

NEWS OF INTEREST

Year-End 2007

SFG FAMILY OF FUNDS



SEATTLE FUNDING GROUP, LTD.

Another Quality Year!

Strict SFG lending disciplines prove value!

We finished 2007 with record numbers in many categories. We grew market share significantly and opened a new office in San Diego, CA. This gives us a lot of positive options for discussion and many things to be proud of, but in light of current economic conditions, we realize the question on most investors' minds is: "What is the health of the portfolio?"

The answer, simply put, is: "Solid!"

SFG Fund managers are keenly aware of the fact that what we do today has a major effect on what we reap tomorrow. We've had clarity on this principle since our inception; it is an attitude that permeates our underwriting. And it's the reason why SFG investors have remained insulated from turbulent markets over the last 18 years—through all economic and market conditions.

We are fairing well in a tough market

The markets of today are no exception. The disciplines we

cont. on page 2

IN THIS ISSUE

- Another Quality Year Page 1
- Challenges we expect to face in 2008. Page 3
- Welcome San Diego Page 3
- New website for SFG Page 5
- Success Story Page 6
- Favorite Quotes Page 6

have exercised over the years have led us to a portfolio we are very proud of: diverse, secure, and positioned for continued performance. If you're looking for quantitative proof, while the number of non-performing loans increased at year-end 2007 as compared to year-end 2006, we reported a slightly lower percentage of non-performing capital. You heard that right, slightly lower. In short, we had a higher number on non-performing loans, but they were smaller and in total, represented a slightly smaller percentage of our portfolio.

Quite frankly, in light of current economic conditions all around us, we didn't expect the percentage of non-performing capital to be lower, but it didn't surprise us either. We expect that number to rise in 2008 as borrowers experience tighter capital markets and take longer to exit our loans. However, we like the way our portfolio looks from a collateral perspective. Team SFG has constantly refined our underwriting over the years to mitigate risk in the portfolio, and the positive results continue.

A well-timed decision to enhance credit quality

At year-end 2006, SFG fund managers made a conscious decision to increase the credit quality of all incoming borrowers, particularly those borrowing

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one million dollars or more. Over the years, our reputation for performance has become widely recognized. As our lending position has become more competitive

and mainstream, we find we have the ability to become increasingly picky about the opportunities we pursue.

Higher credit grade borrowers fit our corporate image and generally bring with them better quality real estate with fewer issues to consider. In addition, we lowered the cost of funds on our mortgage products, for

the first six months of the loan term, to entice the high quality borrower to come our way. This refinement not only fit the times, but also better fit the marketing image cast by Seattle Funding Group.

Seattle Funding Group's marketing is consistent, extensive and appeals to the borrower needing the service and responsiveness of a private-money lender—at a price that's fair because it accurately reflects the added value of our service to our customers. Many in the mortgage community, consider Seattle Funding Group loans to be the "A paper" of the private money lending industry. That's

because we not only have better borrowers and better collateral, but better pricing, too. That's an image that fits us just fine and should lead us well into 2008.

Yes, 2007 was a year to be proud of, a year of performance and a year of growth. Not surprisingly, we did it the old fashioned way, making the right decisions, one loan at a time. As we begin 2008 we see some of our most rewarding years ahead.



A photograph of a sailboat's deck, showing the white sail, metal railings, and wooden blocks with pulleys. The boat is on a dark blue sea under a clear sky. A quote is overlaid in the top right corner.

*"We are very much prepared
for the challenge and in many
ways welcome it."*

Challenges we expect to face in 2008

We would be remiss if we failed to mention the headwinds we expect to face in the changing economy of 2008. The SFG team is prepared for the challenges ahead, and feels it is times like this when we are at our best and add the most value to our investors.

Loan Volume: We expect loan volume to drop somewhat in 2008 as business activity slows and our lending disciplines stay intact. In addition, we have tightened our lending circle

even more, sticking primarily to closer-in locations. Loan requests outside the inner metropolitan circle will be considered only when significant compensating factors are present such as lower loan to values, substantial cash contributions from the borrower, high demand property and/or good credit borrowers.

Non-performing loans: By summer of 2008 we expect our percentage of non-performing loans to rise a few percentage points. This has already been built into our management model and will

in no way way affect distributions to our investors.

