considerations," and "ERISA Considerations."

No Registration: Limited Governmental Review

The Membership Interests have not been registered with, or reviewed by, the U.S. Securities and Exchange Commission, nor is registration contemplated. The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, and the Manager is not registered with the U.S. Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940.

Dilution

The Membership Interests offered in the Offering consist of units of limited liability company interests of the Fund. Members may experience dilution of their respective Membership Interests in the Fund as more Investors are admitted as Members of the Fund. Further, under the Operating Agreement, the Manager has the right to cause the Fund to sell additional Membership Interests. Any such sale of additional Membership Interests would further dilute the percentage interests of the existing Members.

Limited Transferability of Interests

There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Membership Interests is also restricted by the provisions of the Act and Rule 144 thereunder, and by the provisions of the Operating Agreement. Any sale or transfer of Membership Interests also requires the prior written consent of the Manager. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

Size of the Offering

There is no assurance that the Fund will obtain capital contributions equal to the amount required to close the Offering. In addition, receipt of capital contributions of less than the Maximum Offering Amount will reduce the ability of the Fund to spread investment risks through diversification of its loan portfolio.

Unidentified Investments

None of the assets in which the Fund will invest have been specifically identified. It is therefore impossible for Investors to evaluate the Fund's loan portfolio. In addition, since the short-term investments in which Investor funds will be placed until they are invested in notes meeting the Fund's criteria are likely to be less than the amount to be earned from such notes, any delay in investing the net proceeds of this Offering will, to that extent, reduce the earnings of the Fund.

Phantom Income

Investors who elect to reinvest their share of the earnings of the Fund will be responsible for the payment of federal and state income taxes on such income, but will not receive distributions from which to pay such taxes. Applicable taxes, both on an annual basis and upon the sale, transfer, or other disposition of Membership Interests, will therefore be an out-of-pocket expense to such Investors.

Speculative Nature of Investment

Investment in the Membership Interests is speculative and by investing, each Investor assumes the risk of losing the entire investment. Accordingly, only Investors who are able to bear the loss of their entire investment, and

who otherwise meet the Investor suitability standards should consider purchasing Membership Interests. (See "Investor Suitability.")

Investors Not Independently Represented

The Investors in the Fund have not been represented by independent counsel in its organization. Attorneys assisting in the formation of the Fund and the preparation of this Memorandum have represented only the Manager. (See "Conflicts of Interest.")

Investment Delays

There will be a delay between the time Membership Interests are sold and the time purchasers of Membership Interests are admitted to the Fund and begin to participate in the investment yield being realized by the Fund on its loan portfolio. Once the Minimum Offering is raised, Funds will be transferred to the Fund at the Manager's discretion. (See "Use of Proceeds.") The overall investment return of the Members will be diminished while their Funds await investment by the Fund.

Lack of Regulation

The Manager and the Fund are not supervised or regulated by any federal or state authority, except to the extent that the Manager's lending and brokerage activities are regulated and supervised by applicable authorities in at least the State of California.

Price of Membership Interests Arbitrarily Determined

The purchase price of the Membership Interests offered through this Memorandum has been arbitrarily determined and may not reflect their actual value. The purchase price of the Membership Interests has been arbitrarily determined and is not the result of arm's-length negotiations. It bears no relationship to any established criteria of value such as book value or earnings per share, or any combination thereof. Further, the price is not based on past earnings of the Fund, nor does the price necessarily reflect the current market value of the Fund. No valuation or appraisal of the Fund or the Fund's potential business has been prepared.

Tax and ERISA Risks

Investment in the Fund involves certain tax risks of general application to all Investors, and certain other risks specifically applicable to Keogh accounts, Individual Retirement Accounts and other tax-exempt Investors. (See "Income Tax Considerations" and "ERISA Considerations.")

CONFLICTS OF INTEREST

The following is a list of some of the important areas in which the interests of the Manager will conflict with those of the Fund. The Members must rely on the general fiduciary standards which apply to a Manager of a Fund to prevent unfairness by the Manager and/or its affiliates in a transaction with the Fund. (See "Fiduciary Responsibility of the Manager.") Except those as may arise in the normal course of the relationship, there are no transactions presently contemplated between the Fund and its Manager or its affiliates other than those listed below or discussed under "Compensation to Manager And Affiliates."

Other Fund's & Partnerships or Businesses

The Manager also provides loan brokerage services to place loans other than those that will be offered to the Fund. There accordingly exists a conflict of interest on the part of the Manager between its affiliate and the Fund, based on the availability for placement by the affiliate of non-Fund mortgage funds. The Manager may decide, or may influence the selection of which loans are appropriate for funding by the Fund, or by such other sources, after consideration of factors deemed relevant by the Manager including the size of the loan and portfolio diversification.

The Manager and its affiliates may engage, for their own account, or for the account of others, in other business ventures similar to that of the Fund or otherwise, and neither the Fund nor any Member shall be entitled to any interest therein.

The Fund will not have independent management and it will rely on the Manager and its affiliates for the operation of the Fund. The Manager will devote only so much time to the business of the Fund as is reasonably required. The Manager will have conflicts of interest in allocating management time, services and functions between various existing companies, the Fund, and any future funds which it may organize as well as other business ventures in which it may be involved. The Manager believes it has sufficient staff to be fully capable of discharging its responsibilities to all such entities.

