

NEWS OF INTEREST

Mid-Year 2007

SFG FAMILY OF FUNDS



SEATTLE FUNDING GROUP, LTD.

“Location of a securing property has the largest effect, is unchangeable, and therefore primary.”

More Lessons in Underwriting

Mastery of the basics can't be understated in most skilled endeavors, including asset based lending. We will continue our discussion of the basics of underwriting, and remind you they are just that, basics. However simple they may seem, much of the sub-prime debacle seen today arose from gross neglect of the basics. We recognize the importance of these sometimes simple concepts and make them apart of our everyday discussions. Lesson number one was “Avoid borrowers divesting their

capital out of the property through the proposed loan.” Lesson number two was “Avoid borrowers with poor credit on performance based loans.” Here we go with a few more.

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Geographic Location

We are really back to basics here. It is pretty obvious that certain neighborhoods hold stronger values and can better weather economic storms. In addition, certain cities hold real estate

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values and are more resistant to economic troubles. Seattle Funding Group's business plan has always been centered on major metropolitan areas with well diverse economies. We generally stay out of isolated towns with populations less than 100,000 people. "The pond dries from the edges in" is an economic philosophy that has always made sense to us, and is a significant reason we have designed and positioned our products to at-



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tract marketable properties in core locations of major metropolitan areas. That is not to say we don't see attractive loan opportunities in smaller towns, but there are always compensating factors. These factors typically include a lower loan to value ratio, strong borrowers with comparably large capital contributions, and/or exceptionally deep market appeal for the securing property. There is no stamped formula of loan approval that can be mass produced regardless of the location. As obvious as this may seem, most struggling mortgage

portfolios carry large chunks of their non-performing loans in markets that don't support a quick sale value to get back to cash.

Simply put, we recognize all locations are not created equal. Every SFG loan is custom designed after analyzing all aspects of a loan request. Location of the securing property has the largest effect, is unchangeable, and therefore primary.

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Site specific analysis

A good general geographical location doesn't necessarily mean a good site specific location. It may be Beverly Hills, but an eroding slope, or an all-American neighbor-

hood, but on a busy street. Even more so with commercial real estate such as retail. What side of the street is that grocery anchored shopping center on? The "going home" traffic side is much preferred to the "going to work" traffic side. In fact,

all other things being equal, one side will attract "A" quality tenants and top rent, while the other side struggles to keep "C" quality tenants with much

lower rents. Two key elements with retail are access and visibility, both very "site specific" issues. Many unsuspecting lenders get overly enthusiastic about a loan request in a superior geographical location and do not recognize the negative impact of the specific site to its market. All things must be considered where appropriate to the site. For commercial, some of the site issues are: visibility, access, parking ratio, foot traffic, slope, view, turn around radius for large trucks, traffic direction for home and work and of course the history of the site for historical hazardous exposure.

For residential there is generally less

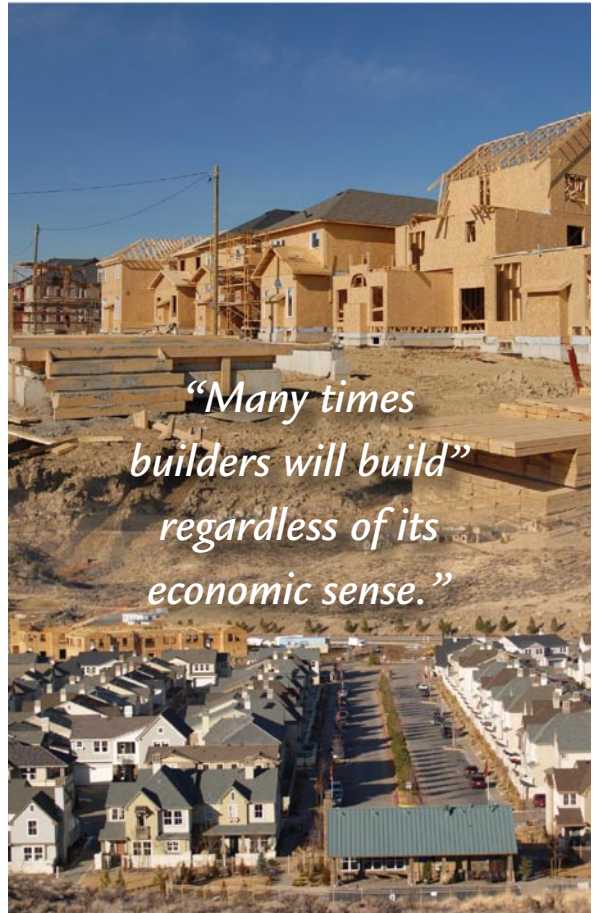
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Economic Sense

to consider, but missing one can make a huge difference in value. One side of the street may have a better school system and a superior image. Certain residential sites are very difficult to build on due to slope or difficult access where another, a block away, fetches a higher price because it's builder friendly. In view locations, one side of the street may have a level entry with a view from the back yard; which is perfect for entertaining. The other side of the street may have street level parking, but several stairs to climb to get to the front door and a view from the front yard only. The differences in price can be 20-40% and not easily noticed by glancing through an appraisal. It is for this reason we at Seattle Funding Group triangulate value. With information gathered through many sources, which may include: personal inspection, third party appraisal, opinions of real estate agents and other professionals, every loan decision includes healthy debate as to the value of the securing property.