Management intensity: These are the times when SFG earns its keep. Managing an asset based lending fund of 100+ million dollars during a market downturn is time consuming and requires diligent effort. The rising tide of the last few years left many thinking this business was easy, perhaps much to their dismay. We are prepared for the challenge and in many ways welcome it.

Welcome San Diego

New SFG office provides more efficient underwriting and faster service to Southern California borrowers

One of the most exciting and rewarding events that occurred in 2007 was the opening in July of our San Diego office, Seattle Funding Group of California, LLC. It is hard to describe the value this office adds to every aspect of our business:

- It brings us closer to some of our collateral as well as some of our customers.
- From underwriting to broker relations, the San Diego office gives us a strong platform from which to compete in a market that should serve us well over time.
- With a physical presence in a major metropolitan market like southern California, we undoubtedly will capture more high quality business as brokers are always more comfortable dialing a local area code.

We recruited the best team of professionals

The San Diego team was not chosen casually. It took approximately three years to assemble the right personnel: a team that is experienced, well connected and willing to buy into SFG's long term vision of "safety first".

The SFG San Diego team has more than 30 years experience in the asset based lending business, directly in the southern California market. With tremendously talented people at the helm in San Diego assisting SFG Fund managers with loan decisions, we feel confident we'll continue to make the right investment decisions—at a pace that adds greater value to the borrower.

Expanding our market share

As we grow, the mainstay of our operation remains



quality underwriting. Of course time is of the essence in every deal, and the ability to make decisions quickly is where an asset-based lender's reputation is built. Our reputation for responsiveness helps us capture market share, providing a larger pool of loan opportunities for the SFG Income Fund. Now that we're on site in San Diego, we feel confident that more high-quality borrowers in Southern California will respond to our value proposition—smart loan decisions, faster response time—just as they have in the Pacific Northwest.

San Francisco on list for 2009

California is an extremely promising market for our long-term growth, and we are very pleased to have our feet on the ground there. Obviously the next step is to establish a physical presence in Northern California. We'll be repeating our San Diego strategy, recruiting the best team in the market. Right now our best estimate is that we'll be ready to open a new SFG office in the San Francisco area sometime in 2009.





New website for Seattle Funding Group

We launched our new website in August of 2007. Because so much of our mortgage broker correspondence is done over the Internet, we think it's critical to provide a state-of-the-art website that enhances the experience of doing business with SFG. Updated images, enhanced broker tools As our last website was created in 2004, it was due for an overhaul. After several months of marketing meetings, design ideas and expense, our new website opened

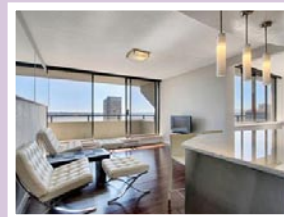
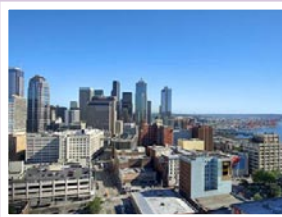
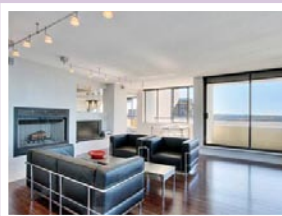
to great review by the mortgage community. The new website is more interactive, powerful and cosmetically appealing, while staying recognizable to our current customers. Feel free to browse our new website at www.SFGFunds.com and take a look at the success stories showing some of our most recent closings. There you will see pictures and examples of the types of loans that make up SFG Income Fund VI. We think you will be as proud as we are!

Featured Loan

\$880,000

**Belltown Penthouse
Condo Purchase
Seattle, WA**

This amazing penthouse condo needed to close quickly. The borrower had approval for the purchase from a national lender. The week before closing, the lender made changes in the lending criteria, leaving the broker and borrower without the needed funds to close. With a substantial down payment on the line, the broker called Kent Rowe at Seattle Funding Group, who was able to make the deal happen in just 5 days. Borrower was able to save his purchase and the broker was able to show his value to the realtor who sent him the deal.



Favorite Quotes

Genius is the capacity for seeing relationships where lesser men see none.
~William James
Sent in by Robert Dempewolf

The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty.
~Winston Churchill

You may be disappointed if you fail, but you are doomed if you don't try. ~Beverly Sills

If opportunity doesn't knock, then build a door. ~Milton Berle

Don't wish it was easier, wish you were better. ~Jim Rohn

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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