Purchase, Sale and/or Hypothecation of Loans

The Fund and its managers, principals, directors, officers and/or affiliates may sell, buy or hypothecate loans (use loans as collateral for another loan) to the Fund, provided that such loans meet the then-existing underwriting criteria of the Fund. The Fund may pay a price greater or less than the remaining balance on such loans. The price at which existing loans are bought and sold is normally a function of prevailing interest rates and the term of the loan. Therefore, the Fund or its managers, principals, directors, officers and/or affiliates, may make a profit on the sale of an existing loan from the Fund to the Fund. There will be no independent review of the value of such loans or of compliance with the conditions set forth above.

Lack of Independent Legal Representation

The Fund has not been represented by independent legal counsel to date. The use of the Manager's counsel in the preparation of this Memorandum and the organization of the Fund may result in a lack of independent review.

Conflict with Related Programs

The Manager and its affiliates may cause the Fund to join with other entities organized by the Manager for similar purposes as Members, joint venturers or co-owners under some form of ownership in certain loans, or in the ownership of repossessed real property. The interests of the Fund and those of such other entities may conflict, and the Manager controlling or influencing all such entities may not be able to resolve such conflicts in a manner that serves the best interests of the Fund.

Other Services Provided by the Manager or its Affiliates

The Manager or its Affiliates may provide other services to persons dealing with the Fund or the loans. The Manager or its Affiliates are not prohibited from providing services to, and otherwise doing business with, the persons that deal with the Fund, the Membership Interests, or the Members.

Sale of Real Estate to Affiliates

In the event the Fund becomes the owner of any real property by reason of foreclosure on a Fund loan or otherwise, the Manager's first priority will be to arrange for the sale of the property for a price that will permit the Fund to recover the full amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of current market conditions. In order to facilitate such a sale, the Manager may, but is not required to, arrange a sale to persons or entities controlled by it, (e.g. to another limited liability company formed by the Manager for the express purpose of acquiring foreclosure properties from lenders such as the Fund). The Manager will be subject to conflicts of interest in arranging such sales since it will represent both parties to the transaction. For example, the Fund and the potential buyer will have conflicting interests in determining the purchase price and other terms and conditions of sale. The Manager's decision will not be subject to review by any outside parties. The Fund may sell a foreclosed property to the Manager or an Affiliate at a price that is fair and reasonable for all parties, but no assurance can be given that the Fund could not obtain a better price from an independent third party.

SUMMARY OF OPERATING AGREEMENT

The following is a summary of the Operating Agreement for the Fund, and is qualified in its entirety by the terms of the Operating Agreement itself. Potential Investors are urged to read the entire Operating Agreement, which is set forth as Exhibit A to this Memorandum.

Rights and Liabilities of Members

The rights, duties and powers of Members are governed by the Operating Agreement, the Beverly-Killea Limited Liability Company Act and applicable law, and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to them.
Investors who become Members in the Fund in the manner set forth herein will not be responsible for the obligations of the Fund. They may be liable to repay capital returned to them plus interest if necessary to discharge liabilities existing at the time of such return. Any cash distributed to Members may constitute, wholly or in part, return of capital.

Members will have no control over the management of the Fund, except that Members holding a majority of the issued and outstanding Membership Interests may, without the concurrence of the Manager, take the following actions:

1. approve or disapprove the sale of all or substantially all the assets of the Fund;

2. remove and replace the Manager.

Members representing twenty-five percent (25%) of the Fund Membership Interests may call a meeting of the Fund.

Capital Contributions

Membership Interests in the Fund will be sold in units of limited liability company interests of the Fund. The initial price of each Membership Interest is One Thousand Dollars ($1,000) and no person may invest less than the Minimum Investment Amount; however, the Manager reserves the right, in its sole discretion, to accept subscriptions in a lesser amount or require a higher amount. The Manager is not required to contribute any funds to the Fund, but may do so. With respect to any Membership Interests it may purchase, the Manager will have the same rights as any other Member.

Rights, Powers and Duties of Manager

Subject to the right of the Members to vote on specific matters, the Manager will have complete charge of the business of the Fund. The Manager is not required to devote full time to Fund affairs but only such time as is required for the conduct of Fund business. The Manager has the power and authority to act for and bind the Fund. The Manager is granted the special power of attorney of each Member for the purpose of executing any document which the Members have agreed to execute and deliver.

Profits and Losses

The Fund's Profit or Loss for a Taxable Year, including the Taxable Year in which the Fund is dissolved, will be allocated among the Members in proportion to their Capital Account Balances they held during the applicable tax reporting period.

Monthly Distributions

The Fund will make all distributions as described in the "Summary of the Offering – Monthly Distributions."

Compensation to Manager and Affiliates

The Fund will compensate the Manager and its affiliates as described in the "Compensation to Manager and Affiliates."

Capital Distributions

The Fund may, in its discretion, make distributions of capital to Members in proportion to their Capital Account Balances as of the date the distribution is declared.

Adjustment of Membership Interest Holdings

Allocations of profit, gain and loss in the Fund are made, as required by law, in proportion to the Members' respective capital accounts. Voting rights are based on the number of Membership Interests each Member owns. Because some Members may choose to reinvest their share of profits, gains and losses, it is likely that the number of Membership Interests they hold will increase. For this purpose, the value of a Membership Interest will be determined daily by dividing the number of outstanding Membership Interests into the difference between the adjusted book value of the Fund's assets and liabilities. The initial price per Membership Interest is One Thousand Dollars ($1,000).

Meetings

The Manager, or Members representing twenty-five percent (25%) of the Membership Interests, may call a meeting of the Fund on at least ten (10) days, but not more than sixty (60) days, written notice. Unless the notice otherwise specifies, all meetings will be held at 2:00 p.m. at the office of the Manager of the Fund. Members may vote in person or by proxy at the Fund meeting. A majority of the outstanding Membership Interests will constitute a quorum at Fund meetings.

