W

FINANCIAL

January 15, 2013

"Sample"
Most Recent Quarterly Letter

Mr. John Smith
ABC Company
123 Smith Street
New York, NY 10001

re: W Financial Fund, LP – 4th Quarter 2012 Update and Statement

Dear John,

W Financial is pleased to announce that the Fund has completed 2012 reaching its highest AUM (assets under management) to date, which, as of this writing, is fully deployed in a portfolio of 29 loans with portfolio quality and performance continuing to be excellent. New loan origination in Q4 has continued at an especially brisk pace with eight new loans totaling **$22,880,000** meeting our tough selection and underwriting criteria. The fund provided a **.77% return, net of fees for the month** of December.

Portfolio Performance:

During Q4, all loans in our portfolio have paid as scheduled (even in the face of Superstorm Sandy, which we are pleased to report did NOT have any adverse effect on our loan portfolio). As of the end of the quarter, our loan portfolio consisted of **29 loans with an average portfolio-wide loan-to-value ratio of less than 60%** and an **average loan size of $3,069,392. Investor capital continues to be fully deployed**, consistent with our business plan. As we approach the completion of our tenth year, W continues to prioritize **loan quality over yield**. As has been our practice since inception, we are not trying to earn the highest possible yields on our loan portfolio; instead we continue to focus on controlling risk and protecting the down side.

A Marketplace Paradox which Benefits W Financial:

While it is certainly true that bank interest rates have never been lower, **it would be equally accurate to say that banks have never been slower to get to the finish line, thus opening the classic window of opportunity for private lenders like W** to be selected by borrowers to provide acquisition financing that a borrower can later replace with cheaper bank financing – once time is no longer an issue. Note that the "time frame" advantage that a private lender like W can provide to a real estate buyer is more pronounced and dramatic in the New York City market than it would be in other parts of the United States because of the prevalence of "hard contracts" when real estate is bought and sold, typically permitting a buyer few, (if any), contingencies. NYC is a high-demand, low-supply market, therefore W's ability to rapidly analyze a deal and execute a loan closing carries more weight in this market than it would in more conventional purchase and sale markets (where "soft" contracts contingent on financing or other requirements are more the norm than the exception).

W's Track Record Approaches the 10-year Mark:

W Financial has now completed **114 consecutive months of positive returns**. In fact, over the next few months we will be celebrating an important milestone: our first full decade of operation, and we are currently well on track to achieve forecasted results **with no down months**.

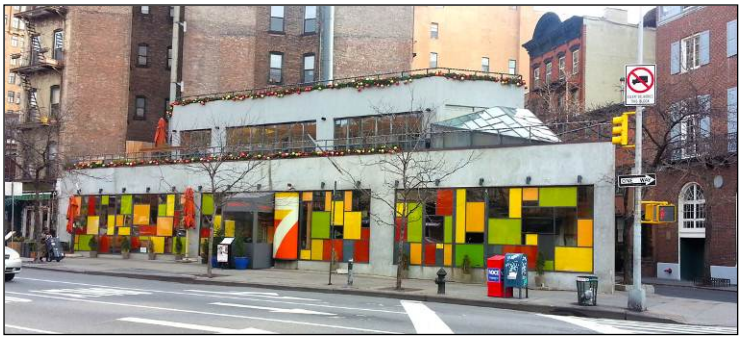
Since inception, W has provided an average annual compound return of 9.90%, **net of fees**. $100,000 invested at our 2003 launch had increased to $243,007 as of December 31, 2012, resulting in a Total Compounded Return since inception of **145.19%.**

New Loan Origination during Q4:

On October 11th, W Financial provided a **$10 million mezzanine loan** on a fully cash-flowing office building on **West 27th Street** in **Manhattan's West Chelsea** neighborhood. Even though based upon the property's value and very strong cash flow the borrower could have easily refinanced with a bank, since the property has a long-term, fixed-rate CMBS mortgage with a (typical) yield-maintenance prepayment penalty, the significant expense that the borrower would incur by prepaying the senior mortgage makes refinancing at this time economically unattractive and creates an opportunity for W to provide a mezzanine loan to free up a portion of the borrower's "trapped" equity. The resulting liquidity will enable the borrower to be ready to acquire additional properties if the right opportunities present themselves.

The 107,000 square foot property is located near the High Line and produces plenty of surplus cash flow, which can easily service both the CMBS loan as well as our mezzanine loan. During the course of our three year loan term, the prepayment penalty period will end and the borrower will seek to refinance both the CMBS loan and W Financial's mezzanine loan. $5 million was disbursed at W's initial closing. W's loan is underwritten and structured as a $10 million credit facility giving the borrower the ability to draw down up to an additional $5 million for a period of 12 months from the date of the initial closing. The loan-to-value ratio to W's last dollar of exposure (inclusive of the senior loan) is only 52%. As is typical for W Financial, the above-referenced loan was also personally guaranteed by the borrower.

Why a Bridge Loan? -



Seventh Avenue South, Greenwich Village, NYC

Time (or more specifically, the lack thereof), is typically one of the main reasons that borrowers choose to utilize a bridge lender. In this case, the borrower has owned an attractive mixed-use property for decades located on **Seventh Avenue South in Greenwich Village**. The three contiguous buildings total 15,522 square feet and are fully leased with income from long-term tenants, which include two popular restaurants and 14 apartments. Because the apartments are rent-regulated, they have significant upside to be realized over time as tenants leave or can be bought out. Although the borrower has owned the property for years free and clear (with no mortgage), and could easily obtain a bank loan in the 4% range, **bank loans often take months to close from start to finish**. Therefore, when new, compelling investment opportunities presented themselves to the borrower, he decided to obtain a bridge loan on this prime Greenwich Village property in order to free up immediate cash. He will then be able to take the necessary time to refinance W's loan in due course with a conventional lender. Our **$7,750,000 first mortgage bridge loan** closed on November 5th.



