W

FINANCIAL

October 17th, 2011

John Smith
ABC Company
1234 Smith Street
New York, NY 10011

re: W Financial Fund, LP – 3rd Quarter 2011 Update and Statement

A surprise ending to the long-running saga of 20 Bayard Street –

Dear John,

On October 6th W Financial sold its interest in 20 Bayard Street, Williamsburg, Brooklyn for $25 million. When we woke up that Monday morning, we had every intention of taking possession of our collateral on Wednesday pursuant to the Settlement Agreement entered into and confirmed in Bankruptcy Court, and then continue to rent units and sell them profitably over time, however an unsolicited buyer surfaced and ultimately met our $25 million asking price, insuring an excellent profit to the fund comparable to the return we would have expected to generate working the asset over the next 5 years, bringing this challenging chapter to a very profitable end. This unexpected turn of events allows W to reap considerable rewards now, while eliminating future risk.

To briefly recap the saga, our original $17,400,000 loan was made shortly after Lehman Brothers filed bankruptcy in October 2008, was paid down along the way to $16,975,000 and had been paid according to schedule and then extended in October 2009. Without any warning, the borrower filed for Chapter 11 bankruptcy protection on December 4, 2009. Seemingly, the borrower's main motivation in filing was to "cram down" their lender (this is a bankruptcy court euphemism for "screw the lender"). We made it our mission that they should not only fail in this quest but also pay a heavy price for disrupting our time, energy and income. Selling for $25 million will result in a significant gain for the fund even after subtracting the settlement and legal expenses.

As many of you know, we battled them in both bankruptcy court and state court for more than 18 months until we ultimately brought so much pressure to bear that on June 1, 2011 they agreed to a settlement on terms favorable to W Financial with the settlement agreement confirmed by the Bankruptcy Court on July 26, 2011.

Our secret weapon in this battle was our partner of 4+ years David Heiden, who deployed his considerable talents and tenacity overseeing the litigation, orchestrating our legal team and strategy and generally ratcheting up the pressure on our opposition to the point where they finally cried "uncle". **This chapter in W Financial's evolution underscores the fact that provided a loan or real estate investment is underwritten accurately and conservatively, even when significant challenges present themselves, the lender can achieve an outcome equal to, or (as in this case) better than the original terms of the loan.** Kudos to David for an amazing job!

The sale was an entirely unexpected bonus, which we are happy to announce to you. Please feel free to call us for more information on this exciting news.

99 positive months and counting:

During more than eight years, (and with 99 consecutive months of positive returns), W Financial has provided an average annual compound return of **9.71%,** net of all fees. Thus, **$100,000 invested at our July 2003 launch had increased to $213,665 as of September 30th, 2011.** New loan activity continues to be especially robust, and we achieved a return of 1.96% for the quarter.

By early October all loans in our portfolio had already made their required monthly payments. Our current loan portfolio consists of 19 investments **with an average portfolio-wide loan-to-value ratio of 52%.**

New loans closed during the third quarter:

Summer 2011 was something of a "super summer" where we received a large number of attractive new loan requests with the result that **between August 1st and September 1st our team sourced, underwrote and closed 6 new loans totaling $12,900,000**.



Classon Ave., Brooklyn

On August 11th W closed an **$850,000 first mortgage bridge loan** to finance the $1,665,000 acquisition of two adjacent, cash-flowing 4-story walk-up buildings containing 18 apartments on Classon Avenue in Brooklyn. The buyer already owns and manages a large portfolio of similar properties in Brooklyn and Queens. In this case, he needed to close quickly, and chose W as his most reliable source of capital. He plans to make improvements to the building, enhance the rent roll, and later refinance at higher dollars and a lower rate with a bank.

International Drive, Orlando, FL



On August 12th we closed a **$4,000,000 first mortgage loan** to facilitate an $8,900,000 discounted debt buy-back on 56,810 SF retail center on 4 acres on International Drive in Orlando, Florida. David and Jarret were on a plane to Florida within two days of the borrower's acceptance of our term sheet. Our quick-close loan will be paid down upon the pending sale of a free-standing pad and is expected to later be refinanced with a bank loan after the sponsor repositions the asset. The borrower brought more than $5,300,000 of cash equity to the closing table. Based on our recent appraisal, the as-is value of the property is more than double our loan amount. W Financial was selected by the borrower based on our reputation for fast and dependable execution.

On August 15th W closed a **$2,600,000 first mortgage bridge loan** on a cash-flowing 5-story, 15-unit mixed-use building on West 58th Street near Columbus Circle in Manhattan. Our loan was utilized to refinance existing debt and to recapitalize the property. With a loan amount of only $223 per square foot on this type of multi-tenanted asset in a very good location, we are very happy campers.



West 58th Street, Manhattan

On August 17th we closed a **$1,700,000 first mortgage bridge loan** to facilitate a below market acquisition of a 5-story, 9-unit building on East 60th Street on Manhattan's Upper East Side. The retail rent is well below market. The borrower is a professional, hands-on manager who was able to immediately vacate and renovate one of the full floor apartments and has successfully negotiated a deal to vacate the below-market retail space. As a result, they have just put the building on the market for $4,000,000.



East 60th Street, Manhattan

On August 25th we closed a **$450,000 second mortgage** on a recently renovated and fully-leased property on Main Street in Sag Harbor (in the Hamptons). We have known the borrower for many years and have intimate knowledge of the Sag Harbor and the Hamptons market in general and this property in particular. The property has several tenants including a long-popular restaurant and is currently being marketed for sale. Our loan-to-value ratio inclusive of the first mortgage is approximately 66%.