Accounting and Reports

The Manager will cause to be prepared and furnished to the Members an annual report of the Fund's operation, which will be prepared by an independent accounting firm. Within ninety (90) days after the close of the year

covered by the report, a copy or condensed version will be furnished to the Members. The Members shall also be furnished such detailed information as is reasonably necessary to enable them to complete their own tax returns within ninety (90) days after the end of the year.

Annual reports concerning the Fund's business affairs, including the Fund's annual income tax return, will be provided to Members who request them in writing. Each Member will receive his, her, or its respective K-1 Form.

The Manager presently intends to maintain the Fund's books and records on the accrual basis for bookkeeping and accounting purposes, and also intends to use the accrual basis method of reporting income and losses for federal income tax purposes. The Manager reserves the right to change such methods of accounting, upon written notice to Members. Any Members may inspect the books and records of the Fund at all reasonable times.

A Member may withdraw as a Member of the Fund and may receive a return of capital provided that the Member provides the Fund with a written request for a return of capital at least thirty (30) days prior to such withdrawal. The Fund will use its best efforts to honor requests for a return of capital subject to, among other things, the Fund's then cash flow, financial condition, compliance with regulatory and other limitations, such as ERISA thresholds, and prospective loans. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal requirements if a Member is experiencing undue hardship.

Restrictions on Transfer

The Operating Agreement places substantial limitations upon transferability of Membership Interests. Any transferee must be a person that would have been qualified to purchase a Membership Interest in this offering. No Membership Interest may be transferred if, in the judgment of the Manager, a transfer would jeopardize the availability of exemptions from the registration requirements of federal securities laws, jeopardize the tax status of the Fund as a limited liability company or, cause a termination of the Fund for federal income tax purposes.

A transferee may not become a substitute Member without the consent of the Manager. Such consent may not unreasonably be withheld if the Transfer and the Transferee comply with all the provisions of the Operating Agreement and applicable law. A transferee who does not become a substitute Member has no right to vote in matters brought to a vote of the Members, or to receive any information regarding the Fund or to inspect the Fund books, but is entitled only to the share of income or return of capital to which the transferor would be entitled.

The Membership Interests have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions provided for under Section 4(2) and Regulation D thereunder. There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, Membership Interests may not be resold or transferred without satisfying certain conditions designed to comply with applicable tax and securities laws, including, without limitation, provisions of the Act, Rule 144 thereunder, and the requirement that certain legal opinions be provided to the Manager with respect to such matters. A transferee must meet the same investor qualifications as the Members admitted during the Offering Period. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

Manager's Interest

The Manager may withdraw from the management of the Fund at any time upon written notice to all Members, in which event the Manager would not be entitled to any termination or severance payment from the Fund,

except for the return of its Capital Account Balance, if any. The Manager may also sell and transfer any Membership Interests it may own for such price as it shall determine, in its sole discretion, and neither the Fund nor the Members will have any interest in the proceeds of such sale. However, a successor Manager may only be elected by the Members.

Term of the Fund

The term of the Fund will end on December 31, 2027, with provision for a ten (10) year extension at the sole discretion of the Manager, unless dissolved sooner. A vote of the majority of the Members is required to extend the term beyond December 31, 2037. The Fund will dissolve and terminate sooner under any of the following circumstances:

1. the sale of all or substantially all of the Fund's assets;

2. any event that makes the Fund ineligible to conduct its activities as a limited liability company under the Act; or,

3. otherwise by operation of law.

Winding-Up

The Fund will not cease to exist immediately upon the occurrence of an event of dissolution, but will continue until its affairs have been wound up. Upon dissolution of the Fund, the Manager will wind up the Fund's affairs by liquidating the Fund's assets as promptly as is consistent with obtaining the fair market value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan(s) until a suitable sale can be arranged. All funds received by the Fund shall be applied to satisfy or provide for Fund debts and liabilities and the balance, if any, shall be distributed to Members on a pro-rata basis.

INCOME TAX CONSIDERATIONS

Federal Income Tax Aspects

The following discussion generally summarizes the material federal income tax consequences of an investment in the Fund based upon the existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable U.S. Department of Treasury regulations ("Treasury regulations") thereunder, current administrative rulings and procedures and applicable judicial decisions. However, it is not intended to be a complete description of all tax consequences to the prospective Members with respect to their investment in the Fund. No assurance can be given that the Internal Revenue Service (the "IRS") will agree with the interpretation of the current federal income tax laws and regulations summarized below. In addition, the Fund or the Members may be subject to state and local taxes in jurisdictions in which the Fund may be deemed to be doing business.

ACCORDINGLY, ALL PROSPECTIVE MEMBERS SHOULD SATISFY THEMSELVES REGARDING THE POTENTIAL FEDERAL AND STATE TAX CONSEQUENCES OF PARTICIPATION IN THE FUND AND ARE URGED TO CONSULT THEIR OWN TAX ADVISORS, ATTORNEYS OR ACCOUNTANTS IN CONNECTION WITH ANY INTEREST IN THE FUND. EACH PROSPECTIVE INVESTOR/MEMBER SHOULD SEEK, AND RELY UPON, THE ADVICE OF THEIR OWN TAX ADVISORS IN EVALUATING THE SUITABILITY OF AN INVESTMENT IN THE FUND IN LIGHT OF THEIR PARTICULAR INVESTMENT AND TAX SITUATION.