Amsterdam Avenue, Upper West Side, NYC

On November 8th, W closed a **$2,750,000 first mortgage bridge loan** for the acquisition of a 5-story, 11,835 square foot mixed-use building with 8 residential apartments and 1 retail store on Amsterdam Avenue in Upper Manhattan's Hamilton Heights neighborhood. The borrowers plan to gut renovate the building which was delivered vacant. As is typical for such value-added transactions, once the renovations are complete, the borrowers will lease up the units and refinance the bridge loan with a local bank. The borrowers brought more than $1,500,000 of equity to the closing table.



Baltic Street, Cobble Hill, Brooklyn NY

On November 20th, W closed a **$1,375,000 first mortgage bridge loan** for the acquisition of a 4-story, 8-unit residential building on **Baltic Street** in the **Cobble Hill** neighborhood of Brooklyn, NY. The borrowers have a successful track record of

identifying and acquiring off-market, under-managed properties. Once they close on such properties they make modest improvements and will sometimes buy out rent-stabilized tenants in order to create value before re-leasing the apartments at higher rents, at which point they typically refinance the bridge loan with permanent financing from a local bank.

On December 12th, W closed a **$405,000 first mortgage bridge loan** to facilitate the $950,000 acquisition of a 5-unit, mixed-use building on Central Avenue in Brooklyn, NY. This borrower recently repaid another W loan that had been used to acquire a similar Brooklyn property, which he ultimately refinanced with a local bank. The same pattern is expected to repeat itself here, with W playing its role at the acquisition stage of the deal's "life cycle".



Pierrepont Street, Brooklyn Heights, NY

On December 14th, W provided **$3,000,000 in acquisition financing** for a 12-unit, 8,000 square foot multifamily property located on one of the best streets in **Brooklyn Heights (Pierrepont Street)**, a couple of blocks from the Promenade (for those of you who live outside of NYC, type "Brooklyn Heights Promenade" into Google Images and you'll see the Promenade). W's loan was structured as a $2,500,000 first mortgage with a $500,000 mezzanine loan. As per the above, this is another example of a loan with a borrower well-known to us, with whom we have worked before.

On December 19th, we provided a **$1,500,000 bridge loan** for the acquisition of two 4-story, 16-unit walkup apartment buildings. One property is located on East 2nd Street in the **Kensington** neighborhood and the other on 60th Street in the Borough Park neighborhood of Brooklyn, NY. Our loan was structured as a **blanket first mortgage** encumbering both properties. As per our typical scenario, the borrower plans to make some improvements and then refinance with a local bank.



East 2nd Street, Brooklyn, NY



Sackett Street - Cobble Hill, Brooklyn NY

On December 21st, the Fund closed a **$1,100,000 first mortgage bridge loan** for the off-market acquisition of a 4-story, 7-unit multifamily property on **Sackett Street** in **Brooklyn's Cobble Hill** neighborhood. The borrowers plan to make some capital improvements and to buy out several rent-stabilized tenants in an effort to improve the rent roll and thus the building's NOI (net operating income). Then, they plan to refinance the property with a local bank.

As is typical for W Financial, all of the above-referenced loans were also personally guaranteed by the borrowers. During the course of the year, our partner David Heiden and his team did an outstanding job originating **26 new loans totaling $83,020,000.** This was a record for the Fund **representing a 40% increase over our 2011 loan originations of $59,285,000.**

Superstorm Sandy:

While W Financial had planned on closing two additional loans during the last week of October, Hurricane (a/k/a Superstorm) Sandy had other ideas, which had the effect of pushing those closings into early November. We are pleased to report that none of the properties which serve as collateral for our loan portfolio were located in vulnerable areas, and therefore none suffered damage as a result of the storm. Consequently the storm had no impact on our loan portfolio or performance. Our hearts go out to all those who have been impacted by this powerful storm.

Typical Insurance Requirements for W Financial Loans:

Further to the paragraph above, it is also worth outlining our typical approach to being confident that the properties which serve as collateral for our loans are adequately insured:

Our usual modus operandi is to engage an insurance consultant to evaluate the property, liability and flood coverage for every loan that we make. His recommendations must be implemented by the borrower or we will not close the loan. The cost of all such outside consultants and vendors, (including but not limited to appraisers, environmental firms, our legal team, title searches and insurance, insurance consultants, credit and background checks) are all among the third-party due diligence costs paid by our borrowers when they accept one of our term sheets. In fact, depending upon the nature and complexity of the deal, we may require other outside consultants such as zoning specialists, architects and local counsel for any out-of-town deals.

We continue to be exceedingly selective, seeking the highest quality, rather than the highest yielding bridge loans to populate our Fund's portfolio.

New or Add-on Investments:

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 as of February 1. Contact Karen Mannoia (karen@w-financial.com) or (212) 684-2283 x112 with any questions on how to complete the forms.

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, (including any questions about any content or terminology used that you would like us to explain in greater detail). Alternatively, you can always 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