W

FINANCIAL

January 31, 2011

Mr. John Smith
ABC Company
New York, NY 10016

re: W Financial Fund, LP – 4th Quarter 2010 Update and Statement

Dear John,

Per our recent mid-quarter email update, January 4th was the final day of testimony in the 20 Bayard Chapter 11 case and marked the end of the contested confirmation hearing. It was a great day in court for us, and our partner David did an excellent job testifying on behalf of the fund. While we feel that the outcome is likely to be a good one for the fund, rather than speculate here, we will report the result to you (in an email update) as soon as we hear the judge's decision which is expected in the beginning of February. Meanwhile we continue to receive 100% of the property's net cash flow, which reached its highest level to date in December 2010.

Over the last seven and a half years (with 90 consecutive positive months), W Financial has provided an average annual net compound return of **10.16%**, 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 $202,068 as of December 30th, 2010.** Despite the temporarily reduced level of income that we have experienced because of 20 Bayard and 330 W 86th, we completed 2010 with a net annual compound return of 6.23%. Based upon the expected pace of new loan originations and the pending resolution of 20 Bayard, we are expecting 2011 to be a very good year for the fund.

Please note that as we have done during the first three quarters of 2010, in order to underscore and emphasize our long term commitment to our investors during this challenging period, the fund managers have decided to waive their performance allocation in its entirety for the entire year 2010 in order to support our investors' returns and express our confidence in the fund's future performance.

While there is no requirement to do so contained within the pages of our fund documents, 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.

New loans closed during the quarter:



East 25th Street

Given the marked increase in compelling new loan applications we successfully **closed four loans totaling $4,265,000 during the month of December**. As a result, we were able to deploy virtually all our cash on hand by the end of the 4th quarter.

During the 4th quarter of 2010 we provided a **$1,100,000 first mortgage bridge loan** to finance the acquisition of a 4,500 square foot, 23' x 100' two-story commercial building on Manhattan's East 25th Street (between Lexington and Third Avenues) across the street from Baruch College's "Vertical Campus" and adjacent to the Baruch Newman Library. The buyers intend to update the look of the building by creating a modern façade similar to the façade of Baruch College across the street, and then find a solid tenant who will likely seek to leverage **the presence of the hundreds of Baruch students coming and going** on 25th street, whose presence is likely to appeal to a retail business along the lines of a Subway sandwiches, a pizzeria, coffee place or other suitable business. The buyers specialize in finding niche off-market transactions, as in this case, acquiring an old carpenter's union hall and transforming the building into modern retail. The borrower brought more than $600,000 in cash equity to the closing table. Our loan-to-value was approximately 65%.

Another transaction that closed in December was a **$1,450,000 first mortgage bridge loan** to finance the acquisition of a four-story, four-unit 4,400 square foot townhouse on West 44th Street between Ninth and Tenth Avenues. In another off-market transaction, our borrowers have acquired the building at a favorable price (partially by accommodating the seller's desire to remain rent free for one year), and intend to allow existing leases to expire, make minor improvements to the building, and then reposition the property for sale either to an investor or to an end user likely to convert it to a single-family home. The borrowers have invested more than $700,000 in cash equity. Our loan-to-value ratio on this loan at closing was approximately 67%.



West 44th Street



West 22nd Street, Chelsea

On December 10th we closed a bridge loan to facilitate the acquisition of 10 cooperative apartments in a 20-unit building located on West 22nd Street in West Chelsea, NYC. The previous owner had held the 10 units since the 1980's. While at $715,000 this loan is smaller than our usual fare, the fundamentals of the deal were so compelling (our loan-to-value ratio on this loan was only 38%), that we were glad to have the opportunity to add it to our loan portfolio. The buyer overcame a series of obstacles ranging from a distressed seller and the need to obtain the approval of an idiosyncratic co-op board in order to be able to get this package under contract. Two of the 10 units are vacant and will be re-habbed and sold. It is expected that the sale of just three units will be enough to repay our loan.

