

NEWS OF INTEREST

Winter 2009

SFG FAMILY OF FUNDS



SEATTLE FUNDING GROUP, LTD.

Happy New Year!

2008 was indeed a challenging year for our nation's economy. Most investors would agree that it is great to see 2008 pass.

At SFG, we are extremely proud of our performance in 2008, in spite of the surrounding market conditions. For many investors, SFG was the sole stabilizing force in their portfolio, and the highest yielding as well. Yield has never been the driving force of our operations, but with such changes in market conditions, our yield looked quite impressive in 2008.

In fact, any positive return looked impressive in 2008.

For most investors, SFG was the sole stabilizing force in their 2008 portfolio, and the highest yielding as well.

As we forecast and plan for market conditions of 2009, we will maintain our path of capital preservation with attractive returns, and we believe we are well positioned for its accomplishment. We realize in these uncertain times, nothing is more important to our investors than knowing their money is safe. Thus, while we always plan to give investors an attractive return,

our focus in 2009 will continue to emphasize portfolio health and

IN THIS ISSUE

Happy New Year	Page 1
Objectives for 2009	Page 2
Peace of Mind	Page 5
On a Final Note	Page 6
Favorite Quotes	Page 6

stability over yield.

With a 20 year flawless track record, and a fund filled with hundreds of long standing investors, nothing is more important and motivating to us than preserving your capital and continuing to prove

know we will face, and our plan for continuing to warrant your trust and confidence. Despite challenging market conditions, we believe 2009 will be another successful year for SFG Income Funds.

Success Story



\$1,750,000 **LTV**
SFR in exclusive
gated community,
excellent credit scores
La Quinta, CA **60%**

Objectives for 2009

1

Loan volume and Underwriting

This is a tough market for most lenders, but it represents great opportunity for SFG. Today's loan opportunities are exceptional, and will prove to be a huge component of our portfolio health and performance in 2009. Sound underwriting has always been the "DNA" of our corporate success. In addition, recently SFG has heightened borrower credit standards and reduced our mortgage rates. This is helping attract the best loan opportunities we have ever seen. Underwriting new loans at today's values, with top-tier borrowers that have strong equity positions makes our portfolio stronger and stronger. (This issue of *News of Interest* contains a few

Success Story



\$2,200,000 **LTV**
A+ borrower,
exceptional view,
SFR, affluent community
Queen Anne Hill
Seattle, WA **63%**

examples of such loans entering our portfolio or currently in underwriting.)

Today's economic climate makes it particularly important that our borrowers have sound "exit strategies" (plans for refinancing or paying off their SFG mortgage). We have always tried to make sure our

Today's loan opportunities are exceptional, and will prove to be a huge component of our portfolio health and performance in 2009.

borrowers have sensible exit strategies, but in 2009 we will put even higher emphasis on exit strategies and depth of



reserves. Although sufficient collateral has always been our primary objective, borrowers are holding onto our loans

Success Story



\$2,100,000
Strong borrower,
newly constructed
office, wonderful
location
Denver, CO

**LTV
66%**

longer during these troubled times, so we want to be sure they have the capacity to do so. In addition, scrutinizing exit strategies provides a “feel” for a borrower’s capacity to make smart decisions. We are already adding loans with smart borrowers, excellent collateral, and low loan-to-value ratios (assessed with today’s market in mind), and that is one reason we are so excited about the opportunities ahead.

2

Slow pays, foreclosures and resale financing

We fully expect a modest rise

in foreclosures during the first half of 2009, tapering off after mid-year as we dispose of REO’s (real estate owned, i.e., properties we have acquired through foreclosure). While we don’t like to foreclose, it is—and has always been—a normal part of bridge lending, so we sometimes have no choice. It generally takes about six months to foreclose; starting the process strongly encourages delinquent borrowers to sell, refinance or bring current.

Success Story

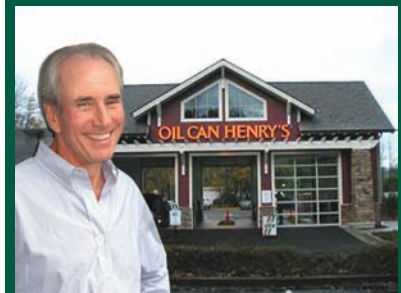


\$3,800,000
Popular live/work
units, irreplaceable
location on Abbott Kinney
Road, outstanding credit
Venice, CA

**LTV
62%**

Even though we usually have healthy equity cushions, the media has misguided many borrowers to purposely not make their payments, and then expect their desperate lender to take a discount. We are not that lender. By starting the process of foreclosure we show confidence in our position. Experience shows that the worst thing a lender can do is be afraid to start foreclosure

Success Story



\$975,000
Great regional
tenant, core location,
perfect credit
Issaquah, WA

**LTV
60%**

for statistical reasons. We will continue to do what is wise for the capital preservation of our investors’ money, even if that means a temporary rise in our foreclosure percentage.

Remember our foreclosures do not necessarily mean losses. We are typically well collateralized, so it usually just means a delay in portfolio income. As we envision a pick-up in real estate activity the second half of 2009, we prefer to get started collecting now, so that if we must, we can be selling in a better market.

