

1 Robert J. Miller, Esq. (#013334)
2 Bryce A. Suzuki, Esq. (#022721)
3 **BRYAN CAVE LLP**
4 Two North Central Avenue, Suite 2200
5 Phoenix, Arizona 85004-4406
6 Telephone: (602) 364-7000
7 Facsimile: (602) 364-7070
8 Internet: rjmiller@bryancave.com
9 bryce.suzuki@bryancave.com

10 Counsel for the Rev Op Group

11 **IN THE UNITED STATES BANKRUPTCY COURT**
12 **FOR THE DISTRICT OF ARIZONA**

13 In re:

14 MORTGAGES LTD.,

15 Debtor.

In Proceedings Under Chapter 11

Case No. 2:08-bk-07465-RJH

**NOTICE OF FILING DECLARATION
OF LOUIS B. MURPHEY IN
SUPPORT OF MOTION TO
RECONSIDER AMENDED DECISION
AND ORDER**

Hearing Date: Not Yet Set

Hearing Time: Not Yet Set

18 **NOTICE IS HEREBY GIVEN** that the Rev Op Group hereby files the
19 Declaration of Louis B. Murphy in support of their Motion to Reconsider Amended
20 Memorandum Decision and Order, which is attached hereto as Exhibit 1.

21 DATED this 30th day of October, 2009.

22 BRYAN CAVE LLP

23 By /s/ RJM, #013334

24 Robert J. Miller

25 Bryce A. Suzuki

26 Two North Central Avenue, Suite 2200

27 Phoenix, AZ 85004-4406

28 Counsel for the Rev Op Group

1 COPY of the foregoing served this
2 30th day of October, 2009:

3 Via Email:

4 Cathy Reece, Esq.
5 Keith Hendricks, Esq.
6 Fennemore Craig, P.C.
7 3003 North Central Avenue, Suite 2600
8 Phoenix, Arizona 85012-2913
9 Counsel for the ML Manager, LLC
10 creece@fclaw.com
11 khendric@fclaw.com

12 Larry Watson
13 Office of the United States Trustee
14 230 N. First Avenue, Suite 204
15 Phoenix, Arizona 85003
16 larry.watson@usdoj.gov

17 William S. Jenkins
18 Myers & Jenkins
19 3003 N Central Ave Ste 1900
20 Phoenix, Arizona 85012
21 Counsel For The Liquidating Trustee
22 wsj@mjlegal.Com

23 S. Cary Forrester
24 Forrester & Worth PLLC
25 3636 North Central Avenue
26 Suite 700
27 Phoenix, Arizona 85012-1927
28 scf@fwlawaz.com

Richard M. Lorenzen
Brown & Bain
2901 North Central Avenue
Phoenix, Arizona 85012-2788
lorenzen@brownbain.com

Sheldon H. Sternberg, Trustee
Sternberg Enterprises Profit Sharing Plan
5730 N. Echo Canyon Drive
Phoenix, Arizona 85018
ssternberg@q.com

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

Robert G. Furst
4201 North 57th Way
Phoenix, Arizona 85018
RGFURST@aol.com

/s/ Sally Erwin

EXHIBIT "1"

1 Robert J. Miller, Esq. (#013334)
2 Bryce A. Suzuki, Esq. (#022721)
3 **BRYAN CAVE LLP**
4 Two North Central Avenue, Suite 2200
5 Phoenix, Arizona 85004-4406
6 Telephone: (602) 364-7000
7 Facsimile: (602) 364-7070
8 Internet: rjmiller@bryancave.com
9 bryce.suzuki@bryancave.com

10 Counsel for the Rev Op Group

11 **IN THE UNITED STATES BANKRUPTCY COURT**
12 **FOR THE DISTRICT OF ARIZONA**

13 In re:

14 MORTGAGES LTD.,

15 Debtor.

In Proceedings Under Chapter 11

Case No. 2:08-bk-07465-RJH

**DECLARATION OF LOUIS B.
MURPHEY**

16 I, Louis B. Murphey, declare as follows:

17 1. I am an adult person over the age of twenty-one (21). I am a resident of
18 Saint David, Arizona, and I have personal knowledge of the facts recited herein.

19 2. I am one of several individuals and entities represented by Bryan Cave
20 LLP, which group is generally referred to as the "Rev Op Group." Over the course of the
21 chapter 11 case of Mortgages, Ltd. ("ML"), the Rev Op Group has met in person and
22 telephonically many times (more than twenty times). To the best of my recollection, I
23 have attended every single meeting.

24 3. I personally invested \$6.0 million in ML. I was one of the key people
25 within the Rev Op Group who wanted us to file the motion for clarification, which the
26 Court addressed in its Memorandum Decision dated October 21, 2009 (the
27 "Memorandum Decision").

28 4. From my personal perspective, I wanted the clarification motion filed for
several different reasons, but the primary reason why I wanted it filed is that I simply

1 could not get “straight answers” out of the people in charge of the ML Manager to what I
2 thought were a number of relatively straightforward questions. So we worked together to
3 make a list of all of the issues on which we wanted “straight answers” and submitted the
4 clarification motion in order to obtain an unbiased decision from this Court before we
5 made the opt-in decision.

6 5. I read the ML Manager’s response to the clarification motion. While I
7 disagree with many of the statements therein, I particularly disagreed with the ML
8 Manager’s argument that I am somehow bound to the form of the agency agreement
9 attached to its objection. I also read its emergency motion on the “power of sale” issue,
10 and noticed that the ML Manager once again attached a form of agency agreement to that
11 motion, suggesting to the Court that I am somehow bound to that agreement.

12 6. I noticed that, in the Memorandum Decision, the Court talks about the
13 “governing documents” that purport to give the ML Manager the authority to “deal with”
14 the notes in which I have an ownership interest. Before the Court conducted a hearing on
15 the clarification motion, I along with the other Rev Op Group members tried to locate all
16 of our contracts with ML. All of the documents we could find were filed with the Court
17 at Docket Entry 2219 (the “**Rev Op Supplied Documents**”).

18 7. We filed those documents with the Court to try and provide some clarity as
19 to what the so-called “governing documents” might be in these circumstances. The only
20 contract I could find in my files is included as Exhibit K to the Rev Op Supplied
21 Documents. As you can see, I could not find at the time any document other than the
22 Revolving Opportunity Loan Program Purchase Agreement dated September 20, 2008,
23 which is included therein as Exhibit K.

24 8. For several weeks, the Rev Op Group members have been waiting for the
25 ML Manager to provide us with what it contends are the “governing documents” at issue
26 here. Finally, the documents arrived this week. Specifically, on October 26, 2009, our
27 legal counsel (Bob Miller) received the letter attached hereto as Exhibit A and
28 approximately 500 pages of contracts and other documents. This letter was authored by

1 Mr. Keith Hendricks, counsel for the ML Manager. In the letter, Mr. Hendricks
2 represents the approximately 500 pages of documents are all of the documents “of the
3 type indicated” from the files of the ML Manager.

4 9. True and correct copies of each of the documents provided by Mr.
5 Hendricks that pertain to me personally are attached hereto as Exhibits B-1 through B-6.
6 Again, despite diligent efforts to obtain these documents before now, I only received
7 these documents this week.

8 10. As is plainly evident from these documents, I had (and have) very good
9 reason to take issue with the ML Manager’s contention that it has the unfettered power to
10 make decisions on my behalf with respect to my promissory notes. First of all, the Court
11 needs to understand that I had a pretty tumultuous relationship with Mr. Scott Coles and
12 ML. I was very careful in my dealings with them. Despite what the ML Manager is
13 arguing in its papers, ML did not have a power of attorney over me and my \$6 million
14 investment prior to the bankruptcy filing. While my relationship with ML is somewhat
15 long and complex, I withheld those rights from ML.

16 11. See Exhibit B-2, my subscription agreement with ML that was provided to
17 me this week by Mr. Hendricks. Even before I read this document, I already knew that
18 ML did not have power of attorney over me personally. I recalled that from my
19 discussions with ML representatives, including specific discussions with Mr. Scott Coles.
20 Exhibit B-2 is signed by me personally and an ML representative.

21 12. As you can see from reviewing Paragraph 7 of the subscription agreement,
22 I *specifically declined* to give ML discretion with respect to all of the matters addressed
23 in Paragraph 7. As you can see from reviewing Paragraph 8 of my subscription
24 agreement, I *specifically declined* to give ML any power of attorney on my behalf.¹

25 _____
26 ¹ To be very clear, I assume the ML Manager does not know this, but someone at
27 ML modified the original agreement. The subscription agreement that I actually signed,
28 of which I do not have a copy, had a different page 7 than the agreement provided by Mr.
Hendricks. On my original document, to the best of my recollection, I recall specifically
Footnote Continued on Next Page

1 13. I also think it is very important for you to note the statement in Mr.
2 Hendricks' letter where he talks about the fact that ML terminated the Rev Op program.
3 Mr. Hendricks confirms his understanding that ML sent a termination letter to every Rev
4 Op investor. See Page 2 of Mr. Hendricks' letter.

