Greg Elderkin
Fund Manager, SFG Income Funds

John Odegard
Fund Manager, SFG Income Funds

Another Solid Quarter

SFG Income Fund VI ended the second quarter of 2012 with another noteworthy improvement in our non-performing asset percentage. The 3.6% positive adjustment reflects the sale of nine REO assets (foreclosed properties) totaling over $5,500,000 in this quarter alone. We have now sold 15 properties since the beginning of 2012. These numbers are considerable and reflect the reality that we are gaining control of the properties that collateralize our old economy loans. Finishing the foreclosure process gives us the power to improve, rehab, lease and do what is necessary to get these non-performing assets sold, at reasonable values. We've turned the ship around, real progress is being made and it is very encouraging. As foreclosed assets are converted to cash and cash invested in new high yielding opportunities, profitability should continue to rise, filling the negative equity gap. Our strategy has taken root, even in the worst real estate collapse in modern history. We still have a spell to go and the market remains difficult, but we are well on our way towards achieving our objectives.

Refined strategies for today's loan underwriting.

The last few years have provided confirmation for the value of our long standing underwriting philosophies, as well as a few key enhancements put in place to improve fund resiliency and performance in even the most drastic economic environments. In addition to higher borrower quality, we now require a more in depth borrower exit strategy in advance of our loan decision. A higher level of scrutiny towards our borrowers proposed exit strategy (how they plan to retire our loan prior to maturity) allows us to critique its feasibility and hence better predict the risk of default. Additionally, should the exit strategy require specific skills, like in the case of a construction loan, we will complete further due diligence on the borrower's competence and reputation in the industry. For added assurance, we like to see alternative exit strategies at the borrower's disposal, should the primary plan fall short. We have always reviewed our borrowers exit plans, however today, a higher level of clarity is required. During 2005-2007 borrowers had a multitude of exit options

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available to them as the market was flooded with buyers and lenders eager to replace our position. The exit strategy review seemed easy during the height of the market, and in most cases, self-evident. Today, more scrutiny is necessitated as current exit lenders require the right borrower, property type, cash infusion and seasoning to get through the door. If marketing the property for sale is the exit strategy of choice, then we scrutinize, to a higher level, the depth of the buying market for that particular asset class and price range as well as the availability of "purchase money loans" for the incoming buyers. All this is done in addition to our rigorous value analysis, debates and inspections to ensure an appropriate equity cushion to protect our capital. It is primarily our thorough exit analysis that has led to shortening of our loan terms due to faster payoffs. Our average loan term the last couple of years has been just under eight months, rather than our historically typical 22 months. Scrutinizing our borrower's exit strategy and only funding loans where the exit is clear has also led to higher levels of portfolio liquidity. As fund managers, we believe maintaining a reasonable level of liquidity is prudent even if it is a slight hindrance to profitability. The events of the past few years have taught us a few things and we are an even better firm because of it.

The constant refinement in our underwriting and risk assessment has contributed to few foreclosures and zero loan losses on loans originated during the last four years. Yes our loan volume could be higher if volume was our primary goal, especially with our leading market presence, however we feel strongly this is not a market to be ***chasing*** loans, this is a market to be ***choosing*** loans. SFG investors should feel comfortable knowing we are prudently choosing the very best for our portfolio, which is reflected in positive performance.

John Odegard and Greg Elderkin, Fund Managers

Success Story

- $1,150,000 first position loan
- Approximate Loan to Value ratio: 64%
- Two buildings as collateral

Two, well located, multi-tenanted, light industrial buildings with an A+ credit borrower. This quality borrower had a maturing conventional loan on a well-located, fully leased, multi-tenant industrial building next to a large regional hospital. He required a refinance loan to close in less than two weeks and was prepared to add cash and additional collateral (another building he owned free and clear) in support of that request. The referring mortgage professional was a well-known, repeat client of SFG's, and on a transaction where deal certainty and speed were essential, SFG was once again the lender of choice…the road had already been paved with prior successes.

This and 10 other high quality loans were added to the SFG portfolio during the month of July.

For additional success stories, please check the Seattle Funding Group website at **SeattleFundingGroup.com.**

SFG INCOME FUNDS
Corporate Headquarters
425.455.1733 or 888.SFG.FUND
1239 120th Ave. NE, Suite J, Bellevue, WA 98005
www.SFGIncomeFund.com