NEWS OF INTEREST

Year-End 2006

SFG FAMILY OF FUNDS

SFG

SEATTLE FUNDING GROUP, LTD.

Disciplined underwriting leads to healthy loan volume in 2006

SFG Fund Managers have always put portfolio health ahead of loan volume. This principle has been part of our fundamental discipline since the inception of the SFG Income Funds.

As a result of our prudent, long-term approach, loan volume for 2006 ended up at a very respectable level—though down a bit from the record levels achieved in 2005. With a quality product, good market positioning and a longstanding reputation for service in the mortgage community, our long-term growth is assured.

Know when to say "no"

2006 was not the year to chase loan volume; it was a year to maintain vigilance. As many traditional lenders shifted focus and discontinued a variety of loan programs, the quantity of loan requests at Seattle Funding Group picked up tremendously. Many of these additional applicants came with requests that just didn't meet our strict underwriting guidelines.

Examples include borrowers with an insufficient amount of their own capital in the transaction, large tracts of land with no immediate commercial prospects,

IN THIS ISSUE

Disciplined underwriting leads to healthy loan volume in 2006 . . . . Page 1
New Loan Programs Set the Stage for 2007 . . . . . . Page 2
SFG Fund Managers' Top Ten Underwriting Lessons . . . Page 3
Key People. . . . . Page 3
Marketing Update . . . . Page 4
Favorite Quotes . . . . Page 4

high loan-to-value ratios, and speculative requests requiring a rising market to make the numbers work.

SFG Fund Managers have always put portfolio health ahead of loan volume.

With a philosophy of safety first and yield second, we said "no" more in 2006 than any year previously. It was a necessary discipline that we didn't shy away from. Good investments can't be forced. Like a good mutual fund manager, we would rather sit on a little extra cash than raise our risk tolerance with speculative transactions.

Second best year in SFG history

The good news? Our portfolio is very healthy and we are ready to fund the next good transaction. In addition, loan volume in 2006 was still very respectable—our second biggest in company history!

As an investor in the SFG Income Fund, you can rest assured that we are focused on the right long-lasting principles to ensure your capital is always well preserved, earning strong returns and available when you need it. That's just the SFG way.

With our established presence and reputation in the market, along with some exciting plans for new loan programs, we expect 2007 to be another solid year in loan quantity as well as quality. ■

New Loan Programs Set the Stage for 2007

In early January, SFG Fund Managers met in Scottsdale, Arizona to discuss plans for growth. Our core strategy is to enhance the positioning of our lending products across the West Coast. As a frontrunner in our field, we want to keep the edge and enhance the lead we have in our market. With a slight repackaging of some of our loan programs, synchronized with our proven marketing strategy, Seattle Funding Group should have a clear advantage going into 2007.

For instance, we are placing a new and stronger emphasis on our credit line structured loans to both the commercial and residential borrowers. We've also developed a streamlined underwriting process with a slightly lower rate for borrowers who have exceptional credit and collateral that is relatively easy to evaluate. Properties that could qualify for this program include, for example, a well-located retail center with long-term leases in place or a well-kept single-family home in a homogeneous neighborhood setting.

We also plan to offer attractive loan options for borrowers whose homes are listed for sale. Most lenders do not service this segment of the market due to the rapid nature of loan payoffs. However, Seattle Funding Group is a transitional lender; we attract borrowers with short term needs and, as such, these loans fit our market position nicely.

Seattle Funding Group has always been a lender with a reputation for quality service. These new, quality lending products demonstrate our ability to respond to market conditions with solutions that define value to a wide range of borrowers. Since all our loans are funded and kept within the SFG Income Fund—and not designed for resale to third party investors in large blocks—we have the flexibility to design loan programs that most competing lenders just can't. We know our borrowers and their mortgage brokers will appreciate it and, in our own self interest, these loan programs will only add to our already healthy loan portfolio.

We expect great things in 2007 and we're excited to implement our new product strategies. ■

SFG Fund Managers'

Top Ten

Underwriting Lessons.

After more than 15 years in this business, and hundreds of millions of dollars lent, there are ten key lessons that have helped to form the foundation of our loan underwriting decisions. Ignorance to any of these lessons, without sufficient compensating factors, can be costly. Some of these lessons are rudimentary and there is much more to the analysis of a successful loan than just these basics. However these simple lessons are often broken by forgetful lenders, much to their dismay.

At SFG we keep these lessons in mind at all times when debating the merit of each loan decision. In this issue of ***News of Interest,*** we present the first two in the series. We thought you might find these of value and will continue to discuss the other lessons in future issues.

1

Borrowers divesting their capital/zero down

Many borrowers would prefer to borrow 100% of the capital needed on their purchase transaction. Or on a refinance, they'd like to borrow an amount greater than their purchase price, even after a year or two. This is especially true on construction loans where the borrower, who is the builder, rationalizes that his contribution has been earned through added value.

In fact, a customer without a sufficient capital investment in the transaction is rarely a healthy thing for the lender. The one exception to this rule is in cases where the customer has owned the property for several years and the market value has grown, diminishing the relevance of their original economic basis.

Typically a person with no equity left in the property tends to feel there is nothing left to lose...and that's not a good recipe for a success-

Key People

Kent Rowe

Like a franchise player joining a contending team, Kent Rowe joined Seattle Funding Group in 1998 and today is our corporate vice president and most senior underwriter. From the very beginning he began establishing key relationships across the west coast attracting first rate loan opportunities. A good portion of the loans we have in our portfolio today were originated, originally underwritten and presented to the SFG Board by Kent. He takes great pride in the transactions he brings to the table and, like the SFG board, takes the success of every loan personally. With a large following in the mortgage community, we are always proud to have Kent represent us wherever he goes. His business style and ethics are impeccable, and he's a major reason for the success of the SFG Income Funds over the years.

Kent, we can't thank you enough for your contribution and look forward to many more years with you on our team. ■

ful loan. Borrowers with money in the transaction generally make smart decisions. It has been cleverly put, "when a buyer puts money down their intellect goes up"...and we agree. We always make sure our borrowers keep a reasonable portion of their capital at risk ahead of ours.

2

Avoid borrowers with poor credit on performance based loans

When lending to borrowers with poor credit, the risk of loss can be mitigated with sufficient collateral. However, with loans requiring project or property management by the borrower, it is best to raise lending standards for acceptable borrower credit. Poor credit borrowers as a whole, are generally sloppier with their books, records, and sometimes even their ethics. The lesson? Raise the standard of acceptable borrower quality dramatically on construction loans and income properties. ■

Marketing Update

The value of consistent marketing can easily be overlooked, but is truly a vital piece to a successful business. SFG prides itself not only on consistent marketing, but also quality information. With more than 30,000 elaborate four-color mailers sent out in 2006 to the mortgage community and hundreds of thousands of dollars in publication advertisement, we believe the investment pays off in many ways. We see marketing as an investment in our future...and yours.

For more information or to recieve the sample marketing packet we send to mortgage brokers, please contact our Marketing Director Syreeta Smith at ssmith@sfgfunds.com. ■

Favorite Quotes

Success is liking yourself, liking what you do, and liking how you do it.
~Maya Angelou

I find that the harder I work, the more luck I seem to have."
~Thomas Jefferson

When you do the common things in life in an uncommon way, you will command the attention of the world."
~George Washington Carver

"I have not failed. I've just found 10,000 ways that won't work."
~Thomas Alva Edison

Obstacles are those frightful things you see when you take your eyes off your goal."
~Henry Ford

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.