Federal Income Tax Matters

The federal income tax consequences of an investment in Membership Interests are complex and their impact may vary depending on each Member's particular tax situation. Potential Members should consider the following federal income tax risks, among others:

1. The Fund may be classified as an association, taxable as a corporation, which would deprive Members of the tax benefit of operating in a partnership form (taxable as a partnership);

2. a Member's share of Fund taxable income may, in any period exceed his, her, or its share of cash distribution from the Fund;

3. the allocation of the Fund's income, gain, loss, deduction and credit may lack substantial economic effect and may be reallocated among the Members in a manner different from that set forth in the Operating Agreement;

4. the federal income tax returns of the Fund might be subject to audit, in which event any adjustments to be made in the Fund's income, gains, losses, deductions, or credits would be made in a unified audit with regard to which Members would have little, if any, control; and

5. adverse changes in the federal income tax laws might occur, which could affect the Fund retroactively as well as prospectively.

EACH PROSPECTIVE MEMBER IS URGED TO SEEK CONSULTATION WITH SPECIFIC REFERENCE TO INDIVIDUAL TAX SITUATIONS AND POTENTIAL CHANGES IN THE APPLICABLE LAW.

No IRS Ruling or Opinion of Legal Counsel

The Fund will not request a ruling from the IRS with respect to any tax issues concerning the Fund, including but not limited to whether the Fund will be classified as a "partnership" for federal income tax purposes, or any issues concerning an investment in the Fund. Furthermore, the Fund will not obtain an opinion of counsel with respect to any of the tax issues concerning the Fund or an investment in the Fund.

Fund Tax Status

The Members will be entitled to deduct their distributive share of any Fund tax deductions, and to include in income their distributive share of any Fund income or gains, only if the Fund is classified as a "partnership" rather than a "corporation" for federal income tax purposes. If it is recognized as a "partnership" for tax purposes, the Fund will not be subject to federal income tax on any of its taxable income, and all Fund income, gains, losses, deductions and credits will pass through to the Members and will be taxable only once to the Members themselves. On the other hand, if the Fund were to be classified as an "association" taxable as a corporation, the Fund would be subject to federal income tax on its taxable income at the tax rates applicable to corporations, and the Members would not be allowed to claim any Fund tax credits or deduct any Fund operating losses on their individual returns. Consequently, classification of the Fund as a partnership for federal income tax purposes will enable the Members to secure the anticipated tax benefits of their investment in the company.

Federal Taxation of Limited Liability Companies and Members

A limited liability company is treated as a partnership for tax purposes, unless, as discussed above, it is classified as an "association" taxable as a corporation. For purposes of this discussion, it is assumed the Fund will be

classified as a partnership for federal income tax purposes. As such, the Fund incurs no federal income tax liability. Instead, all Members are required to report on their own federal income tax returns their distributive share of the Fund's income, gains, losses, deductions and credits for the taxable year of the Fund ending with or within each Member's taxable year, without regard to any Fund distributions.

Taxation of Undistributed Fund Income (Individual Investors)

Under the laws pertaining to federal income taxation of Partnerships, no federal income tax is paid by the Fund as an entity. Each individual Member reports on his, her, or its federal income tax return his, her, or its distributive share of Fund income, gains, losses, deductions and credits, whether or not any actual distribution is made to such Member during a taxable year. Each individual Member may deduct his, her, or its distributive share of Fund losses, if any, to the extent of the tax basis of his, her, or its Membership Interests at the end of the Fund year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the Member as it was for the Fund. Since individual Members will be required to include Fund income in their personal income without regard to whether there are distributions of Fund income, such Investors will become liable for federal and state income taxes on Fund income even though they have received no cash distributions from the Fund with which to pay such taxes.

Distributions of Income

To the extent cash distributions exceed the current and accumulated earnings and profits of the Fund, they will constitute a return of capital, and each Member will be required to reduce the tax basis of his, her, or its Membership Interests by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Membership Interests. Such distributions will not be taxable to Members as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Membership Interests.

Fund Allocations

A Member's distributive share of Fund income, gains, deductions, losses and credits for federal income tax purposes is generally determined in accordance with provisions of the Operating Agreement. However, the IRS may reallocate such items if an allocation in the Operating Agreement does not have "substantial economic effect" and is in accordance with the Member's respective "economic interest" in the Fund.

The IRS has issued regulations to determine whether an allocation has "substantial economic effect," or if it is in accordance with the Member's respective "economic interests" in the Fund. In general, an allocation of income, gain, loss or deduction, or an item thereof, to a Member has economic effect if, and only if: (1) the allocation is properly reflected in that Member's Capital Account and such Capital Account is maintained in accordance with the regulations; (2) liquidation proceeds are to be distributed in accordance with the Member's positive Capital Account Balances; and (3) either: (a) any Member with a deficit in its Capital Account following the distribution of liquidation proceeds must restore the amount of such deficit to the Fund by the later of either the end of the taxable year of the liquidation or ninety (90) days after the liquidation, or (b) the Operating Agreement must contain "qualified income offset" and "minimum gain charge back" provisions applicable to the Members.

The Operating Agreement does not require Members to restore deficit balances in their Capital Accounts. However, the Operating Agreement does contain provisions that are believed to meet the requirements for "qualified income offset" and "minimum gain charge back" provisions.

In order for the economic effect of an allocation to be considered substantial, the Treasury regulations require that the allocations must have a reasonable possibility of substantially affecting the dollar amounts to be received by the Members, independent of tax consequences. In applying the substantiality test, tax consequences that result from the interaction of the allocation with such Members tax attributes that are unrelated to the Fund must be taken into account.

