W | FINANCIAL

OCTOBER 26, 2020
W FINANCIAL FUND, LP
INVESTOR LETTER
Q3 2020

Re: W Financial Fund, LP — 3rd Quarter 2020 Update and Statement

Dear W Financial Investors,

We hope that despite the continuing pandemic, you and your family were able to spend a lot of time outdoors and had an enjoyable summer. The colors of autumn have appeared here in the Northeast, and for now, the weather continues to be relatively warm and beautiful, allowing outdoor dining and activities to continue for a while longer. We will all navigate through this challenging time; however, we must maintain our discipline to protect both ourselves and each other, and bear in mind that we are engaged in a marathon, not a sprint.

W Financial is, and has always been, a niche player in the bridge lending space. Our lending team has an extensive network of borrower and broker contacts and, as a result, we continue to receive a substantial number of new loan opportunities every week and we are continuing to increase our lending in major markets around the country. Our lending team travels nationwide as necessary to inspect properties, meet borrowers and research markets and comparable properties. In addition, since the onset of the pandemic we have been seeing less competition in our space, which has resulted in better quality loan requests than we would have typically seen pre-pandemic.

As always, we carefully screen the incoming loan requests, eliminate most of them and then focus our attention on the subset of incoming loan submissions that fall within our guidelines and meet our requirements. We are focusing on loan opportunities in core markets with good exit strategies or that have a unique characteristic which makes them an attractive opportunity. Given the economic impact of the pandemic on all sectors of the economy, the bar has been raised even higher in recent months as we review and analyze new loan opportunities.

Q3 Portfolio Performance

W Financial posted a .51% fund-level return for July, a .53% return for August, and a .62% return for September, (which was our 207th consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through September 30th were: 1-year: 7.14%, 3-year: 7.64%, 5-year: 8.14%.

From our 2003 inception through September 30, 2020, W has provided an average annual compounded, fund-level return of 9.24%, net of fees*. Thus, $100,000 invested at our 2003 launch had increased to $446,519 as of September 30, 2020, resulting in a total return of 359.33%.

The continuing coronavirus pandemic continues to affect all markets in the US and world economy including our loan portfolio. As of the end of Q3, while most of our borrowers were continuing to meet their obligations and make their payments as scheduled, five loans were in default (as described below). All investor capital was fully deployed during the third quarter of 2020, and we ended the quarter with $29,800,000 drawn on our $75 million revolving line of credit. As of the quarter-end, our loan portfolio was comprised of 54 loans totaling $345,540,430.

During Q3, four loans secured by properties in Ohio and New York totaling $9,800,000, were repaid in the normal course of business. We also received scheduled partial loan paydowns on five other loans located in Florida and New York. The total of these loan repayments and partial paydowns was $13,040,460.

New W Financial Loan Origination During Q3

During Q3, W Financial provided three new loans totaling $25,600,000. Loan highlights are provided below:

- a $4,900,000 first mortgage bridge loan secured by two adjacent, 25' wide, multi-family brownstone buildings located on Remsen Street between Montague Terrace and Hicks Street in Brooklyn Heights, with rare, unusually deep, private gated backyards reaching block-through to Grace Court. The borrower is planning on consolidating the tenants into one building and once vacant, to sell the vacant building as a conversion to single family use.



REMSEN STREET – BROOKLYN HEIGHTS

- a $2,700,000 first mortgage bridge loan secured by a commercial building and a land parcel located on 53rd Street at 21st Avenue in the Borough Park neighborhood of Brooklyn. The borrower is an affiliate of the tenant, which is a private school and is the sole occupant of the buildings. One of the reasons we liked this deal is the borrower invested over $3,000,000 of cash equity in order to close on the deal. The private school's main campus is adjacent to this property, for which this property serves as an annex. The borrower plans to refinance W Financial's acquisition bridge loan with a conventional bank loan in the future.



53RD STREET – BROOKLYN

- an $18,000,000 bridge loan to facilitate the acquisition of an ~150,000 square foot office building located on Campus Drive in an office park in Parsippany, New Jersey. Given the quick turnaround time required to close on the purchase, the borrower required a short-term bridge loan. We liked this deal as the Borrower invested over $14,000,000 of cash equity at the closing and the anchor tenant has a credit rating of BBB as rated by S & P Global Ratings. The borrower expects to refinance our first mortgage bridge loan with long-term bank financing in the future.



PARSIPPANY – NEW JERSEY

Note that the deal descriptions that you see in these quarterly letters are intended to be a high-level overview, and, as always, we invite you to contact us to discuss any questions that you may have regarding the transactions described, or to simply hear a more in-depth description than space allows in these letters.