Many times builders will build regardless of its economic sense. It is just what they do and can't stop themselves or, in some cases, they don't grasp the real numbers due to naivety. In this situation, the discipline must begin with the lender. In Seattle Funding Group's board room, each deal is looked at for its economic value to all parties involved. If we don't think the borrower stands to win with our loan, we will let them know...even if we are sufficiently secured due to additional collateral or seller subordination. In our own enlightened self interest, it is unhealthy for us to get involved in loans where we are



“Many times builders will build” regardless of its economic sense.”

secured, but everyone else stands to lose. Uneconomical loans for the borrower become management hassles for us down the road and distract us from our main objective of producing quality loans, strong returns and repeat borrowers.

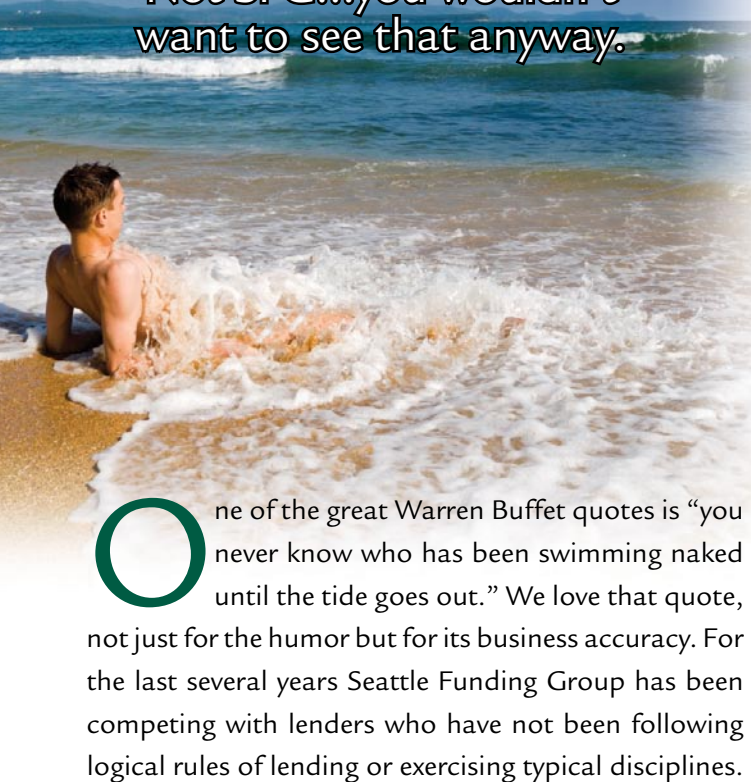
Next to come: Absorption rate, property condition and “kooks.”

SFG Income Fund VI Series G opens to strong investor response

On July 10th, the long-awaited opening of our next investor offering, SFG Income Fund VI, LLC-Series “G” Secured Notes became available to investors. If initial indications hold, the demand for these 5 year 7%

notes should be strong. Please contact your Pacific West Securities investment representative or Greg Elderkin at (425) 271-3550 for information on this offering.

Swimming Naked? Not SFG...you wouldn't want to see that anyway.



One of the great Warren Buffet quotes is “you never know who has been swimming naked until the tide goes out.” We love that quote, not just for the humor but for its business accuracy. For the last several years Seattle Funding Group has been competing with lenders who have not been following logical rules of lending or exercising typical disciplines.

These “sub-prime” lenders have been mass-producing “junk mortgages,” taking huge profits at origination, raising their stock value and passing on the risk to unsuspecting Wall Street investors. These lenders were basically “swimming naked.” SFG has always kept its suit on, in many cases wearing two in case one rips. Our extremely cautious attitude may have curbed the velocity of our growth, but today has made our portfolio and organization healthier than at any time in our 18 year history. We are proud of our long-standing lending disciplines...and we think we look pretty good in our swim suits.



In March of 2007, Seattle Funding Group President John Odegard wrote a bulletin to the investment community describing why SFG was not a sub-prime lender, but closer to the opposite of a sub-prime lender. It was well received. If you would like a copy of that writing, please contact our main office in Bellevue and we will send a copy out to you.

Favorite Quotes

“Don’t wish it was easier, wish you were better.” ~Jim Rohn

*“You can’t build a reputation on what you are going to do.”
~Henry Ford*

*“You may be disappointed if you fail, but you are doomed if you don’t try.”
~Beverly Sills*

*“The real voyage of discovery consists not in seeking new landscapes, but in having
new eyes.” ~Marcel Proust*

*“The capacity to learn is a gift; the ability to learn is a skill; the WILLINGNESS
to learn is a choice.” ~Unknown*

“Failure is success if we learn from it.” ~Malcolm Forbes

If you have any favorite quotes you’d like to see in the News of Interest, please pass them along to John Odegard. We’d even be happy to mention in our newsletter where they came from. E-mail your favorite quotes to: jodegard@sfgfunds.com.



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