Limitations on Deduction of Losses

1. **Adjusted Basis:** The adjusted basis of a Member's interest in the Fund is equal to the amount of cash or the adjusted basis of any property which that Member contributes to the Fund: (a) increased by that Member's share of Fund liabilities, if any; (b) decreased (but not below zero) by distributions to the Member from the Fund (including constructive cash distributions resulting from a decrease in Fund liabilities); (c) decreased by the Member's allocable share for the taxable year and prior taxable years, of the Fund's losses; and (d) increased by that Member's allocable share for the taxable year and prior taxable years of the Fund's income.

Under certain circumstances, Members may include a portion of certain Fund liabilities in their basis. The Fund does not presently intend to borrow Funds from any Member. In general, Fund recourse liabilities are shared by the Members in the same manner as they share Fund losses, and Fund non-recourse liabilities are shared by the Members in the same manner as they share Fund profits. A Fund liability is a recourse liability to the extent that one or more Members bears the economic risk of loss for such liability. A Fund liability is a non-recourse liability to the extent that no Member bears the economic risk of loss for such liability. It is not known at this time if the Fund will incur any recourse liabilities or any non-recourse liabilities.

If a Member's allocable share of an Fund loss for any Fund taxable year exceeds the Member's adjusted basis in his, her, or its interest in the Fund at the end of that taxable year, such excess may not be deducted at that time but may be carried over and deducted in any later year in and to the extent that, the Member's adjusted basis in his, her, or its interest in the Fund at the end of the later taxable year exceeds zero.

2. **At-Risk Rules:** In addition to the adjusted basis limitation, a Member's ability to deduct Fund losses is further limited by the at-risk rules. These rules, which only apply to individuals and certain closely held corporations, allow a Member to deduct losses from an at-risk activity only to the extent of the Member's amount at-risk with respect to such activity at the close of the taxable year. Each Member will be considered at-risk with respect to that Member's initial cash capital contribution to the Fund. A Member generally is not considered to be at-risk for Fund liabilities with respect to which the Member has no personal liability.

A Member will only be considered at-risk for Fund indebtedness to the extent that the Member is personally liable for repayment of such indebtedness or the Member pledged certain property as security for the repayment of such indebtedness. Also, in case of certain real property holding activities, a Member will be considered at-risk for qualified non-recourse financing as defined in the Code. Each Member's initial amount at-risk for their interest in the Fund will be limited to such Member's initial cash capital contribution to the Fund. If a Member borrows the money to Fund a capital contribution to the Fund, the Member should consult his, her, or its own tax advisor regarding the possible tax consequences of such borrowing under the at-risk rules.

3. **Passive Loss Rules:** In addition to the adjusted basis limitation and at-risk rules, the ability of a Member that is an individual or a closely held corporation to deduct a share of Fund losses is further limited by the passive loss rules. These rules provide that passive activity losses can only be deducted against passive activity income and cannot be deducted against income from other sources. A passive activity is any activity which involves the conduct of any trade or business and in which the taxpayer does not materially participate. Depending on their individual situations, Members may or may not be considered to materially participate in the management of the Fund, and the income and losses from the Fund may or may not be treated as income or loss

from a passive activity. Since the impact of the passive loss rules will vary from Member to Member, all Members should consult their own tax advisor regarding this matter.

Profit Objective of the Fund

Deductions will be disallowed if they result from activities not entered into for profit to the extent that such deductions exceed an amount equal to the greater of: (a) the gross income derived from the activity; or (b) deductions (such an interest and taxes) that are allowable in any event.

The applicable Treasury regulations indicate a transaction will be considered as entered into for profit where there is an expectation of profit in the future, either of a recurring type or from the disposition of property. In addition, the Code provides, among other things, an activity is presumed to be engaged for profit if the gross income from such activity for three (3) of the five (5) taxable years ending with the taxable year in question exceeds the deductions attributable to such activity. It is anticipated that the company will satisfy this test.

Portfolio Income

The Fund's primary source of income will be interest, which is ordinarily considered "portfolio income" under the Internal Revenue Code ("Code"). Similarly, Temporary Regulations issued by the Internal Revenue Service in 1988 (Temp. Reg. Section 1.469-2T(f)(4)(ii)) confirmed that net interest income from an equity financed lending activity such as the Fund will be treated as portfolio income, not as passive income, to Members. Therefore, Investors in the Fund will not be entitled to treat their proportionate share of Fund income as passive income, against which passive losses (such as deductions from unrelated real estate investments) may be offset.

Property Held Primarily for Sale: Potential Dealer Status

The Fund has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the Fund were at any time deemed for federal tax purposes to be holding one or more Fund loans primarily for sale to customers in the ordinary course of business (a "dealer"), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The federal income tax rates for ordinary income are currently higher than those for capital gains. In addition, income from sales of loans to customers in the ordinary course of business would also constitute unrelated business taxable income to any Investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all the relevant facts and circumstances. The Fund intends to make and hold the Fund loans for investment purposes only, and to dispose of Fund loans, by sale or otherwise, at the discretion of the Manager and as consistent with the Fund's investment objectives. It is possible that, in so doing, the Fund will be treated as a "dealer" in mortgage loans, and that profits realized from such sales will be considered unrelated business taxable income to otherwise tax-exempt Investors in the Fund.

Unrelated Business Taxable Income

DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS, HER, OR ITS PROSPECTIVE INVESTMENT.

The following summary constitutes only a general discussion of certain aspects of unrelated business taxable income as it applies to Qualified Plans and other tax-exempt entities. A detailed analysis of ERISA considerations of an investment in the Fund is beyond the scope of this discussion.