5 14. My termination letter is attached hereto as Exhibit B-6. Please note that in
6 my termination letter, ML's representative specifically stated "Your Revolving
7 Opportunity contract will expire on September 20, 2008. Upon expiration of the contract,
8 prepaid interest will no longer be available *and the terms of your contract will no longer*
9 *exist.*" Ex. B-6 (emphasis added). For this reason alone, I fail to understand how the ML
10 Manager believes it has the right to make any decisions on my behalf since ML
11 terminated our arrangement in 2008, even if I had given ML a power of attorney (which I
12 did not).²

13 15. The Court also needs to review Exhibit C attached hereto. (For some
14 reason this letter was not provided by Mr. Hendricks to my counsel.) In this letter, Mr.
15 Coles specifically asked me to sign a new subscription agreement – this was in March
16 2008. In that letter, Mr. Coles acknowledged "[a]s servicing agent we need your
17 discretion to modify loan documents or enter into agreements with borrowers. It is
18 extremely important for you to give us the discretion to act in your best interest to protect
19 your investment."³

20
21 _____
22 putting "X's" through paragraphs 7 and 8 and placing my initials in the margin. As you
23 can see from the handwriting on page 7 of this agreement, someone at ML had a
discussion with me on or about December 1, 2007, and noted I was withholding
discretion and declining to give power of attorney to ML.

24 ² This letter was in the record before the hearing on the clarification motion. I
25 provided it to my counsel and it was attached as an exhibit to our summary/reply to the
26 ML Manager's response to the clarification motion. [DE #2272]

27 ³ This letter also was in the record before the hearing on the clarification motion.
28 [DE #2272]

1 16. I never signed a new subscription agreement, as requested by Mr. Coles.
2 He wanted me to sign one, but I refused to do it. In light of this fact and the fact that Mr.
3 Coles, in a letter signed as President and CEO of ML, acknowledged ML could not act on
4 my behalf without me first signing such a document, I am at a total loss to understand
5 how the ML Manager – who has these documents in its possession – thinks it has a right
6 to make decisions on my interests in the ML notes.

7 17. In any event, I believe the Court needs to consider these facts because ML
8 Manager’s representations to the Court regarding its authority to act is simply wrong as a
9 factual matter. For these reasons, the Court should amend its decision that suggests the
10 ML Manager has the power to sell my notes without my consent and otherwise act on my
11 behalf. It has no such power under the contracts between me and ML, assuming ML’s
12 powers under these contracts were not already terminated – as suggested by Exhibit B-6.

13 18. I also must comment on Exhibit B-3, which is an old agency agreement I
14 entered into with ML. That document is entitled “Master Agency Agreement” and is
15 dated May 10, 2005. To the best of my knowledge, the May 10 agency agreement was
16 superseded by the subscription agreement included herein as Exhibit B-2.

17 19. For completeness, I have also attached hereto the offering document I was
18 given by ML, a true and correct copy of which is attached hereto as Exhibit “D.” As you
19 can see, I did not sign this document.

20 20. Finally, on this issue regarding power or authority of the ML Manager, the
21 Court should be aware that I have a very close relationship with Lon Krueger. We have
22 worked together on various ML investments; he is a member of the Rev Op Group.

23 21. The Court needs to understand there are other documents already before the
24 Court that make it obvious that the ML Manager’s power to sell notes and make other
25 investment decisions under “governing documents” is at best suspect. For example,
26 please look at the note purchase agreement between ML and the Lonnie Joel Krueger
27 Family Trust, a true and correct copy is included in the Rev Op Supplied Documents,
28

1 Exhibit I. (Again, I've done business for years with Mr. Krueger. I recognize his
2 signature on the last page of that document.).

3 22. As is obvious from page 8 of the Krueger trust purchase agreement, Mr.
4 Krueger refused to give ML a power of attorney – see paragraph 11.1 of the document.
5 Simply stated, my point is that I am not the only Pass-Through Investor who refused to
6 give ML the right to make decisions on their investments without their consent *and* the
7 ML Manager knows this is the case even though it continues to try to persuade the Court
8 it now holds this power.

9 23. The Court may wonder why I am so troubled by the ML Manager's attempt
10 to establish its power to sell my notes. There are several reasons. First of all, there is
11 nothing in the disclosure statement or plan that ever suggested that someone who does
12 not "opt in" and, therefore, keeps his/her direct ownership in the notes, would have *less*
13 *control* over these assets than those who "opt in" and have a right to approve major
14 decisions. It was only in post-confirmation dialogue I had with ML Manager
15 representatives (in particular, Cathy Reece) that I learned the ML Manager was intending
16 on asserting decision-making authority over my notes.

17 24. Second, the Court knows from our confirmation objection that the Rev Op
18 Group has always thought the exit financing was highly defective and, indeed, dangerous.
19 That concern remains and is a very real problem relative to the power of sale and other
20 decision-making issues.

21 25. Right now, the Rev Op investors have only one seat on the ML Manager
22 board. Three of the seats are controlled by representatives of the MP Funds; the fifth and
23 final seat is controlled by a Radical Bunny representative.

24 26. Having been to many, if not all, of the post-confirmation investor meetings,
25 I know that the ML Manager is short on cash and owes a lot of money to the exit
26 financier. Obviously, those who do not opt-in (I will not opt-in) are not borrowers on the
27 exit financing.

28

1 27. Based on what I have heard from ML Manager representatives, the ML
2 Manager does not have any material cash available. My concern is that, at some point in
3 time, to raise cash for operations *or* because it has to meet the exit financing obligations,
4 the ML Manager board will be forced to consider selling notes sooner rather than later.

5 28. I, on the other hand, have the ability to pay my fair share of expenses
6 contemplated under Paragraph U of the confirmation order entered by the Court. I don't
7 want to be put in a situation where a board – dominated by parties speaking for those who
8 are obligated to deal with the problems created by the exit financing – decides to
9 liquidate my interest in notes without my consent. I have a longer term view on recovery
10 and do not want to have their problems result in me being forced to liquidate early.

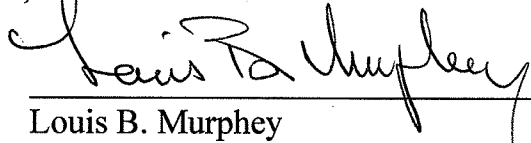
11 29. Despite the suggestion argued by counsel for the ML Manager, I do not
12 want “veto power” over these kinds of decisions. In our last meeting with the ML
13 Manager, we specifically told them that I (we) would be willing to agree to a reasonable
14 procedure to address these issues. But what I am not in a position to do is allow the ML
15 Manager to do something that I was not willing to allow Mr. Coles or ML to do, which is
16 take away my right to have a voice in critical decisions regarding my property.

17 30. Indeed, the ML Manager is being even more aggressive on these issues
18 than ML ever was prior to its bankruptcy filing. At least ML recognized *in writing* that it
19 had no ability to make these decisions without my consent. What I cannot live with, and
20 what is not fair, is for the ML Manager to try and “end run around” my agreements with
21 ML through strained arguments about some form agency agreement to which I am not a
22 party. Plus, I have never agreed to accept the risk of the exit financing and allowing the
23 ML Manager to sell my notes because the board some day may have to liquidate certain
24 notes to address the onerous exit financing is not fair or proper in my view.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

I declare under penalty of perjury the foregoing is true and correct to the best of my knowledge, information and belief.

DATED this 29th day of October, 2009.



Louis B. Murphey

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

EXHIBIT “A”

FENNEMORE CRAIG, P.C.

3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913
(602) 916-5000

Keith L. Hendricks
Direct Phone: (602) 916-5430
Direct Fax: (602) 916-5630
khendric@fclaw.com

Law Offices
Phoenix (602) 916-5000
Tucson (520) 879-6800
Nogales (520) 281-3480
Las Vegas (702) 692-8000
Denver (303) 291-3200

October 26, 2009

Robert J. Miller
Bryan Cave LLP
Two N. Central Avenue
Suite 2200
Phoenix, AZ 85004-4406

BY HAND DELIVERY

Re: ML Manager LLC / Mortgages Ltd.

Dear Bob:

Enclosed please find the documents that ML Manager has found that are responsive to your request for all of the Subscription Agreements and Agency Agreements that have been assigned to ML Manager. We have provided both the Master Agency Agreements that some of your clients signed and the Subscription Agreements that they signed. As you know, the Master Agency Agreements generally pre-dated the Subscription Agreements, and the Subscription Agreements expressly bind your clients to the form of Agency Agreement that was attached to the Private Offering Memorandum ("POM"). The form of the Agency Agreement that was attached to the POM is the form that we have previously provided you and to the Court. Significantly, the Subscription Agreements all provide something to the effect of the following:

Adoption of the Agency Agreement. By executing this Agreement, the undersigned accepts and agrees to be bound by the Agency Agreement in the form of an exhibit to the Memorandum or as otherwise furnished to the undersigned.

The Subscription Agreements also contain a representation and warranty from each investor that "[a]cknowledges that the undersigned has received, and is familiar with and understands the [POM]..."

In some cases there was no prior Master Agency Agreement with the investors, and there is only the Subscription Agreement. In two instances, we cannot currently

FENNEMORE CRAIG, P.C.

Bob Miller
October 26, 2009
Page 2

locate a separate Subscription Agreement, but in both cases there is a Master Agency Agreement on file. The Master Agency Agreement in those cases contains the same operative provisions as the Agency Agreement attached to the POM.

In addition to the Subscription Agreement, each one of your clients was sent a POM with a separate identification number generated at the printer's office. We have included a chart to show the form of the POMs sent to your clients. In addition to the Subscription Agreement and the POM, they all received a copy of the Agency Agreement that we have provided to the Court. This is evidenced by the representation and warranty in the Subscription Agreement signed by your clients where they acknowledge receipt and review of the POM and Agency Agreements.