Main Street, Sag Harbor (Hamptons)

On September 1st we closed a **$3,300,000 first mortgage bridge loan** collateralized by several properties: A first mortgage on a 165,750 square foot industrial property in Staten Island, NY. The borrower needed to refinance maturing debt and also to finance tenant improvements in connection with a 20-year lease (with annual rent starting at $350,000 year) signed with a successful specialty grocery chain with locations ranging from Brooklyn to Philadelphia. The property's central location made it ideal as a warehouse and distribution center for the tenant. As additional collateral, W Financial also has a blanket first lien on the 4 remaining co-op apartments in a successful new development in Fort Greene, Brooklyn (where our loan will be paid down as these units are sold) and a subordinate mortgage on a mixed-use townhouse on Downing Street in Greenwich Village. Some of our favorite loans are those where the "additional collateral" for a loan is so strong that our loan-to-value ratio would still be acceptable without even including the primary collateral. With an aggregate loan-to-value ratio of approximately 40%, this is such a loan. It is expected that once the new grocery tenant has been in place for a full year, the borrower will be able to easily refinance the Staten Island property with a local bank.



Downing Street, Greenwich Village

All the above-referenced loans were personally guaranteed by the borrowers. Our nicely diversified portfolio currently has an **average loan size of $2,523,865**.

Other news of the 3rd quarter -

Meatpacking District Success Story - All Saints:

It is worth noting that during the month of July, an $8,750,000 W Financial bridge loan was successfully repaid when the asset was sold at more than twice its December 31, 2008 purchase price. The nearly 12,000 square foot, vacant, ground-floor retail condominium on West 13th Street in Manhattan's Meatpacking District was acquired on December 31, 2008 for $15,600,000 with W Financial lending 56% of the purchase price and the buyers providing the $7,000,000+ balance of the purchase price and closing costs in cash. The buyers were experienced real estate owners with substantial experience, net worth and liquidity who opportunistically pounced on the asset at the end of a difficult year when many of us had seen our stock portfolios drop by 40% or more. They then proceeded to spend the time and the money necessary to gain approvals from the Landmarks Preservation Commission, which would maximize the "curb appeal" and value of the space to retailers, and only then did they commence a painstaking year-long search for the right tenant with whom to sign a long-term lease. By the end of 2010, a high-value, 15-year lease had been signed with a major international clothing retailer (www.allsaints.com), and by the Spring of 2011 (shortly after All Saints had been successfully recapitalized further increasing its appeal as a tenant, and thus the property's appeal to a prospective buyer), our Borrowers had entered into a contract to sell the property for a phenomenal sum of money (**$34,000,000**) to one of America's major real estate private equity funds. The sale closed on July 7th, 2011 producing an IRR (internal rate of return) of 13.1% for W Financial. Note the conservative loan-to-cost and loan-to-sale price in the example cited above, which are representative of our underwriting philosophy and approach. This example also illustrates that it is possible to make money in all types of market conditions, thus it has long been our practice at W Financial to lend to borrowers whom we feel gravitate to above-average real estate opportunities and who bring above-average skills to bear in monetizing those opportunities. Above all, as with the Meatpacking District loan highlighted above, we target loans where we feel that even if the borrower fails to execute his business plan and we have to foreclose and take over the property at the dollar basis of our loan, that we have adequately protected the downside for our investors.

East Orange, NJ – early loan payoff creates very favorable outcome for the fund:

While it might seem counterintuitive that one of our loans with our lowest rate to date (9%) and longest term (3 years) would have produced one of our highest returns (an IRR of 15.7%), that is exactly what happened in this case involving two apartment buildings with a total of 124 units located in East Orange, NJ. It's all in the timing of the loan payoff, the prepayment penalty structure and the pace at which the borrower accomplishes their business plan. In this case, David anticipated that the borrower would make much faster progress than they had originally projected, and thus structured the deal so that W would receive not less than 18 months of interest payments and a 3% exit fee would be due if the loan was repaid in less than 18 months. The borrower is a very capable and experienced operator who was able to complete the renovations and leasing well ahead of schedule. They were therefore able to refinance our $4,000,000 bridge loan with a permanent Fannie Mae mortgage of $7,200,000 after only 12 months. Our June 30, 2010 loan allowed the borrower to close very quickly on a discounted note purchase and then add significant value by renovating common areas and some apartments, taking the occupancy from 83% at closing to virtually 100% when our loan was repaid on August 11th. The greater the NOI (net operating income) of a property, the greater its value.

Outlook for Q4 2011 and beyond:

So what do we see up the road ahead? We see a nice long stretch of opportunity in this strategy. Many banks are still dysfunctional at worst, and slow at best. Quite a few other banks are out of business and many of the smaller niche players have been taken over, or otherwise absorbed by big banks. Bank interest rates are certainly low, typically less than half what we charge, but it seems the bigger the bank, the more "cookie cutter" their appetite and their approach to

underwriting. They all want fully stabilized income with 2 or 3 years of operating history, etc. In short, they want a fully-baked cake. This continues to create a stream of good opportunities for W Financial. Add in the fact that many of the other opportunistic private lenders lost their discipline and had their heads handed to them during the downturn, and you can see why this should be an ideal time for W to grow and increase its market share.

Please use our Additional Subscription Form for any add-on investments that you wish to make www.w-financial.com/add. 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 December 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.

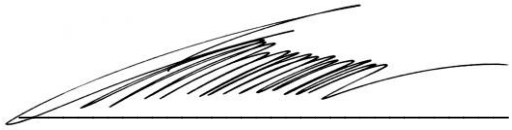
If you have updated your email or mailing address, please let Karen know. If you have elected to receive interest distributions, your check is also enclosed.

As always, please feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 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.

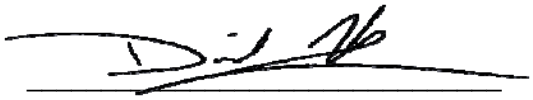
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



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