Finally, at the end of December we had another stroke of good fortune. It is a common (and mutually beneficial) practice for banks and private lenders to share loans in order to mitigate risk and to moderate the size of the positions they hold in their loan portfolios. We have taken this approach from the outset, especially with larger loans. In late December we were invited to share a loan by a long-time participant. The property in question is a fully cash-flowing, six-story, 41-unit multifamily apartment building on South 3rd Street in Williamsburg, Brooklyn. The opportunity was driven by a discounted buy-back of a (previously overleveraged) mortgage note at a now-favorable basis. As is typical in note sales, the deal needed to close quickly, eliminating the possibility of financing with a bank. The new loan amount is $4,300,000, and our position size is $1,000,000, shared on a parri-passu basis (in other words we share the first mortgage position with our participant). It is expected that the borrower, who owns and operates a portfolio of apartment buildings, will work to improve the rent roll and then refinance the building with a bank within a year. The loan-to-value ratio was 73%.



South 3rd Street

All of the aforementioned loans are also personally guaranteed by the borrowers.

Other news and updates:

You may recall that W Financial made an $8,750,000 first mortgage bridge loan back on December 31, 2008. Our experienced, deep-pocketed borrowers had paid a net purchase price of $15,850,000 to acquire this 11,000+ square foot ground floor retail condominium on West 13th Street down the block from the High Line in Manhattan's Meatpacking District. Since then, the borrower worked successfully with the Landmarks Preservation Commission to obtain permission to make minor changes to the façade in order to increase the property's appeal to prospective tenants. After negotiating with, but ultimately deciding to reject several prospective high profile tenants, our borrower recently entered into a very favorable 15-year lease with UK-based clothing retailer All Saints. Our loan was extended for fifteen months with a minimum prepayment lockout period of 12 months, and is likely to remain in place until the build-out is completed and the tenant

has moved in and started paying rent sometime late this coming summer. Given the length of the lease and the quality of the tenant, at that time it is expected that the borrower will be able to refinance with any number of banks on very favorable terms (in fact, given the level of cash flow provided by the new lease, it is likely that our borrower will be able to refinance for more than the original purchase price). The actual rents achieved by our borrower substantially exceeded our conservatively underwritten rents. Thus, for W Financial, the bottom line is that a very good loan has become even better, and because of the prepayment lockout it is likely to remain on our books generating income through the summer.

W's Lending philosophy:

It is well worth noting that through the fire and brimstone of the Great Recession and the real estate downturn of the last several years, our loan portfolio has performed extremely well. Our current portfolio is comprised exclusively of first mortgage loans (the only exceptions being second mortgage loans serving as additional collateral for some of our first mortgage loans).

Our long-term strategy is to focus on building a robust portfolio of conservative first mortgage bridge loans rather than to seek higher yields on riskier second mortgages or mezzanine loans. Our experience on Bayard has served to further confirm the wisdom of sticking to the senior, rather than the junior loan position. It is precisely because we have a first mortgage position on a solid, cash-flowing asset that we are likely to achieve a positive outcome.

Our Greater NYC-centric focus has also served the fund well, with NYC being the strongest commercial real estate market in the US, and with the multifamily and commercial real estate sectors already beginning to recover here well ahead of other major cities.

Please use our Additional Subscription Form for any add-on investments that you wish to make. That form as well as our other fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial) or you can call Karen and she will email or mail you the form. We expect to be able to admit new investments to the fund as of the beginning of March. 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. If you have elected to receive interest distributions, your check is also enclosed.

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. Finally, you are always invited and encouraged to visit our offices when you are in town to review any of our loan books and due diligence materials and to meet our staff.

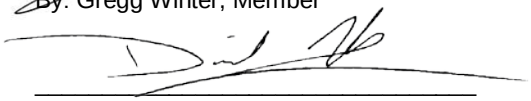
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Managers



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member