We are also providing a copy of all of the Rev-Op Program Agreements executed by your clients, however, these Agreements all expired by their own terms. Moreover, as you know, ML Manager takes the position that any additional rights created in favor of the Rev-Op investors was satisfied and released as a result of the Plan and the preferential treatment the Rev-Op investors received in the Liquidating Trust. We are also providing copies of Receipts that some of your clients executed when they received their POMs. The practice of obtaining signed receipts was eliminated over time, so there are not signed receipts for all of the POMs sent, however, Mortgages Ltd did continue to internally track the POMs that were sent. Finally, we are including a copy of letters that were sent to some of your clients regarding the termination of the Rev-Op program. It is our understanding that such a letter was sent to every Rev-Op investor, however, our client cannot currently locate copies of all such letters because many were not returned to Mortgages Ltd.

I am hereby avowing to you that as counsel for ML Manager and an officer of the Court, it is my understanding, information and belief that the documents are true and correct copies of the relevant originals in ML Manager's files, that all documents of the types indicated have been produced, and that ML Manager has made a diligent search of all of its files.

We have personally reviewed the documents for completeness and reviewed the originals in ML Manager's files. The documents have been bates stamped to ensure completeness and authenticity. To the extent that there is any further discovery sought or litigation about these documents, please direct any such communication regarding these

FENNEMORE CRAIG, P.C.

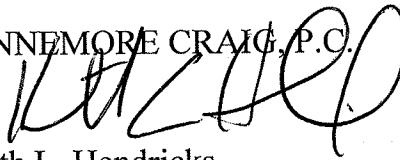
Bob Miller
October 26, 2009
Page 3

documents or other matters in dispute between our two clients to me as I will be handling and responsible for any litigation.

Please let me know if you have any questions.

Sincerely,

FENNEMORE CRAIG, P.C.

A handwritten signature in black ink, appearing to read 'KLH', written over the printed name 'FENNEMORE CRAIG, P.C.'.

Keith L. Hendricks

KLH/lcs

Enclosures
2249679.1/25831.001

EXHIBIT "B-1"

September 20, 2008
MU06



**REVOLVING OPPORTUNITY™
LOAN PROGRAM PURCHASE AGREEMENT**

THIS REVOLVING OPPORTUNITY LOAN PROGRAM PURCHASE AGREEMENT is entered into as of the "Effective Date" set forth below, by and between MORTGAGES LTD., an Arizona corporation, whose address is 55 East Thomas Road, Phoenix, Arizona 85012 ("Company") and Louis Murphey ("Investor") whose name and address are as set forth at the end of this Agreement.

Section 1. Recitals.

1.1 **The Company.** Company is a mortgage banker licensed by the State of Arizona Banking Department.

1.2 **Business of the Company.** Company originates, makes, and funds loans ("Loans") to various persons, corporations, limited liability companies, partnerships, and other entities ("Borrowers") secured by deeds of trusts or mortgages on residential, commercial, and industrial real estate, the terms of which are defined in a set of documents appropriate to each individual Loan and which provide various rights and protections to both the owners of the Loans and the Borrowers (the "Loan Documents").

1.3 **Revolving Opportunity Loan Program** Company has established its Revolving Opportunity Program (sometimes the "Program") to provide investors with a favorable rate of return through the purchase of interests in Loans and, to a lesser extent, Loans selected by Company.

1.4 **The Investment** Company desires to sell and Investor desires to purchase an interest or interests in Loans or entire loans (together "Participations") up to an aggregate investment amount (the "Investor Commitment") as specifically set forth at the end of this Agreement, which shall be no less than \$1,000,000 (the "RevOp Minimum"), subject to the terms and conditions contained herein.

Section 2. Selection of Participations.

From time-to-time during the 12-month period immediately following the Effective Date (the "Program Term"), Company, in its sole and absolute discretion, may select Participations for purchase by Investor (the "Initial Investment") and additional Participations in the event of repayment ("Successor Investments"). In the event that more than one Initial Investment or Successor Investment (together "Investments") are outstanding at any one time, the aggregate amount of all such Investments shall not exceed the Investor Commitment.

Section 3. Loan Purchases and Terms.

3.1 **Investment Commitment Period.** Subject to the conditions herein set forth, Investor shall purchase, during the Program Term, Investments up to the amount of the Investor Commitment from time to time as requested by Company.

3.2 **Repayment of Investment.** Each Investment purchased by Investor shall be repaid to Investor through payments on the related Loan or Loans on or prior to the expiration of the RevOp Investment Term (as defined herein), subject to Company's obligation under Section 6.2.

CONFIDENTIAL

MLM0409

3.3 **Reinvestment of Principal Payments.** Notwithstanding the provisions of Section 3.2, during the Program Term, Investor agrees that any principal payments on an Investment prior to the Repayment Date (as defined herein), including those resulting from scheduled amortization and whole or partial repayments of the unpaid outstanding principal balance of the related Loan or Loans, shall remain available for reinvestment in Successor Investments until the Repayment Date. Company, in its sole discretion, may elect to reinvest such principal payments, or any portion thereof, in Successor Investments on behalf of Investor, but only for a term equal to the number of days remaining until the Repayment Date.

Section 4. Payment of Purchase Money.

4.1 **Notice to Fund Investment Commitment.** Company shall give notice (the "Payment Notice") to Investor requesting funds pursuant to the Investor Commitment at the address or to the telephone number, facsimile number, or e-mail address of Investor set forth below. The Payment Notice shall identify the amount of money (the "Purchase Money") Investor is to invest. In no event shall Company issue a Payment Notice to Investor for an amount more than the Investor Commitment. Within 10 business days of the Payment Notice, Investor shall deliver to Company the Purchase Money specified in the Payment Notice by cashier's check, certified check, or wire transfer. If the Investor Commitment exceeds the aggregate amount of all outstanding Investments at any time during the Program Term, Company shall have the right to issue one or more additional Payment Notices to Investor. Each Payment Notice and Investment purchased from the Purchase Money shall be subject to a separate Repayment Date, as defined in Section 4.3.

4.2 **Action following Receipt of Purchase Money from Investor.** Upon receipt ("Receipt") by Company of the Purchase Money, Company shall (a) pay or cause the payment of the RevOp Prepaid Interests (as defined below) to Investor; (b) prepare an assignment of beneficial interest of deed(s) of trust securing the related Loan or Loans, an endorsement of the promissory note(s), and, if applicable, assignments of other loan or security instruments for the related Loan or Loans (collectively, the "Loan Assignment Documents"); (c) cause to be recorded, at no expense to Investor, in the official records of the county in which the property securing the related Loan or Loans may be situated any of the Loan Assignment Documents required to be recorded, such as an assignment of the beneficial interest of the deed(s) of trust; and (d) prepare such "blank" assignment documents, directions for release and reconveyance, termination of UCC interests, and other assignment or release instruments as Company determines to be appropriate with respect to the related Loan or Loans (collectively, the "Reassignment and Release Documents").

4.3 **Repayment Date of Individual Investments.** The Repayment Date shall be 120 days from the Receipt, but such funds may be applied to Successor Investments subject to the payment of RevOp Prepaid Interest.

4.4 **RevOp Prepaid Interest.** Based on the amount of capital invested in the Revolving Opportunity Loan Program, the RevOp Prepaid Interest shall equal a specified percentage of the outstanding principal of the Investments according to the following table:

Capital Invested	RevOp Prepaid Interest
\$5,000,000 - \$9,999,000	0.666%
\$10,000,000 +	0.917%

Section 5. Administration of Purchase Loans.

5.1 **RevOp Investment Term.** The "RevOp Investment Term" shall be the time during which Investor's capital is invested in an Initial Investment or Successor Investment, which will be the shorter of (a) the number of days from the Receipt to the Repayment Date (the "Maximum RevOp Investment Term"), or (b) the number of days from the Receipt to earlier of the date on which (i) the

CONFIDENTIAL

Company redeems the Initial Investment, or (ii) the Initial Investment or Successor Investment has been paid in full, in each case including unpaid principal and RevOp Interest. Partial repayments or redemptions of an Initial Investments and/or Successor Investment shall result in multiple RevOp Investment Terms being applicable to portions of the Purchase Money.

5.2 **RevOp Interest Rate.** The RevOp Interest Rate shall be based on the amount of capital invested in the Revolving Opportunity Loan Program according to the following table:

Capital Invested	RevOp Interest Rate Per Annum
\$5,000,000 - \$9,999,000	11.00%
\$10,000,000 +	11.25%

5.3 **Payment of RevOp Interest.** From the Receipt until the expiration of each applicable RevOp Investment Term, Investor shall be entitled to receive monthly interest calculated at the RevOp Interest Rate upon the unpaid principal balance of the Investment (the "RevOp Interest") associated with such RevOp Investment Term. Any interest payable or paid upon the related Loan or Loans in excess of the RevOp Interest shall be retained by Company.

5.4 **Repayment of Investments.** Upon expiration of the Maximum RevOp Investment Term, Investor shall be entitled to receive any unpaid amount of any outstanding Investments plus accrued RevOp Interest pursuant to Section 3.2 or Section 6.2.

Section 6. Repurchase of Investments.

6.1 **Repayment of Investments.** In the event any Investment (including RevOp Interest) has been fully paid upon the expiration of the maximum RevOp Investment Term (as a result of payments on the related Loan or Loans), then no further payments to Investor shall be due and Company shall be entitled to file the Reassignment and Release Documents as provided below.