Loans Currently in Default

Bridge lending exists to address non-traditional borrowing needs and as is the case in all types of mortgage lending, defaults may occur from time to time, especially in times of economic stress. As mentioned above, we have five loans in default, all of which are first mortgages. Two of these loans are not paying and three of these loans are paying us sporadically.

We have sent default letters to all of these borrowers to put pressure on them to make their payments. We negotiate very hard when originating loans in an attempt to obtain personal recourse on all our loans. Since commercial mortgages from banks and other private lenders are often structured as non-recourse loans, we feel that our borrowers are more likely to negotiate with us in order to achieve a reasonable solution having personally guaranteed W Financial's loan, and of course, we can commence litigation if our negotiations are unsuccessful.

Defaulted Loans:

- 15 Charles Street, located in Manhattan's Greenwich Village, is a $1,250,000 loan collateralized by two, one-bedroom condominium units. The borrower defaulted on their April 1st payment. The borrower is negotiating a contract to sell one of the units for $1,325,000. The other condo unit is currently leased until March 31, 2021 and the Borrower anticipates putting this unit on the market for sale in early 2021. The exit strategy is clear here as they plan to sell the units to repay our loan.

- 551 West 21st Street, located in Manhattan's West Chelsea neighborhood, is a $3,500,000 loan collateralized by one 2,984 square foot, three-bedroom, three-bath condominium unit in a 20-story luxury building and is currently listed on the market for $6,495,000. The exit strategy here is also clear, as they have staged the unit and put it on the market for sale. They recently reduced the asking price $500,000 from the original listing price of $6,995,000 in order to entice more potential buyers.

Delinquent / Slow Paying Loans:

- 11 East 68th Street is an $8,300,000 loan collateralized by a package of fully renovated condominium units located in a luxury Beaux-Arts Revival Style pre-war condominium conversion on East 68th Street, between Fifth and Madison Avenues, on Manhattan's Upper East Side. Since the onset of the pandemic, this borrower has been periodically falling behind and then bringing his loan current. He is currently approximately 45 days behind. He is actively marketing the package of units to sell them in bulk.

- 150 East 79th is a $43,600,000 loan collateralized by a five-building assemblage located at the corner of East 79th Street and Lexington Avenue on the Upper East Side of Manhattan. This borrower has in excess of $30,000,000 of cash equity invested in the deal and is highly motivated to retain this asset and to redevelop the property in the future. Since the onset of the pandemic, this borrower has been slow to pay and is currently approximately 75 days behind on their monthly payments. The borrower is a major NYC developer who plans to wait until the market begins to recover and then refinance us with a construction loan.

- 207 South 3rd Street is a $16,734,586 loan collateralized by a recently built, mixed-use building located between Roebling and Havemeyer Streets in the Williamsburg section of Brooklyn. This borrower is paying us 100% of the net cash flow from the building and is approximately 45 days behind on their payment. They are in the process of trying to refinance our bridge loan with an $18,000,000 loan from a local bank.

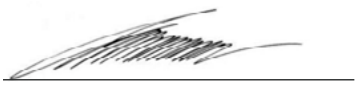
Contact Us

If you have updated your email or mailing address, please let Karen Mannoia in Investor Relations know. Karen can be reached at karen@w-financial.com | (212) 532–9178 or (631) 750–0937.

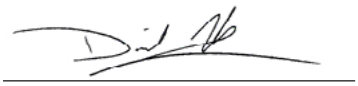
As a reminder, always feel free to call or email Gregg Winter at (212) 532–9170 | gregg@w-financial.com or David Heiden at (212) 684–8484 | david@w-financial.com with any questions that you may have about our investment activities, (including any questions about any of the content or real estate terminology discussed in this letter that you would like us to explain in greater detail). Contact our Chief Financial Officer, Adam Windwer, with any questions regarding your account statement or with any questions you may have about our audited financial statements (212) 532–9284 | adam@w-financial.com.

Given the continuing pandemic, in addition to these quarterly investor letters, we plan to continue issuing Mid-Quarter Updates in order to keep our investors fully up to date. You can also feel free to call or email us at any time in the interim.

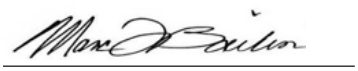
W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member

**Returns are calculated for the limited partner class taken as a whole and are computed using a time-weighted methodology whereby the returns for individual accounting periods are geometrically linked and proforma incentive allocations are taken into account. An individual limited partner's return may vary based on different management fee arrangements as outlined in the Private Placement Memorandum and the Limited Partnership Agreement, as well as by the timing of capital transactions. The monthly returns and other performance calculations are prepared internally and have not been audited or verified by a third party. The use of a different methodology for preparing, calculating or presenting performance returns may lead to different results and such differences may be material.*