Membership Interests may be offered and sold to certain tax-exempt entities (if such as qualified pension or profit sharing plans or other tax exempt entities qualified under ERISA) that otherwise meet the Investor suitability standards described elsewhere in this Memorandum. (See "Investor Suitability Standards.") Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income," as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Membership Interests will be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the Fund. Interest income (which will constitute the primary source of Fund income) does not constitute an item of unrelated business taxable income, except to the extent it is derived from debt financed property.

Rents from real property and gains from the sale or exchange of property are also excluded from unrelated business taxable income, unless the property is held primarily for sale to customers or is acquired or leased in certain manners described in Section 514 (c) (9) of the Code. Therefore, unrelated business taxable income may also be generated if the Fund operates or sells at a profit any property that has been acquired through foreclosure on a Fund loan, but only if such property (1) is deemed to be held primarily for sale to customers, or (2) is acquired from or leased to a person who is related to a tax-exempt Investor in the Fund.

The trustee of any trust that purchases Membership Interests in the Fund should consult with his, her, or its tax advisors regarding the requirements for exemption from federal income taxation and the consequences of failing to meet such requirements, in addition to carefully considering his, her, or its fiduciary responsibilities with respect to such matters as investment diversification and the prudence of particular investments.

Sale of Membership Interests

Because the Fund may report income on the accrual basis and not distribute all earnings to Members because of cash flow considerations, the sale by Members of their interests in the Fund generally may result in a capital gain (or loss). This is because any gain attributable to a Member's share of the Fund's unrealized receivable or inventory items that have substantially appreciated in value may be reflected in such Member's Capital Account Balance. Any distributions as a result of events such as these will be taxed as ordinary income. In the event of a sale or transfer of an interest in the Fund by a Member, the distributive share of Fund income, gain, loss, deduction or credit for the entire interest would be allocated between the transferor and the transferee.

In the unlikely event that fifty percent (50%) or more of the total number of Membership Interests outstanding are sold or exchanged within any consecutive twelve (12) month period, the Fund would be considered terminated for federal income tax purposes. A termination of the Fund for federal income tax purposes would cause the Fund's taxable year to end with respect to all Members and could have potentially adverse federal income tax consequences, including a change in the adjusted tax basis of Fund property and the bunching of taxable income within one taxable period. The Fund is empowered, by the Operating Agreement, to prohibit any transfer of interest in the Fund that would cause such termination.

Liquidation of the Fund

Upon liquidation of the Fund, any gain or loss recognized by reason of a distribution to the Members will be considered as gain or loss from the sale exchange of a capital asset, except to the extent of unrealized receivable and substantially appreciated inventory items. Members will recognize gain on the distribution only to the extent any money received, including a reduction in a Member's share of Fund liabilities for which no Member is personally liable, exceeds the Member's adjusted basis of its interest in the Fund. Loss will not be recognized except under certain limited circumstances. A loss may be recognized as a result of offsetting the capitalized syndication fees of the Fund against the liquidation proceeds. Generally, the basis to a Member of any property distributed in-kind is its adjusted basis for its Membership Interest, less any money received in the distribution.

Alternative Minimum Tax

Individual Members may be subject to the alternative minimum tax, which increases a Member's tax liability to the extent the Member's "Alternative Minimum Tax" exceeds his, her, or its regular income tax (less certain credits) for the year. The amount of alternative minimum tax liability (if any) for a Member will depend on such Member's income, gain, deduction, loss, credit and tax preference from sources other than the Fund and the interaction of these items with such Member's share of Fund income, gain, loss, deduction, credit and tax preference in determining a Members alternative minimum taxable income. The passive loss limitation rules discussed above will apply to income, gain, deductions, loss and credits from Fund sources in the same manner as in determining his, her, or its regular taxable income.

BECAUSE OF THE COMPLEXITY OF THE COMPUTATION OF THE ALTERNATIVE MINIMUM TAX, PROSPECTIVE MEMBERS ARE URGED TO CONSULT THEIR PERSONAL TAX ADVISORS WITH REGARD TO THE IMPACT OF THE ALTERNATIVE MINIMUM TAX ON THEIR TAX SITUATIONS.

Election to Step Up the Basis of its Assets when Members Sell Their Membership Interests in the Fund

When Members sell or exchange Membership Interests, the Transferee Members may have an adjusted basis in the Membership Interests equal to their cost. The Fund does not automatically adjust the tax basis of its property to reflect the change in the Transferee Member's adjusted basis for his, her, or its Interest. However, the Fund may elect, in its sole discretion, upon a sale or exchange of a Member's Interest in the Fund, to adjust the tax basis of Fund property only for purposes of determining the Transferee Member's share of depreciation and gain or loss from the Fund. The general effect of such an election is that the Transferee Members are treated, for purposes of depreciation and gain or loss, as though they had acquired a direct Interest in the Fund assets, and therefore a new cost basis for such assets. Any such election, once made, cannot be revoked without the consent of the IRS. If the Fund chooses not to make the aforementioned election, a Transferee Member may be at a disadvantage in selling their Interest in the Fund since the Transferee ordinarily would obtain no current tax benefit for the excess, if any, of the cost of such Interest over the Transferee's share of the Fund's adjusted basis in its assets.