6.2 **Mandatory Repurchase of Investments.** In the event any Investment (including RevOp Interest) has not been fully repaid to Investor upon expiration of the Maximum RevOp Investment Term, Company shall (a) cause the repurchase of or repurchase the Investment from Investor at a price equal to its unpaid principal balance (after crediting all principal payments previously received by Investor thereon) and (b) cause to be paid or pay any accrued and unpaid RevOp Interest at the time the next regularly scheduled payment on the related Loan or Loans.

6.3 **Optional Redemption of Investments.** Notwithstanding the foregoing, Company may, in its sole discretion, redeem an Investment from Investor at any time prior to expiration of the RevOp Investment Term without payment of premium or penalty by tendering to Investor (a) a repurchase price equal to the unpaid principal balance of the Investment (after crediting all principal payments previously received thereon by Investor) and (b) any accrued and unpaid RevOp Interest at the time the next regularly scheduled payment on the related Loan or Loans.

Section 7. Company to Service Loans.

7.1 **Company to Originate and Service Loans.** Company shall underwrite, originate or acquire, and service the Loan or Loans related to the Investments and collect and disburse Loan payments.

7.2 **Filing of Reassignment and Release Documents.** Company shall hold the Reassignment and Release Documents with respect to an Investment until the expiration of each applicable RevOp Investment Term. Upon expiration of the RevOp Investment Term, (a) if an Investment and RevOp Interest has been repaid as a result of payment on the related Loan or Loans, or repurchased from Investor by or on behalf of the Company as set forth herein, then Company is authorized to complete and record

CONFIDENTIAL

September 20, 2008
MU06

(with respect to such documents as should be recorded) the Reassignment and Release Documents; and (b) if an Investment and RevOp Interest thereon has not been repaid to Investor nor repurchased from Investor by or on behalf of Company as provided in this Agreement, then Company shall deliver to Investor the Reassignment and Release Documents.

7.3 Disbursement of Payments. During the RevOp Investment Term, Company shall be authorized to receive all payments of principal and interest with respect to any Loan or Loans related to Investments, to reinvest the principal pursuant to Section 3.3 or disburse the principal to Investor, to disburse the RevOp Interest to Investor, and to disburse the balance of any interest in excess of the RevOp Interest to Company.

Section 8. Representations and Warranties.

8.1 Representations and Warranties of Company. Company represents and warrants to Investor as follows:

- (a) All recitals and representations set forth in this Agreement are true and correct.
- (b) Company is a corporation formed under the laws of the state of Arizona and is duly organized, validly existing, and in good standing under the laws of such state.
- (c) Company has the corporate power and authority to conduct its business as now being conducted.
- (d) The liens, security interests, and assignments created by the Loan Assignment Documents will result in valid, effective, and enforceable liens, security interests, and assignments.
- (e) Until all Investments have been paid in full and all of Company's obligations hereunder have been fully discharged, Company shall maintain in full force and effect all agreements, rights, and licenses necessary to conduct its business.

8.2 Representations and Warranties of Investor. Investor represents and warrants to Company as follows:

- (a) All recitals and representations set forth in this Agreement are true and correct.
- (b) In the event Investor is a corporation, partnership, limited liability company, plan, trust, or other entity, Investor is duly organized, validly existing, and in good standing under the laws of the state of its organization and has full power and authority to carry on its business as now being conducted. In the event Investor is an individual, Investor is either unmarried, or if married, Investor is acting on behalf of Investor's marital community unless Investor is dealing in Investor's sole and separate property and such status is specifically identified on the signature page hereto.
- (c) Acknowledges that Investor has received the Private Offering Memorandum dated June 20, 2006 (the "Memorandum") and is familiar with and understands it, including the section captioned "Risk Factors."
- (d) Acknowledges that Investor is fully familiar with the Program and with Company and its business, affairs, operating policies, and prospects and has had access to any and all material information, including all documents, records, and books pertaining to Company, that Investor deems necessary or appropriate to enable Investor to make an investment decision to participate in the Program and purchase Participations.

CONFIDENTIAL

MLM0412

(e) Acknowledges that the Investor has been encouraged to rely upon the advice of Investor's legal counsel, accountants, and other financial advisors with respect to the participation in the Program and the purchase of Participations.

(f) Represents and warrants that Investor, in determining to participate in the Program and purchase Participations, has relied solely upon this Agreement, the Memorandum, and the advice of Investor's legal counsel, accountants, and other financial advisors and has been offered the opportunity to ask such questions and inspect such documents concerning the Company and its business and affairs and the Program as Investor has requested so as to understand more fully the Program and the nature of the investment and to verify the accuracy of the information supplied.

(g) Represents and warrants that Investor has full power to execute, deliver, and perform this Agreement and that this Agreement is a legal and binding obligation of, and is enforceable against, Investor in accordance with its terms.

(h) Represents and warrants that Investor is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act") and satisfies one of the standards set forth in the Memorandum under the section captioned under "Who May Invest."

(i) Represents and warrants that the Participations being acquired will be acquired for Investor's own account without a view to public distribution or resale and that Investor has no contract, undertaking, agreement, or arrangement to sell or otherwise transfer or dispose of any Participations or any portion thereof to any other person.

(j) Represents and warrants that Investor (i) can bear the economic risk of the purchase of Participations, including the loss of Investor's investment and (ii) has such knowledge and experience in business and financial matters, including the analysis of or participation in private offerings and real estate investments, as to be capable of evaluating the merits and risks of the participation in the Program and an investment in Participations.

(k) Represents and warrants, if subject to the Employee Retirement Income Security Act ("ERISA"), that Investor is aware of and has taken into consideration the diversification requirements of Section 404(a)(3) of ERISA in determining to purchase Participations and that Investor has concluded that the purchase of Participations is prudent.

(l) Understands that Investor may be required to provide current financial and other information to the Company to enable it to determine whether Investor is qualified to purchase Participations.

(m) Understands that the Participations will not be registered under the Securities Act or the securities laws of any state or other jurisdiction and therefore will be subject to substantial restrictions on transfer.

(n) Agrees that Investor will not sell or otherwise transfer or dispose of any Participations or any portion thereof unless such Participations are registered under the Securities Act and any applicable state securities laws or Investor obtains an opinion of counsel that it is satisfactory to Company that such Participations may be sold in reliance on an exemption from such registration requirements.

(o) Understands that (i) Company has no obligation or intention to register any Participations for resale or transfer under the Securities Act or any state securities laws or to take any action (including the filing of reports or the publication of information as required by Rule 144 under the Securities Act) that would make available any exemption from the registration requirements of any such laws, and (ii) Investor therefore may be precluded from selling or otherwise transferring or disposing of any Participations or any portion thereof for an indefinite period of time or at any particular time.

CONFIDENTIAL

September 20, 2008
MU06

(p) Represents and warrants that neither Company, Mortgages Ltd. Securities, L.L.C. ("MLS"), an affiliate of Company, nor anyone purportedly acting on behalf of either of them has made any representations or warranties respecting the Program or the business, affairs, financial condition, plans, or prospects of the Company except those contained in the Memorandum nor has Investor relied on any representations or warranties in the belief that they were made on behalf of any of the foregoing, nor has Investor relied on the absence of any such representations or warranties in reaching the decision to participate in the Program or purchase Participations.

(q) Represents and warrants that (i) if an individual, Investor is at least 21 years of age; (ii) Investor satisfies the suitability standards set forth in the Memorandum; (iii) Investor has adequate means of providing for Investor's current needs and contingencies; (iv) Investor has no need for liquidity in Investor's investments; (v) Investor maintains the Investor's business or residence at the address shown below; (vi) all investments in and commitments to non-liquid investments are, and after the purchase of Participations will be, reasonable in relation to Investor's net worth and current needs; and (vii) any financial information that is provided by Investor at the request of the Company, does or will accurately reflect Investor's financial sophistication and condition with respect to which Investor does not anticipate any material adverse change.

(r) Understands that no federal or state agency, including the Securities and Exchange Commission or the securities commission or authorities of any state, has approved or disapproved the Participations, passed upon or endorsed the merits of the offering of participation, or made any finding or determination as to the fairness of the Participations for public investment.

(s) Understands that the Participations are being offered and sold in reliance on specific exemptions from the registration requirements of federal and state laws and that Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgements, and understandings set forth herein in order to determine the suitability of Investor to acquire Participations.

(t) Represents, warrants, and agrees that, if Investor is acquiring Participations in a fiduciary capacity (i) the above representations, warranties, agreements, acknowledgements, and understandings shall be deemed to have been made on behalf of the person or persons for whose benefit such Participations are being acquired, (ii) the name of such person or persons is indicated below under the subscriber's name, and (iii) such further information as Company deems appropriate shall be furnished regarding such person or persons.

(u) Represents and warrants that the information set forth herein regarding Investor is true and complete and agrees that the Company may rely on the truth and accuracy of the information for purposes of assuring that Company may rely on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2) of the Securities Act and Regulation D under the Securities Act and of any applicable state statutes or regulations, and further agrees that the Company may present such information to such persons as it deems appropriate if called upon to verify the information provided or to establish the availability of an exemption from registration under Section 4(2) of the Securities Act, Regulation D, or any state securities statutes or regulations or if the contents are relevant to any issue in any action, suit, or proceeding to which Company, MLS, or any agent of any of them is a party or by which any of them may be bound.

