W FINANCIAL
SPECIAL SITUATION FINANCING FOR COMMERCIAL REAL ESTATE®

April 22, 2010

John Smith
1234 Smith Place
New York, NY 11122

re: W Financial Fund, LP – 1st Quarter 2010 Update and Statement

Dear John,

For nearly seven years W Financial has provided an average annual compound return of 10.58%, and we are confident that we will be able to maintain our long-term performance within a similar range. **$100,000 invested at our July 2003 launch had increased to $193,812 as of March 31, 2010.**

In order to underscore and emphasize our long term commitment to our investors during this challenging period, we would call your attention to the fact that the managers have waived their performance allocation in its entirety for January, February and March 2010 on your first quarter 2010 statement in order to support the returns of the fund. While there is no requirement to do so contained in the pages of our PPM, we felt it was the right thing to do for our investors in light of the temporarily reduced level of income that we are receiving due to the Bayard Chapter 11 case.

Tiffany:


63 Tiffany Place, Cobble Hill - Brooklyn

During the 1st quarter of 2010 we closed a **$2,750,000 first mortgage bridge loan** to finance the acquisition of a 70-unit loft apartment building on Tiffany Place in Cobble Hill, Brooklyn NY. The cash-flowing property was originally financed by HUD and developed in the 1990's as affordable housing. Over the years the neighborhood has become one of the most desirable in Brooklyn, and the new owners are keenly aware that once the affordable restriction expires, much higher rents can be achieved than are currently permitted. Our borrowers own and manage ~3,000 units of multifamily housing in the five boroughs, are long term players and were interested in adding this desirable property to their portfolio. They also recognized that the real estate taxes on this property are high relative to its peers thus their plan was to close with a bridge loan, work with the city to get the taxes reduced (which in turn will significantly increase the building's net operating income), and to then refinance with a bank. Our one-year loan has a nine-month lockout (meaning we will receive no less than nine months interest if they repay the loan early). Our loan-to-value ratio on this transaction is 65%, and it is worth noting that the borrower brought more than $2,800,000 of cash equity to the closing table.

Bayard:

To summarize the current status of the 20 Bayard Street Chapter 11 case: The borrower waited until the last possible moment to file their reorganization plan, and the next hearing is scheduled on May 6th. Quite aside from various untenable business points expressed in their reorganization plan, our legal team has analyzed the plan finding significant procedural and technical flaws, each of which will be challenged at the next hearing. It is important to note that the principal balance of our loan is secure, and that even our opposition is not striving for any reduction in the principal amount owed to us. Meanwhile, as we have previously reported, we are continuing to receive monthly cash flow from this loan even as we work with our attorneys to achieve the optimal result, as quickly as possible,

within the court system. We continue to be confident that we will achieve a positive resolution in this case.

On another note, it is of great strategic importance that we are getting ever closer to obtaining judgments against the three individuals personally. On April 12th there was an important status call between the judge and the attorneys on each side of the case. The judge refused our opponents' request to delay the personal lawsuits until the Chapter 11 case is resolved, therefore we are pressing forward and hoping to obtain judgments against them within a month. Clearly, obtaining the judgments will dramatically increase our negotiating power with the opposition in bankruptcy court and can only improve the endgame for W Financial.

West 86th Street:



330 West 86th Street

There are two main components to real estate lending: the properties and the people. The only explanation as to why we have had very few problems over the years (and never any down months or loss of principal) is because we pay close attention to both. Often, even when faced with a difficult situation, a good borrower will do the right thing. Here's an example:

To date, the fund has earned nearly $1,500,000 in interest on the first mortgage loan for 330 West 86th Street. The property is a fully rented and cash-flowing nine-unit townhouse building on West 86th Street between Riverside Drive and West End Avenue on Manhattan's Upper West Side. Our borrowers (2 entrepreneurs in their early 40's) had both recently experienced reversals in their respective jobs and thus realized they could no longer cover the shortfall between the rents that they receive and the interest due to W Financial. In spite of having invested millions of dollars over the years acquiring the property, in predevelopment costs, architectural and legal fees as well as our interest and principal payments, when they realized they could no longer continue servicing our loan, they came to the office to speak with us in person, and they agreed to "hand us the keys". We always tried to do the right thing for them, and now, in spite of how difficult this turn of events is for them, they were trying to do the right thing for us. Ultimately David invested weeks of extensive conversations and negotiations culminating in their signing a deed-in-lieu of foreclosure agreement to convey title to the fund last week. In other words, these borrowers have been "mensches" and have conducted themselves with perfect dignity in the face of great adversity. The fund benefitted by transitioning directly to ownership of a great property without a protracted fight.



View of blockfront from West End Avenue to Riverside Drive

As the real estate market gradually recovers, the 7,115 square foot townhouse will be a perfect candidate to be renovated as a single-family home, or sold to a developer who, as of right, can create up to four condominium units in a building up to 75' high. From the beginning we always liked this deal both because of the great location, the cash flow, and also because we thought there were multiple exit scenarios (one of our favorite phrases). This is an excellent result for the fund as we now hold the deed to a great property in a premium location at a good basis and will explore our options to best monetize this investment. In the meantime, as a cash-flowing building, it will produce a modest yet steady return for the fund. Although the former owners focused all their time, money and energy trying to get the approvals needed to built a 17-story building on this site, we have always focused on several other possible uses for the building which require no additional approvals. By holding the building for a period of time, we will have a solid foundation in our portfolio providing current cash flow with nice upside potential.

As we have said many times over the years, we never make a loan on any building that we would not be prepared to own and operate. Our long-time, trusted colleagues at Midboro Management will manage the building (they also manage 325 West 86th Street right across the street).

The consensus is that we have passed the low point in the real estate cycle (especially in Manhattan) making time our ally with respect to monetizing this asset.

Other news:

All our other loans are performing as scheduled. We are very pleased to be associated with HL23, whose owners have been contributing approximately $1 million per month of equity as it now nears completion. This is now our lowest loan-to-value loan. This link below will take you to a clip that ran a couple of months ago on New York 1 on the project and the High Line neighborhood.

http://www.ny1.com/1-all-boroughs-news-content/ny1_living/114720/distinct-new-high-rise-springs-up-beside-high-line-park/

In terms of our overall transaction volume, we are very busy reviewing new loan submissions and making offers to borrowers, and we are encouraged to see the overall pace of deal making is beginning to pick up. We expect that 2010-11 will present the Fund with a larger than usual number of opportunities from which to choose. We seem well on the way to getting the balance of our cash deployed and expect to do so during the month of May. In late March, a $1,400,000 bridge loan on a 32-unit multifamily property in Passaic, NJ (originally made in September 2009) was successfully repaid when the borrower obtained permanent financing from a bank. Such is the rhythm of successful bridge lending: the money goes out, and then the money comes back! If you have elected to receive interest distributions, your check is also enclosed. For those investors whose funds were in Special Escrow during any portion of the first quarter, a copy of your bank statement is also included.

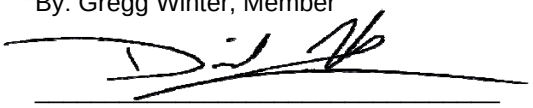
Please use our latest subscription agreement for any add-on investments that you may wish to make. That form, and our other fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial). We expect to be able to admit new investments to the fund as of the beginning of June. Contact Karen Mannoia (karen@w-financial.com) or (212) 684-2283 x112 for the forms, or with any questions you may have on how to complete them. If you have updated your email or mailing address, please let Karen know.

As always, please feel free to call Gregg Winter at (212) 684-2283 x111, David Heiden at x114, or Marc Bailin at (212) 935-0900 with any questions that you may have. Alternatively, you can email us directly at gregg@w-financial.com, david@w-financial.com and marc@w-financial.com.

Very truly yours,
W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member