Fund Audits: The Tax Treatment of Fund Items and Penalties

The tax treatment of all Fund items of income, expense, gain or loss will be determined at the Fund level in a consolidated proceeding rather than in separate proceedings with the Members. A determination by the IRS in proceedings at the Fund level is referred to as a final administrative adjustment ("FAA"). When a FAA is made, the IRS must initially send notice to a "Tax Matters Member." The Fund believes that in the context of a limited liability company, the IRS will recognize the Manager as the appropriate person to serve in that capacity. The Operating Agreement designates the Manager as Tax Matters Member, but gives the Manager the authority to designate another person. The IRS also has such authority. Generally, notice to the Members must be mailed within sixty (60) days after the mailing of notice to the Tax Matters Member. Every Member is entitled to participate in the IRS administrative proceedings at the Fund level. If a settlement is reached with one or more Members, it is binding on them. All other Members shall be entitled to settle on the same terms if they so request. A Member will not be bound by the Tax Matters Member's settlement agreement if the Member files a statement, within a period to be prescribed by the Secretary of the Treasury, stating that the Tax Matters Member does not have the authority to enter into a settlement with the IRS on his, her, or its behalf. In general, no person other than the Tax Matters Member may bind any Member with respect to a settlement agreement with the IRS. Also, the Fund and its Members may choose to litigate an assessment of tax made under the IRS FAA procedures.

While the IRS will ordinarily be required to initiate proceedings against the Fund and not against an Individual Member, such requirement is waived with respect to any Member whose treatment of an item on his, her, or its

individual return is inconsistent with the treatment of that item on the Fund's tax return, unless the Member files a statement with the IRS identifying the inconsistency. In the absence of such a disclosure, the IRS may, without sending the Member a deficiency notice, assess and collect the additional tax necessary to make the Members treatment of the item consistent with the Fund's treatment of the item.

If a deficiency is determined as the result of an audit, each Member will be liable for payment of his, her, or its share of the deficiency, plus compound interest at the then applicable interest rate. Interest on tax deficiencies is generally non-deductible. If a deficiency is determined as the result of an audit, Members may be subject to the "Accuracy related penalty" on all or a portion of the deficiency. The amount of the accuracy related penalty is twenty percent (20%) of any underpayment attributable, among other things, to: (a) negligence or intentional disregard of rules or regulations; (b) a substantial underpayment of tax, or (c) a substantial valuation overstatement.

This penalty does not apply if the Member can show there was reasonable cause for the underpayment and the Member acted in good faith with respect to the underpayment. In the case of a deficiency attributable to a substantial underpayment, the penalty also does not apply to the extent the Member had "substantial authority" for the position taken on the tax return or the facts relevant to that position were adequately disclosed on the Members return or in a statement attached to the return.

Organization Expenses

Amounts paid or incurred to organize the Fund ("Organization Costs") are not currently deductible. However, the Manager has elected to incur the Organization Costs of the Fund. When the assets of the Fund reach a certain amount, the Manager may be reimbursed by the Fund for the Organization Costs if otherwise provided in this Memorandum.

Tax Returns

The Fund intends to retain a certified public accounting firm to prepare and review the Fund's annual federal information tax return, including Schedule K-1, which the Fund will issue to all Members, and other tax returns the Fund may be required to file. The Schedule K-1 will provide the Members with the information regarding the Fund that the Members will need to prepare and file their own tax returns.

Method of Accounting

The Fund will report its income for federal income tax reporting purposes using the accrual method of accounting. Under the accrual method, income is reportable in the year when earned, whether or not it has actually or constructively been received, and expenses are deductible in the year in which all events have occurred that determine the fact of the Fund's liability, the amount of the liability is determinable with reasonable accuracy and "economic performance" (as defined in the Code) has occurred.

Tax Shelter Registration

The Manager has been advised that the Fund is not a tax shelter under the applicable tax shelter registration rules. Accordingly, the Manager will not register the Fund with the IRS as a tax shelter.

Tax Law Subject to Change

Frequent and substantial changes have been made and will likely continue to be made, to the federal income tax laws. The changes made to the tax laws by legislation are pervasive and, in many cases have yet to be interpreted by the IRS or the courts.

State and Local Taxes

A detailed analysis of the state and local tax consequences of an investment in the Fund is beyond the scope of this discussion. Prospective Members are advised to consult their own tax counsel regarding these consequences and the preparation of any state or local tax returns that a Member may be required to file.

ERISA CONSIDERATIONS

General

The Employee Retirement Income Security Act of 1974 ("ERISA") contains strict fiduciary responsibility rules governing the actions of "fiduciaries" of employee benefit plans. It is anticipated that some Members will be corporate pension or profit sharing plans, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Membership Interests will be a "fiduciary" of such plan and will be required to conform to ERISA's fiduciary responsibility rules.

DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS, HER, OR ITS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS, HER, OR ITS PROSPECTIVE INVESTMENT.

Prudent Man Standard

Persons making investment decisions for employee benefit plans (i.e., "fiduciaries") must discharge their duties with the care, skill and prudence which a prudent man familiar with such matters would exercise in like circumstances. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (See "Income Tax Considerations."), as well as the percentage of plan assets which will be invested in the Fund insofar as the diversification requirements of ERISA are concerned. An investment in the Fund is non-liquid, and fiduciaries must not rely on an ability to convert an investment in the Fund into cash in order to meet liabilities to plan participants who may be entitled to distributions.

FAILURE TO CONFORM TO THE PRUDENT MAN STANDARD MAY EXPOSE A FIDUCIARY TO PERSONAL LIABILITY FOR ANY RESULTING LOSSES.

Prohibited Transaction Requirements

Section 406 of ERISA and Section 4975 of the Code proscribe certain dealings between Employee Benefit Plans or Other Benefit Arrangements, on the one hand, and "parties-in interest" or "disqualified persons" with respect to those plans or arrangements on the other. An "Other Benefit Arrangement" is a benefit arrangement described in Section 4975(e)(1) of the Code (such as a self-directed individual retirement account ("IRA"), other than an Employee Benefit Plan.