(v) Understands and acknowledges that the Participations and the Loans are subject to a number of important risks and uncertainties as set forth under the section captioned "Risk Factors" in the Memorandum, including significant competition; the risks generally incident to the development, ownership operation, and rental of real property; changes in national and local economic and market conditions; changes in the investment climate for real estate investments; the availability and cost of mortgage funds; the obligations to meet fixed and maturing obligations, if any; the availability and cost of necessary utilities and services; changes in real estate tax rates and other operating expenses; changes in governmental rules, fiscal policies, zoning, environmental controls, and other land use regulations; and acts

CONFIDENTIAL

MLM0414

of God, which may result in uninsured losses; conditions in the real estate market; the availability and cost of real estate loans; and other factors beyond the control of Company. Investor further understands and acknowledges that Participations will also be subject to the risks associated with the development of real estate, including the cost of construction, the time it takes to complete such construction, worker strikes and other labor difficulties, energy shortages, material and labor shortages, inflation, adverse weather conditions, subcontractor defaults and delays, changes in federal, state, or local laws, ordinances, or regulations, and other unknown contingencies.

(w) Understands and acknowledges that the future operating results of Company are impossible to predict and that no representations or warranties of any kind are made by Company, or MLS or any of their affiliates with respect to the prospects of Company or the rate of return on the Participations.

Section 9. Default.

9.1 Default by Company. The occurrence of any of the following events or conditions shall constitute an "Event of Default" by Company under this Agreement:

(a) The failure by Company to fulfill its obligations under Section 6.2 within 10 days after written notice from Investor;

(b) Any representation, warranty, or statement by Company contained in this agreement shall have been materially false when made or furnished;

(c) The filing by Company of any proceeding under the federal bankruptcy laws or any other similar statute now or hereafter in effect; the entry of an order for relief under such laws with respect to Company; or the appointment of a receiver, trustee, custodian, or conservator of all or any part of the assets of Company;

(d) The insolvency of Company; the execution by Company of an assignment for the benefit of creditors; or a material adverse change in the financial condition of Company;

(e) The admission in writing by Company that it is unable to pay its debts as they mature or that it is generally not paying its debts as they mature; or

(f) The liquidation, termination, or dissolution of Company if Investor is not reasonably reassured of timely performance hereunder.

9.2 Default by Investor. The occurrence of any of the following events or conditions shall constitute an "Event of Default" by the Investor under this Agreement:

(a) The failure by Investor to timely pay the Purchase Money;

(b) The failure by Investor to timely execute and return to Company the Loan Assignment Documents, the Reassignment and Release Documents, or such other instruments or documents as reasonably requested by Company, in accordance with the terms of this Agreement within 10 business days after written notice thereof by Company to Investor;

(c) Any representation, warranty, or statement by Investor contained in this agreement shall have been materially false when made or furnished;

(d) The filing by Investor of any proceeding under the federal bankruptcy laws or any other similar statute now or hereafter in effect; the entry of an order for relief under such laws with respect to Investor; or the appointment of a receiver, trustee, custodian, or conservator of all or any part of the assets of Investor;

CONFIDENTIAL

September 20, 2008
MU06

(e) The insolvency of Investor; the execution by Investor of an assignment for the benefit of creditors; or a material adverse change in the financial condition of Investor;

(f) The admission in writing by Investor that it is unable to pay its debts as they mature or that it is generally not paying its debts as they mature; or

(g) The liquidation, termination, or dissolution of Investor if Company is not reasonably reassured of timely performance hereunder.

9.3 Remedies of Investor. Upon the occurrence of any Event of Default caused by Company (and at any time thereafter while such Event of Default is continuing), Investor may do one or more of the following:

(a) Proceed to protect and enforce its rights and remedies under this Agreement, the Loan Documents and the Reassignment and Release Documents; and

(b) Avail itself of any other right, remedy, or relief to which Investor may be legally or equitably entitled, all of which remedies shall be non-exclusive and cumulative and the exercise by Investor of any one such remedy shall not preclude the exercise by Investor of further or additional remedies.

9.4 Remedies of Company. Upon the occurrence of any Event of Default caused by Investor (and at any time thereafter while such Event of Default is continuing), Company may do one or more of the following:

(a) Proceed to protect and enforce its rights and remedies under this Agreement, the Loan Assignment Documents, and the Reassignment and Release Documents;

(b) Demand and receive repayment from Investor of the Placement Fee;

(c) Refuse to allow Investor any further participation in the Revolving Opportunity Program and/or any other investment program offered by Company; and

(d) Avail itself of any other right, remedy, or relief to which Company may be legally or equitably entitled, including without limitation damages or injunctive relief, all of which remedies shall be non-exclusive and cumulative and the exercise by Company of any one such remedy shall not preclude the exercise by Company of further or additional remedies.

Section 10. Action Upon Agreement.

10.1 Beneficiaries of Agreement. This Agreement is made for the sole protection and benefit of the parties hereto, and no other person or organization shall have any rights hereunder.

10.2 Entire Agreement. This Agreement, together with the Loan Assignment Documents and the Reassignment and Release Documents, contain the entire agreement between the parties with regard to the subject matter hereof. There are no representations, promises, warranties, understandings, or agreements, expressed or implied, oral or otherwise, in relation thereto, except those expressly referred to or set forth herein. Each party acknowledges that the execution and delivery of this Agreement is its free and voluntary act and deed, and that said execution and delivery have not been induced by, nor done in reliance upon, any representations, promises, warranties, understandings, or agreements made by the other party, its agents, officers, employees, or representatives.

10.3 Agreements in Writing. No promise, representation, warranty, or agreement made subsequent to the execution and delivery of this Agreement by either party hereto, and no revocation,

CONFIDENTIAL

MLM0416

September 20, 2008
MU06

partial or otherwise, or change, amendment, or addition to or alteration or modification of this Agreement shall be valid unless the same shall be in writing signed by all parties hereto.

10.4 **Independent Parties.** Investor and Company each have separate and independent rights and obligations under this Agreement. Nothing contained herein shall be construed as creating, forming, or constituting any partnership, joint venture, merger, or similar relationship between Company and Investor for any purpose or in any respect.

Section 11. Adoption of the Agreements.

11.1 **Power of Attorney.** By executing this Agreement, Investor accepts and agrees to be bound by the Agency Agreement, the Loan Assignment Documents, and the Reassignment and Release Documents. Investor further hereby irrevocably constitutes and appoints the Company, with full power of substitution, as Investor's true and lawful attorney and agent, with full power and authority in the Investor's name, place, and stead, to make, execute, swear to, acknowledge, deliver, file, and record the following:

(a) The Agency Agreement, the Loan Assignment Documents, and the Reassignment and Documents, and any amendments thereto;

(b) All certificates, instruments, documents, and other papers and amendments thereto that may from time to time be required under the laws of the United States of America, the state of Arizona, any other state or jurisdiction, or required by any political subdivision or agency of any of the foregoing or otherwise, or which Company deems appropriate or necessary to carry on the objects and intent of this Agreement and to administer the Revolving Opportunity Loan Program as contemplated by this Agreement;

This power of attorney granted hereby shall be deemed to be a power coupled with an interest, shall survive the death, legal incapacity bankruptcy, merger, sale, dissolution, termination, or other fundamental change of Investor, and shall survive the delivery of an assignment by Investor of all or any portion of Investor's Investments.

11.2 **Execution of Documents by Investor.** Notwithstanding Section 11.1, to the extent requested by Company upon 10 business days notice, Investor shall execute (and cause signature to be acknowledged before a notary, when appropriate) and deliver to Company any Loan Assignment Documents, Reassignment and Release Documents (but only upon the repayment in full of the related Investment), and such other documents, certificates, and other papers as Company reasonably deems necessary or appropriate to administer the Revolving Opportunity Loan Program as contemplated by this Agreement.

Section 12. General.

12.1 **Cooperation.** Each party shall reasonably cooperate with the other party, including without limitation the execution or delivery upon request of such other or additional instruments or documents as reasonably necessary or appropriate to accomplish the purposes of this Agreement.

12.2 **Notices.** All notices required or permitted to be given hereunder shall be in writing, and shall become effective 72 hours after such are deposited in the United States mail, certified or registered, postage prepaid, addressed as shown above or to such other address as such party may from time-to-time designate in writing.

12.3 **Governing Law and Venue.** This Agreement shall be governed by and construed according to the laws of the state of Arizona. Investor agrees that any controversies relating to this Agreement will be determined in federal or state court sitting in the city of Phoenix, waives the defense of inconvenient forum, and waives any right to jury trial.

CONFIDENTIAL

MLM0417

September 20, 2008
MU06


12.4 **Binding Agreement.** This Agreement shall be binding upon the parties hereto and may not be assigned by either party.

12.5 **Headings.** The headings or captions of sections in this Agreement are for convenience and reference only and in no way define, limit, or describe the scope or intent of this Agreement or the provisions of such sections.

IN WITNESS WHEREOF, the parties have executed this Agreement with respect to the Investor Commitment amount of \$6,000,000 as of the Effective Date of 09/20/2007.

