W

FINANCIAL

April 12, 2011

John Smith
1234 Smith Avenue
New York, NY 10000

re: W Financial Fund, LP – 1st Quarter 2011 Update and Statement

Dear John,

During the past eight years (with 93 consecutive months of positive returns), W Financial has provided an average annual net compound return of **10.01%.** Thus, **$100,000 invested at our July 2003 launch had increased to $205,510 as of March 31st, 2011.** Based upon the current 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. Our new loan activity has been so robust, that with all investor capital deployed and our excellent credit facility being utilized, we achieved a return of .75% for the month of March despite the negative effect of Bayard weighing upon our returns.

Please note that as we have done since January 1, 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 and the first quarter of 2011 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 first quarter:

While we always see a good amount of deal flow, over the past few months both our deal flow and the quality of deals crossing our desks have been especially strong, resulting in the following new loan closings:

1) an **$800,000 blanket first mortgage bridge loan** to refinance two fully cash-flowing apartment buildings with a total of 50 units, one on 228th Street and one on Cranford Avenue in the northern Bronx, NYC (just south of Mt. Vernon). While the Borrower has some credit challenges, the property is fully-tenanted and produces cash flow far in excess of the amount required to service our loan, with a loan-to-value ratio of ~20%. It is expected that the Borrower will refinance the buildings with a bank within two years.



228th Street – Bronx NY



East 70th Street – Manhattan

2) a **$4,010,000 first mortgage bridge loan** where the proceeds were needed to finance the acquisition of a development site in downtown Manhattan. Our loan is collateralized by an exquisite, free and clear, mixed-use townhouse located on East 70th Street between Lexington and Third Avenues, which is worth more than three times the amount of our loan. Sometimes the only challenge we are presented with is a short time frame. This was one of those deals. Because our team is responsive and well-prepared, we were able to close as required in only three business days, allowing our borrower to close on his acquisition the following day.



West 11th Street – Greenwich Village

3) a **$1,950,000 first mortgage bridge loan** to finance the off-market acquisition of a multifamily townhouse on West 11th Street in Manhattan's Greenwich Village. Our Borrowers in this deal are adept at searching for and finding excellent properties that they manage to acquire at a considerable discount to their true market value. In this case they will now market the property to the highest and best user: a developer or end user who will gut-renovate and convert it to a single-family home.



West 21st – Manhattan

4) a **$2,000,000 first mortgage bridge loan** which is collateralized by the last Sponsor's unit (Penthouse A - a 3,695 square foot three bedroom, three and a half bath triplex with outdoor space on every floor). This is one of the last units for sale in a successful ground-up condominium development located at 16 West 21st Street (www.16w21.com), in the heart of the Flatiron/Ladies Mile Historic District. As is frequently the case with our niche loans, the borrower had a time-sensitive need that we were able to rapidly address. Our $2 million loan represents a loan-to-value ratio of only 44% based on numerous sales in the building that have closed in the last two months. (Six apartments have sold and closed in the past two months at an average price of $1,217 per square foot, which would translate into a conservative estimate of value of $4.5 million for our collateral, which many might consider to be the best apartment in the building).

Click on the following link if you would like to see more information on the fund's collateral for the above-referenced loan, which is currently being marketed for more than $6 million. http://streeteasy.com/nyc/sale/537886-condo-16-west-21st-street-flatiron-new-york

The borrowers are well-established real estate owners and developers. In fact, we had loaned $10,250,000 successfully to this borrower back in February 2008 on a property at the corner of Third Avenue and 14th Street, which has now been completed with the majority of its units sold (www.123Third.com). We were repaid as expected in late August 2008.

So since December 10th, W Financial has closed eight new loans totaling $12,975,000. Our current loan portfolio consists of 18 loans with an average loan-to-value ratio of 54%. There is much more activity in the market these days, and as a result of our extensive contacts and relationships, we are seeing a steady flow of desirable deals.

As of this writing, we are in the final stages of due diligence and most likely days away from closing our first loan of the 2nd quarter, a **$2,400,000 blanket first mortgage** on the 16 remaining units in a successful 41-unit Manhattan condominium development called Observatory Place (www.observatoryplacenyc.com). With a loan of approximately ~$150,000 per unit on a development whose most recent contract was signed at $570,000, our loan-to-value ratio is right where we like it. Our loan will allow the developer to refinance a maturing construction loan and to finance the remaining finish work.

20 Bayard litigation update: We were in court again on April 7th, and the judge once again emphasized that she is leaning towards converting the case to Chapter 7 liquidation (the outcome that we want), but she indicated that the court would give the Debtor one final opportunity to come up with an acceptable plan by Friday, April 15th. As the Debtor's attorney said in open court last week that they do not have the millions of dollars available to pay down our loan to an acceptable level, we strongly suspect that this is going nowhere, and is really all about the judge being able to show that she has looked under every single rock, and has given the Debtor every possible opportunity to make a deal before she converts the case to Chapter 7, in order to make her final decision essentially un-appealable. So while the pace of the bankruptcy process is clearly glacial, we appear to be headed

towards the desired outcome. It is very important to note that in court the other day we were given strong support by the attorney representing the 25 condominium owners, each of whom is caught in a limbo where they cannot sell or refinance their units during the bankruptcy, and he emphasized again that the condo owners favor conversion to Chapter 7. Support for the conversion was also expressed by the United States Trustee. The support of the condo owners and the US Trustee are very important factors in the judge's final decision. While we obviously wish that this process had moved faster, the good news is that each hard-won decision has gone in our favor, and meanwhile we continue to receive 100% of the net cash flow from our 37 units in the building.

Other news and updates:

HL23: You may recall that we have a $4,350,000 first mortgage on a condominium development called HL23 (www.HL23.com) at 515 West 23rd Street (between Tenth and Eleventh Avenues, right next to the High Line). Another contract was recently signed for the sale of the 12th floor. The price was $6,775,000, which equates to approximately $2,600 per square foot, which would seem to indicate that an extraordinary design can still obtain an extraordinary price. Two model apartments are now open, and the new stretch of the High Line, which goes right past this property, is opening in June, so in spite of many construction delays, the timing of the units coming to market is excellent, and HL23 is likely to be a great success. With more than $30 million of developer equity contributed, this is now officially the lowest loan-to-value deal on our books.

West 86th Street:

We continue to increase the rent per square foot, and as apartments turn over we are modestly renovating the units in order to increase the rent, thus our NOI (net operating income). By late May or early June we expect to have improved 3 additional units. Once those have been rented we will report at that time as to the building's increased income. As we have mentioned before, we are in no rush to sell a cash-flowing building on Manhattan's Upper West Side until and unless we can do so at a substantial profit. We would like to thank Michael Wolfe and his firm Midboro Management for all their help and support in connection with this property.

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
May 1st. 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.

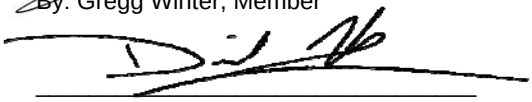
As always, please feel free to call Gregg Winter at (212) 684-2283 x111, David Heiden at x114 or Marc Bailin at (212) 935-0900 with any questions that you may have. Alternatively, you can email us directly at gregg@w-financial.com, david@w-financial.com and marc@w-financial.com. Finally, as always you are invited and encouraged to visit our offices when you are in town to review any of our due diligence materials or simply to say hello.

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