Prohibited transactions include, directly or indirectly, any of the following transactions between an Employee Benefit Plan or Other Benefit Arrangement and a party in interest or disqualified person:

(a) sales or exchanges of property;

(b) lending of money or other extension of credit;

(c) furnishing of goods, services or facilities; and

(d) transfers to, or use by or for the benefit of, a party in interest or disqualified person of any assets of the Employee Benefit Plan or Other Benefit Arrangement.

In addition, prohibited transactions include any transaction where a trustee or other fiduciary of an Employee Benefit Plan or Other Benefit Arrangement:

(a) deals with plan assets for his own account,

(b) acts on the behalf of parties whose interests are adverse to the interest of the plan, or

(c) receives consideration for his own personal account from any party dealing with the plan with respect to plan assets.

The terms "party in interest" under ERISA and "disqualified person" under the Code have similar definitions. The terms include persons who have particular relationships with respect to an Employee Benefit Plan or Other Benefit Arrangement, such as:

(a) fiduciaries;

(b) persons rendering services of any nature to the plan;

(c) employers any of whose employees are participants in the plan, as well as owners of 50% or more of the equity interests of such employers;

(d) spouses, lineal ascendants, lineal descendants, and spouses of such ascendants or descendents of any of the above persons;

(e) employees, officers, directors and Ten Percent (10%) or more owners of such fiduciaries, service providers, employers or owners;

(f) entities in which any of the above-described parties hold interests of 50% or more; and

(g) Ten Percent (10%) or more joint venturers or partners of certain of the parties described above.

Certain transactions between Employee Benefit Plans or Other Benefit Arrangements and parties in interest or disqualified persons that would otherwise be prohibited transactions are exempt from the prohibited transaction rules due to the application of certain statutory or regulatory exemptions. In addition, the United States Department of Labor (the "DOL") has issued class exemptions and individual exemptions for certain types of transactions. Violations of the prohibited transaction rules may require the prohibited transactions to be rescinded and will cause the parties in interest or disqualified persons to be subject to excise taxes under Section 4975 of the Code.

Investments in the Fund

If any Investor is a fiduciary of an Employee Benefit Plan, the investor must act prudently and ensure that the plan's assets are adequately diversified to satisfy the ERISA fiduciary duty requirements. Whether an investment in the Fund is prudent and whether an Employee Benefit Plan's investments are adequately diversified must be determined by the plan's fiduciaries in light of all of the relevant facts and circumstances. A fiduciary should consider, among other factors, the limited marketability of the Membership Interests.

Investors also should be aware that under certain circumstances the DOL may view the underlying assets of the Fund as "plan assets" for purposes of the ERISA fiduciary rules and the ERISA and Internal Revenue Code prohibited transaction rules. DOL regulations indicate that Fund assets will <u>not</u> be considered plan assets if less

than Twenty Five Percent (25%) of the value of the Membership Interests is held by Employee Benefit Plans and Other Benefit Arrangements.

The composition of the Fund (and its relationship with the Manager) has been restructured, such that the Fund may accept investments beyond the Twenty Five Percent (25%) limit from an Investor who is an Employee Benefit Plan subject to ERISA or Other Benefit Arrangements. Such restructuring may include, without limitations, reducing and/or eliminating certain conflicts of interest between the Manager and the Fund, and removing, rearranging, and/or otherwise restructuring the Manager's compensation paid for by the Fund. However, even with such arrangements, the DOL may still view these Fund assets as plan assets for the purposes of ERISA fiduciary rules and may create potential liability to the Fund. Investors should consult with independent legal counsel on these issues.

Notwithstanding the foregoing, the Fund has the authority to require the redemption of all or some of the Membership Interests held by any Member that is an Employee Benefit Plan or Other Benefit Arrangement if the continued holding of such Membership Interests, in the sole opinion of the Fund, could result in the Fund being subject to the ERISA fiduciary rules.

If there are no Employee Benefit Plan investors in the Fund, the Fund anticipates that investments by Other Benefit Arrangements (such as self-directed IRAs) may exceed the Twenty Five Percent (25%) limit. This situation may cause the underlying assets of the Fund to be considered plan assets for purposes of the Code prohibited transaction rules. In such a case, the Other Benefit Arrangement investors must ensure that their investments do not constitute prohibited transactions under Section 4975 of the Code. Such investors should consult with independent legal counsel on these issues.

Annual Valuation

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan's fiscal year. The Manager will provide annually upon the written request of a Member an estimate of the value of the Membership Interests based upon, among other things, outstanding mortgage investments; however, it may not be possible to value the Membership Interests adequately from year to year, because there will be no market for them.

Special Limitations

The discussion of the ERISA fiduciary aspects and the ERISA and Code prohibited transaction rules contained in this Memorandum is not intended as a substitute for careful planning. The applicability of ERISA fiduciary rules and the ERISA or Code prohibited transaction rules to Investors may vary from one Investor to another, depending upon that Investor's situation. Accordingly, Investors should consult with their own attorneys, accountants and other personal advisors as to the effect of ERISA and the Code on their situation of a purchase and ownership of the Membership Interests and as to potential changes in the applicable law.

ADDITIONAL INFORMATION AND UNDERTAKINGS

The Manager undertakes to make available to each offeree every opportunity to obtain any additional information from the Fund or the Manager necessary to verify the accuracy of the information contained in this Memorandum, to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes, without limitation, all the organizational documents of the Fund, recent financial statements for the Manager and all other documents or instruments relating to the operation and business of the Fund and material to this Offering and the transactions contemplated and described in this Memorandum.