Also note that some good borrowers simply need a little help. If we can afford to do so



without jeopardizing capital preservation, we will. For example, sometimes it makes good business sense to provide a loan extension for a few more months or to lower the interest rate a point or two, giving them more room to maneuver. It is sometimes in the best interest of the SFG funds to help borrowers, and we do so where appropriate.

Success Story



\$1,250,000 **LTV 65%**
 Extraordinary view,
 custom construction,
 capital contribution
 from borrower
 Waianae, Oahu, HI

The lending markets froze up in 2008, and are nowhere near back to normal, so many buyers simply cannot get financing. Thus, we sometimes offer attractive financing to buyers of our REO's. This can stimulate faster sale, and—although typically at a lower yield than our regular loans—can get a property back to performing status, with quality borrowers at the helm.

Three of our foreclosures sold, paid off, or brought current

last month (December, 2008), resulting in over \$200,000 in back due interest realized. With December widely recognized as the slowest month in real estate, and 2008 being what it was, this is very promising and shows the value of making loans with conservative loan-to-value ratios! It is also an excellent sign as we start the new year. There will no doubt be a few loans that result in losses, and we have prepared for that. Keep in mind, with such a turbulent real estate and mortgage market, we are proud of how few there are.

*We feel confident in
 SFG's position in this
 market and want you
 to feel at ease with
 your SFG investment.
 You are in good
 hands.
 Our path is
 both promising
 and clear.*

It is important to note that this is not a loss to investors, but an expense bore by the fund managers. We also expect some compensating revenue in late 2009 or early 2010, as some REO's are sold at a profit. We only

Success Story



\$2,000,000 **LTV 57%**
 Strong demand,
 profitable rental
 units near college
 Bellingham, WA

mention them here because even as an investor receiving a dependable yield, we want you to understand the challenges we face, and know that we will continue to take responsible action to keep them under control.

3
Communication
 We are always available to talk to investors and/or their representatives, at anytime, to discuss our plans and progress

Continued on page 5



as we move throughout the year. We don't want to burden you with too much information when not needed, but be open and transparent as we navigate 2009. We feel confident in SFG's position in this market and want you to feel at ease with your SFG investment. You are in good hands and our path is both promising and clear.

Feel free to contact us at anytime by phone or email and we will do our best to make ourselves available to you in short order.

Peace of mind in 2009

In the second quarter of 1994 *News of interest* we wrote an article entitled "The peace of mind of a stable return", and again in 2002 an article entitled "The power of peace

of mind". The basic premise holds as true today as ever before. SFG is designed to bring portfolio stability and perhaps the investor a little peace in knowing their investment is well secured. That is still the case today.

We have always prided ourselves on delivering to investors a stable predictable return regardless of economic conditions. We have stood for that principle since our inception in 1988 and it is still the driving force

Our past performance and reputation position us to take center stage within the lending markets, enabling us to review the highest quality loans, in many cases without much competition.

of our operations today. Our philosophy did not change during the real estate gold rush of 2004-2007 when the temptation was at its peak, and today our investors are reaping the rewards because of

Success Story



\$2,800,000

Retail center,
superb credit
borrower, top
location near Costco
Lacey, WA

**LTV
64%**

it. You can rest assured we value the peace of mind as much as anyone, and we will continue to hold that as our identity. SFG has endured the market of 2008. The future should treat us all well, rewarding us for our past disciplines. We invite you to be a part of that future.

SFG sees tremendous opportunity in the months ahead. Our past performance and reputation position us to take center stage within the lending markets, enabling us to review the highest quality loans, in many cases without much competition.

Of course, none of us are completely impervious to destructive market forces. But some are far better insulated from it than others, and SFG is just such a company. The

Continued on page 6

Success Story



\$175,000

Rental duplex,
popular westside
location, fantastic
credit borrower
Bend, OR

**LTV
50%**

factors that differentiate us from other lenders are both manifold and complex, but at their core are our long-held beliefs and our disciplined approach to mortgage lending. SFG expects to face challenges

in 2009, as will all Americans, but we are fully prepared to weather the storms that lie ahead. May we all enjoy the opportunities that present themselves in 2009.

Despite challenging market conditions, we believe 2009 will be another successful year for SFG Income Funds.

On a Final Note...

Another year has come to a close, and despite much turmoil in the world, there is much about which we are thankful. We are truly thankful for your business and grateful for the trust and confidence you continue to place in our firm. We are appreciative of our highly capable staff and their implementation of the business strategies and objectives that are at the very core of SFG's

enduring success. Perhaps most of all, we are relieved and mindful that the plethora of bad news on the nation's financial front, whether written or spoken, real or imagined, will neither undermine SFG's history of successes nor interrupt our decades long pattern of consistent performance.

Cheers to a great 2009!

Favorite Quotes

Spend eighty percent of your time focusing on the opportunities of tomorrow rather than the problems of yesterday.

~ Brian Tracy, motivational speaker

Efficiency is doing things right. Effectiveness is doing the right things.

~ Peter Drucker, writer and social ecologist

Accept complete responsibility both for understanding and for being understood.

~ Brian Tracy, motivational speaker

There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.

~ John F. Kennedy, Thirty-Fifth President of the United States of America

People may doubt what you say, but they will believe what you do.

~ Lewis Cass, American military officer and politician



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