MORTGAGES LTD., an Arizona corporation

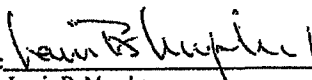
Louis B. Murphey

By: 

Scott M. Coles

Its: Chairman and Chief Executive officer

Address: 55 East Thomas Road
Phoenix, Arizona 85012

By: 

Louis B. Murphey

Address: P.O. Box 2499
Benson, AZ 85602
Phone: (520) 260-5992

CONFIDENTIAL

EXHIBIT "B-2"



For Mortgages Ltd. Securities L.L.C use only

MLS Account Number ML06
Managing Director RGF
Other active account numbers established by
this investor, and account group: _____
PPP-POM# 5428

MORTGAGES LTD.

NEW INVESTOR SUBSCRIPTION AGREEMENT

In order to subscribe for Pass-Through Loan Participations ("Participations") in loans originated or acquired by Mortgages Ltd., a prospective Investor must complete and execute this Agreement in accordance with the instructions set forth herein. This Agreement, together with the appropriate payment as described herein, should then be returned to:

MORTGAGES LTD. SECURITIES, L.L.C.
55 East Thomas Road
Phoenix, Arizona 85018
Telephone: (602) 264-9374

If your subscription is not accepted, this Agreement and payment will be returned to you. Please be sure that your name appears in exactly the same way in each signature and in each place where it is indicated in this Agreement.

Subscriptions from suitable prospective Investors will be accepted at the sole discretion of the Mortgages Ltd. and Mortgages Ltd. Securities, L.L.C. after receipt of all subscription documents, properly completed and executed, with the appropriate payment.

If you have any questions concerning the completion of this Agreement, please contact Mortgages Ltd. Securities, L.L.C. at (602) 264-9374.

Mortgages Ltd., which is the issuer of the Participations in which you are considering an investment, and Mortgages Ltd. Securities, L.L.C., which is the licensed broker-dealer for the offering of the Participations, are commonly controlled by Scott M. Coles, who is the Chairman and Chief Executive Officer of Mortgages Ltd. and the Managing Member of Mortgages Ltd. Securities, L.L.C.

MORTGAGES LTD.

NEW INVESTOR SUBSCRIPTION AGREEMENT

1. **Subscription.** The undersigned, desiring to purchase Pass-Through Loan Participations ("Participations") in loans originated or acquired by Mortgages Ltd. hereby subscribes for and agrees to purchase Participations as described in that certain Private Offering Memorandum dated July 10, 2006 (the "Memorandum") upon acceptance of this New Investor Subscription Agreement. The offering of Participations (the "Offering") is being made through Mortgages Ltd. Securities, L.L.C. ("MLS").

The undersigned is subscribing for Participations and has enclosed a check or sent a wire transfer payable to Mortgages Ltd. for the Program or Programs in the amount or amounts set forth below:

<u>Subscription Amount</u>	<u>Program</u>
\$ _____	Capital Opportunity® Loan Program - minimum investment of \$50,000.
\$ _____	Annual Opportunity™ Loan Program - minimum investment of \$100,000.
\$ _____	Opportunity Plus® Loan Program - minimum investment of \$100,000.
\$ _____	Revolving Opportunity™ Loan Program - minimum investment of \$500,000.
\$ _____	Performance Plus® Loan Program - minimum investment of \$500,000.

If paying by check, the check must be payable to Mortgages Ltd. No third-party checks will be accepted other than cashier's checks displaying the remitter's name. Wire transfers should be sent as follows:

Bank Name:	Irwin Union Bank, FSB
Bank Address:	2425 East Camelback Road, Suite 250 Phoenix, Arizona 08397-4467
Bank Routing Number:	083974467
Account Name:	Loan Funding Trust
Account Number:	83015651
Contact Person:	Heather Solomon (602) 553-7803

2. **Representations and Warranties.** By executing this New Investor Subscription Agreement, the undersigned:

(a) Represents and warrants that the Account Application and any other personal and financial information previously provided, provided herewith, or subsequently provided by the undersigned to Mortgages Ltd. or MLS was, is, or will be true and correct.

(b) Acknowledges that the undersigned has received, and is familiar with and understands the Memorandum, including the section captioned "Risk Factors."

(c) Acknowledges that the undersigned is fully familiar with Mortgages Ltd. and its business, affairs, and operating policies and has had access to any and all material information, including all documents, records, and books pertaining to Mortgages Ltd., that the undersigned deems necessary or appropriate to enable the undersigned to make an investment decision in connection with the purchase of Participations.

(d) Acknowledges that the undersigned has been encouraged to rely upon the advice of the undersigned's legal counsel, accountants, and other financial advisors with respect to the purchase of Participations, including the tax considerations with respect thereto.

(e) Represents and warrants that the undersigned, in determining to purchase Participations, has relied solely upon the Memorandum and the advice of the undersigned's legal counsel, accountants, and other financial advisors with respect to the purchase of Participations (including the tax aspects thereof) and has been

offered the opportunity to ask such questions and inspect such documents as the undersigned has requested so as to understand more fully the nature of the investment and to verify the accuracy of the information supplied.

(f) Represents and warrants that the undersigned has the full power to execute, deliver, and perform this Agreement and that this Agreement is a legal and binding obligation of, and is enforceable against, the undersigned in accordance with its terms.

(g) Represents and warrants that the undersigned is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act") and satisfies one of the standards set forth in the Memorandum under the section captioned under "Who May Invest" and that the undersigned will inform Mortgages Ltd. and MLS of any change in such accredited investor status.

(h) Represents and warrants that the Participations being acquired will be acquired for the undersigned's own account without a view to public distribution or resale and that the undersigned has no contract, undertaking, agreement, or arrangement to sell or otherwise transfer or dispose of any Participations or any portion thereof to any other person.

(i) Represents and warrants that the undersigned (i) can bear the economic risk of the purchase of Participations, including the loss of the undersigned's investment and (ii) has such knowledge and experience in business and financial matters, including the analysis of or participation in private offerings and real estate investments, as to be capable of evaluating the merits and risks of an investment in Participations or that the undersigned is being advised by others (acknowledged by the undersigned as being the "Purchaser Representative(s)" of the undersigned) such that they and the undersigned together are capable of making such evaluation.

(j) Represents and warrants, if subject to the Employee Retirement Income Security Act ("ERISA"), that the undersigned is aware of and has taken into consideration the diversification requirements of Section 404(a)(3) of ERISA in determining to purchase Participations and that the undersigned has concluded that the purchase of Participations is prudent.

(k) Understands that the undersigned may be required to provide additional current financial and other information to Mortgages Ltd. and MLS to enable them to determine whether the undersigned is qualified to purchase Participations.

(l) Understands that the Participations will not be registered under the Securities Act or the securities laws of any state or other jurisdiction and therefore will be subject to substantial restrictions on transfer.

(m) Agrees that the undersigned will not sell or otherwise transfer or dispose of any Participations or any portion thereof unless such Participations are registered under the Securities Act and any applicable state securities laws or the undersigned obtains an opinion of counsel that it is satisfactory to Mortgages Ltd. and MLS that such Participations may be sold in reliance on an exemption from such registration requirements.

(n) Understands that (i) there is no obligation or intention to register any Participations for resale or transfer under the Securities Act or any state securities laws or to take any action (including the filing of reports or the publication of information as required by Rule 144 under the Securities Act) that would make available any exemption from the registration requirements of any such laws, and (ii) the undersigned therefore may be precluded from selling or otherwise transferring or disposing of any Participations or any portion thereof for an indefinite period of time or at any particular time.

(o) Represents and warrants that neither Mortgages Ltd. or MLS nor anyone purportedly acting on behalf of either of them has made any representations or warranties respecting the Participations except those contained in the Memorandum nor has the undersigned relied on any representations or warranties in the belief that they were made on behalf of any of the foregoing, nor has the undersigned relied on the absence of any such representations or warranties in reaching the decision to purchase Participations.

(p) Represents and warrants that (i) if an individual, the undersigned is at least 21 years of age; (ii) the undersigned satisfies the suitability standards set forth in the Memorandum; (iii) the undersigned has adequate means of providing for the undersigned's current needs and contingencies; (iv) the undersigned has no need for liquidity in the undersigned's investments; (v) the undersigned maintains the undersigned's business or residence as provided to Mortgages Ltd. and MLS; (vi) all investments in and commitments to non-liquid investments are, and after the purchase of Participations will be, reasonable in relation to the undersigned's net worth and current needs; and (vii) any financial information previously provided, provided herewith, or subsequently provided at the request of Mortgage Ltd. or MLS did, does, or will accurately reflect the undersigned's financial sophistication and condition with respect to which the undersigned does not anticipate any material adverse change.

(q) Understands that no federal or state agency, including the Securities and Exchange Commission or the securities commission or authorities of any state, has approved or disapproved the Participations, passed upon or endorsed the merits of the Offering, or made any finding or determination as to the fairness of the Participations for investment.

(r) Acknowledges that Mortgages Ltd. and MLS have the unconditional right to accept or reject this Agreement.

(s) Understands that the Participations are being offered and sold in reliance on specific exemptions from the registration requirements of federal and state laws and that Mortgages Ltd. and MLS are relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgements, and understandings set forth herein in order to determine the suitability of the undersigned to acquire Participations.

(t) Acknowledges that the undersigned understands that, if this Agreement is rejected or if the Offering is terminated or withdrawn prior to acceptance of this Agreement, the funds deposited by the undersigned will be refunded promptly.

(u) Represents, warrants, and agrees that, if the undersigned is acquiring Participations in a fiduciary capacity (i) the above representations, warranties, agreements, acknowledgements, and understandings shall be deemed to have been made on behalf of the person or persons for whose benefit such Participations are being acquired, (ii) the name of such person or persons is indicated below under the subscriber's name, and (iii) such further information as Mortgages Ltd. and MLS deem appropriate shall be furnished regarding such person or persons.

(v) Represents and warrants that the information set forth herein, or contained in the undersigned's Account Application, is true and complete and agrees that Mortgages Ltd. and MLS may rely on the truth and accuracy of the information for purposes of assuring that Mortgages Ltd. and MLS may rely on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2) of the Securities Act and Regulation D under the Securities Act and of any applicable state statutes or regulations, and further agrees that Mortgages Ltd. and MLS may present such information to such persons as it deems appropriate if called upon to verify the information provided or to establish the availability of an exemption from registration under Section 4(2) of the Securities Act, Regulation D, or any state securities statutes or regulations or if the contents are relevant to any issue in any action, suit, or proceeding to which Mortgages Ltd. or MLS are a party or by which either of them may be bound.

(w) Understands and acknowledges that the Participations are subject to a number of important risks and uncertainties as set forth under the section captioned "Risk Factors" in the Memorandum, including significant competition; the risks generally incident to the development, ownership operation, and rental of real property; changes in national and local economic and market conditions; changes in the investment climate for real estate investments; the availability and cost of mortgage funds; the obligations to meet fixed and maturing obligations, if any; the availability and cost of necessary utilities and services; changes in real estate tax rates and other operating expenses; changes in governmental rules, fiscal policies, zoning, environmental controls, and other land use regulations; acts of God, which may result in uninsured losses; conditions in the real estate market; the availability and cost of real estate loans; and other factors beyond the control of Mortgages Ltd. The undersigned further understands and acknowledges that Participations will also be subject to the risks associated with the

development of real estate, including the cost of construction, the time it takes to complete such construction, worker strikes and other labor difficulties, energy shortages, material and labor shortages, inflation, adverse weather conditions, subcontractor defaults and delays, changes in federal, state, or local laws, ordinances, or regulations, and other unknown contingencies.

(x) Understands and acknowledges that the representations and warranties contained in this Agreement must remain true and correct at any time that the undersigned purchases any additional Participations and that the payment for any additional Participations will constitute such a reconfirmation of the truth and correctness of the representations and warranties contained in this Agreement.

(y) Understands and acknowledges that the success of any investment is impossible to predict and that no representations or warranties of any kind are made by Mortgages Ltd. or MLS or any of their affiliates with respect to the prospects of the investment or the ultimate rate of return on the Participations.

3. General Information. Purchaser Representative. Please check (a) or (b) below:

(a) The undersigned is not relying upon the advice of a Purchaser Representative, such as an attorney, accountant, or other advisor, in making a final investment decision to purchase Participations. The undersigned believes that the undersigned has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Participations.

(b) The undersigned does not have sufficient knowledge and experience in financial and business matters as required above. The undersigned intends to rely on and hereby designates as the undersigned's Purchaser Representative the individual(s) named below to assist the undersigned in evaluating the risks and merits of an investment in Participations. The undersigned authorizes Mortgages Ltd. to furnish such person with a Purchaser Representative Questionnaire requesting certain information regarding his or her expertise and background and the undersigned agrees to furnish such questionnaire to Mortgages Ltd.

Name of Purchaser Representative: Louis B. Muepker

Address: P.O. Box 2499 Benson AZ 85602

Occupation: Investor

Employer: Self

If Item 3(b) is checked, each Purchaser Representative must complete a Purchaser Representative Questionnaire.

4. Adoption of the Agency Agreement. By executing this Agreement, the undersigned accepts and agrees to be bound by the Agency Agreement in the form of an exhibit to the Memorandum or as otherwise furnished to the undersigned. The undersigned further hereby irrevocably constitutes and appoints Mortgages Ltd., with full power of substitution, as the undersigned's true and lawful attorney and agent, with full power and authority in the undersigned's name, place, and stead, to make, execute, swear to, acknowledge, deliver, file, and record the following:

(a) The Agency Agreement and amendments thereto;

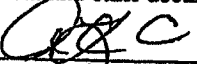
(b) Any Assignments of Beneficial Participation in Deeds of Trust, Promissory Note Endorsements, Assignments of Assignment of Deeds, Leases and Profits, and Assignments of Assignments of Rents

that Mortgages Ltd. deems necessary and appropriate to effectuate the purposes of the Programs and the purchase of Participations.

(c) All certificates, instruments, documents, and other papers and amendments thereto that may from time to time be required under the laws of the United States of America, the state of Arizona, any other state or jurisdiction, or required by any political subdivision or agency of any of the foregoing or otherwise, or which Mortgages Ltd. deems appropriate or necessary to carry on the objects and intent of the Programs and the purchase of Participations;

(d) All conveyances and other instruments that Mortgages Ltd. deems appropriate to effect the transfer of Participations.

(e) Unless authorization is withheld by so indicating below or in another written document to Mortgage Ltd. and MLS, the undersigned hereby authorizes Mortgages Ltd. to be named as the lender/payee/beneficiary as agent for the undersigned in the deed of trust or deeds of trust or mortgage or mortgages securing the Loan or Loans and other documentation relating to the Loans.

✓ 

Authorization granted Robert Investor Authorization withheld
on 10/11/07 @ 11:43am

This power of attorney granted hereby shall be deemed to be a power coupled with an interest, shall survive the death, legal incapacity bankruptcy, merger, sale, dissolution, termination, or other fundamental change of the undersigned, and shall survive the delivery of an assignment by the undersigned of all or any portion of the undersigned's Participations or any interest therein except that, when the assignee thereof has been approved by Mortgages Ltd. as a Participation holder, the power shall survive the delivery of such assignment with respect to the assigned interest only for the purpose of enabling Mortgages Ltd. to execute, acknowledge, and file any instruments necessary to effect such substitution.

5. **Actions to Protect Investors.** In order to protect investors, the undersigned understands and acknowledges that Mortgages Ltd. will have the authority to make various determinations and take various actions with Loans with respect to the Participations currently owned or owned in the future by the undersigned, including extending the terms of the Loans, modifying the payment terms of the Loans, accepting prepayments on the Loans, releasing a portion of the collateral securing the Loans, and otherwise dealing with the Loans on behalf of the undersigned.

6. **Authorization to Purchase Following Verbal Instructions.**

(a) The undersigned hereby authorizes Mortgages Ltd. Securities, L.L.C., as the undersigned's agent, to accept the undersigned's oral instructions (a) to purchase Participations in Loans secured by deeds of trusts or mortgages on the properties underlying the Loans so long as the Participations are within the parameters described in the Memorandum and (b) to apply payoff proceeds of Participations to purchase Participations in other Loans within the parameters described in the Memorandum or to forward the cash proceeds thereof to the undersigned. By executing this Agreement, the undersigned also acknowledges and confirms the following:

(b) To the extent that the undersigned requests with respect to a Loan, the undersigned understands that the undersigned will have the opportunity to (i) review the Property Information Sheet for the Loan, which describes material information about the Loan and the deed of trust or mortgage securing the Loan, (ii) to review Mortgage Ltd.'s entire loan file with respect to the Loan, which contains information and documentation concerning the Loan, the real property underlying the Loan, and the Borrower under the Loan; (iii) to ask any questions the undersigned has about the Loan and such documentation; and (iv) the undersigned will receive answers to any questions that the undersigned may have.

To the extent that a representative of MLS is unable to contact the undersigned following the payoff of a Loan with respect to which the undersigned owns Participations, the undersigned authorizes MLS to apply such proceeds to the

Capital Opportunity Loan Program for the minimum investment period pending oral instructions from the undersigned for the application of such proceeds after such minimum period.

7. **Grant of Discretion.** Until revoked at any time in writing, the undersigned hereby grants discretion to Mortgages Ltd., in its sole discretion, to select for purchase and sale the Loan or Loans with respect to which the undersigned acquires Participations. Without limiting the foregoing, the undersigned understands that this grant of discretion will give Mortgages Ltd. the authority, in its sole discretion, to make various determinations and take various actions with Loans with respect to Participations to be acquired, acquired, or sold by the undersigned.

Discretion granted

Discretion withheld

at C per investor

12/11/07 @ 11:49

8. **Disclosure of Existing Power of Attorney.** Please indicate if the undersigned has granted a power of attorney with respect to Mortgages Ltd. investment products.

Yes

No

per investor @ 11:49 am on 12/11/07

If yes, please attach a copy of the document.

9. **Miscellaneous.**

(a) **Choice of Law.** This Agreement and all questions relating to its validity, interpretation, performance, and enforcement, will be governed by and construed in accordance with the laws of the state of Arizona, notwithstanding any Arizona or other conflict-of-law provision to the contrary.

(b) **Binding Agreement.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and the respective heirs, personal representatives, successors, and assigns of the parties hereto, except that the undersigned may not assign or transfer any rights or obligations under this Subscription Agreement without the prior written consent of the Mortgages Ltd.

(c) **Entire Agreement.** This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written, except as herein contained.

(d) **Dispute Resolution.**

(i) This section applies to any controversy or claim arising from, relating to, or in any way connected with this Agreement, the Offering, the Loans, the Agency Agreement, and any other documents relating to the Loans.

(ii) In the event of any such controversy or claim, the parties shall use their best efforts to settle the controversy or claim. To this effect, they shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to both parties. If they do not reach such solution within a period of 60 days, then, upon notice by either party to the other, all such controversies or claims shall be submitted to mediation administered by the American Arbitration Association under its Commercial Mediation Procedures.

(iii) In the event that mediation does not result in a resolution, any party that still wishes to pursue a controversy or claim shall first notify the other party in writing within 60 days after the mediation. Upon receipt of such notice, the receiving party shall elect, in its sole and absolute discretion, to compel the dispute either to court for litigation pursuant to this section or to arbitration pursuant to this section. The receiving party shall notify the other party of the election within 10 days after receipt of the notice.

(iv) In the event that the dispute is compelled to arbitration, the parties agree to submit the unresolved controversies or claims to arbitration administered by the American Arbitration Association

in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Within 15 days after the commencement of arbitration, each party shall select one person to act as arbitrator and the two selected shall select a third arbitrator within ten days of their appointment. If the arbitrators selected by the parties are unable or fail to agree upon the third arbitrator, the third arbitrator shall be selected by the American Arbitration Association. The arbitrators will have no authority to award punitive or other damages not measured by the prevailing party's actual damages, except as may be required by statute. The arbitrators shall not award consequential damages. Any award in an arbitration initiated under this clause shall be limited to monetary damages and shall include no injunction or direction to any party other than the direction to pay a monetary amount. The arbitrators shall award to the prevailing party, if any, as determined by the arbitrators, all of its costs and fees. "Costs and fees" mean all reasonable pre-award expenses of the arbitration, including the arbitrators' fees, administrative fees, travel expenses, out-of-pocket expenses, such as copying and telephone, court costs, witness fees, and attorneys' fees. Except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of the other parties. The place of arbitration shall be Phoenix, Arizona.

(v) In the event that the dispute is compelled to court for litigation, the parties agree that the unresolved controversies or claims shall be determined in federal or state court sitting in the city of Phoenix, and they agree to waive the defense of inconvenient forum and any right to jury trial.

IN WITNESS WHEREOF, intending to irrevocably bind the undersigned and the heirs, personal representatives, successors, and assigns of the undersigned and to be bound by this Subscription Agreement, the undersigned is executing this Subscription Agreement on the date indicated.

Dated: Dec 7th, 2007

Name in which Individual Investment Is to Be Registered:

Louis B. Murphy

Print Name of Individual Investor:

Louis B. Murphy

Signature of Individual Investor:

Louis B. Murphy

Print Name of Individual Co-Investor:

Signature of Individual Co-Investor:

Name of corporate, partnership, limited liability company, trust, qualified pension, profit sharing, stock/Keogh, or 401k Plan Investor:

By: _____
(Signature of first executing party)

Its: _____

By: _____
(Signature of second executing party)

Its: _____

ACCEPTED:
MORTGAGES LTD.

By: Manuel Aleman
Its: Vice President

DEC 18 2007

NISA09062006.01(Form-012)

For Mortgages Ltd. Securities .L.L.C use only
<u>R. Brent</u> Signature of Managing Director
<u>[Signature]</u> Signature of Chief Compliance Officer

12/18/07

EXHIBIT "B-3"

MASTER AGENCY AGREEMENT

Effective: May 10, 2005

"Beneficiary": Louis B. Murphey, an unmarried man

"Agent": Mortgages Ltd., an Arizona corporation.

In consideration of the reciprocal promises contained herein, Beneficiary and Agent (collectively, the "Parties") hereby agree to the following.

1. APPOINTMENT AND AUTHORITY OF AGENT

Beneficiary hereby appoints Mortgages Ltd. to act as Beneficiary's Agent with regard to the Loans. Beneficiary authorizes Agent to perform any and all of the following tasks on Beneficiary's behalf at Agent's sole discretion.

a. **Account Servicing.** In order to facilitate Agent's management of Beneficiary's investment in the Loans, Agent may:

(1) Request from Beneficiary, Beneficiary's percentage ratio of any delayed fundings or Equity-Flex™ Advances to Trustor under the Loan Documents, which funds Beneficiary shall deliver to Agent within 3 business days to be held or disbursed by Agent pursuant to the Loan Documents. In the event Beneficiary fails to transmit such funds to Agent within the time period set forth, Agent may, at its option, do the following:

(a) Divide Beneficiary's total funding by the face amount of the Loan to determine Beneficiary's current percentage ratio and transfer to a new investor the difference between the Beneficiary's assigned percentage rate and Beneficiary's current percentage ratio; or

(b) Liquidate Beneficiary's investment in the Loan and transfer all of Beneficiary's assigned percentage ratio in the Loan to a new beneficiary.

(2) Receive and hold the original Promissory Notes, Deeds of Trust and all other documents executed by the Trustor in connection with the Loans (collectively, the "Loan Documents");

(3) Service and administer the Loans in any manner provided by the Loan Documents;

(4) Receive and process any and all Loan payments from Trustors or other payers ("Trustor payment") as follows:

(a) Upon receipt of a Trustor payment, deposit that payment in an account held by Agent, and transmit or deposit the appropriate check to Beneficiary.

(b) At Agent's discretion, Agent may delay disbursing funds to Beneficiary from payments received by Trustor until Trustor's funds are collected by Agent's depository institution.

(c) If a Trustor payment is returned for any reason by the drawee financial institution, Agent may send a notice to Trustor requesting payment of the past due amount at the default interest rate.

(5) Assess, receive and process all fees and charges set forth in the Loan Documents including, but not limited to, administrative fees, notice fees and late charges;

(6) Apply any sums received by Agent to the fees, costs and expenses incurred or assessed by Agent before applying to the balance of the Loan account. These fees, costs and expenses include, but are not limited to, notice fees, service fees, administrative fees, inspection fees, appraisal fees, expert fees, attorneys' fees, litigation costs, force placed insurance premiums, late charges and guarantor collection expenses (as described herein);

(7) Receive and retain deposits under the Loan Documents as impounds for the payment of the following:

MLM0209

- (a) Future payments due;
- (b) Taxes and assessments;
- (c) Construction;
- (d) Insurance premiums;
- (e) Extension fees;
- (f) Administration fees; and
- (g) Any other expenditure required under the Loan Documents.

Any impound account may be held in the name of Mortgages Ltd. and the Trustor for the benefit of Beneficiary, and Agent may apply and/or disburse any such deposits in accordance with the Loan Documents;

(8) Evaluate, effectuate and process an assumption of the Loans, and assess and receive an assumption fee and/or an interest increase, as provided in A.R.S. § 33-806.01 or any successor statute; and

(9) Execute, file and record any and all documents which, at Agent's discretion, are necessary to facilitate Loan servicing, including, but not limited to, deeds of release and reconveyance (full and partial); indorsements and assignments of Loan Documents; corrections, amendments, modifications and extensions of Loan Documents; disclaimers; financing statements; assumptions and various certifications.

(10) Upon Beneficiary's request, hold funds from the full or partial payoff of the loans in Agent's Trust account pending Beneficiary's written direction as to use of such funds.

b. **Collection.** In order to protect Beneficiary's interests in the Loans, Agent may:

(1) Correspond directly with Trustors at any time on any matter regarding the Loan Documents including, but not limited to, sending notices of delinquency and default, and demands for payment and compliance.

(2) Incur all fees, costs and expenses deemed necessary by Agent to protect Beneficiary's interests under the Loan Documents.

(3) Incur all fees, costs and expenses deemed necessary by Agent to protect the property securing the Loans (the "Trust Property"), including, but not limited to, insurance premiums, receiver fees, property manager fees, maintenance expenses and security expenses.

(4) Negotiate, accept and/or process partial payments of amounts due and owing under the Loan Documents;

(5) Send Beneficiary a request to deposit sufficient funds for delinquent real estate taxes and insurance premiums (including force placed insurance) relating to the Trust Property;

(6) Obtain force placed insurance on any portion of the Trust Property in the event the Trustor fails to maintain insurance as required by the Loan Documents;

(7) Execute, file and record any and all documents Agent deems necessary to protect Beneficiary's interests and/or pursue Beneficiary's remedies upon default, including, but not limited to, a statement of breach or non-performance, a substitution of trustee, a notice of election to foreclose, an affidavit of non-military service, a notice of proposed disposition of collateral and various verifications;

(8) In the event of default and at Agent's discretion, commence foreclosure of the Trust Property, initiate a trustee's sale and/or institute any proceeding necessary to collect the sums due under the Loan Documents or to enforce any provision therein (including, but not limited to, pursuing an action against any borrower or guarantor of the Loans; pursuing injunctive relief, the appointment of a receiver, provisional remedies and a deficiency judgment; pursuing claims in bankruptcy court; pursuing an appeal; collecting rents; and taking possession or operating the Trust Property;

(9) Negotiate and enter into extensions, modifications and/or forbearances of the Loan Document provisions;

(10) Negotiate and facilitate the sale of Beneficiary's interests in the Loan Documents by communicating with potential purchasers and their agents and by providing information regarding the Loans to third parties, such as, but not limited to, copies of the Loan Documents and Loan accounting information;

(11) Retain attorneys, trustees and other agents necessary to collect the sums due under the Loan Documents, to protect the Trust Property and/or to proceed with foreclosure of the Trust Property, initiate a trustee's sale and/or institute, defend, appear

or otherwise participate in any proceeding (legal, administrative or otherwise) that Agent deems necessary;

(12) Incur and pay such costs, expenses and fees as Agent deems appropriate in undertaking and pursuing enforcement of the Loan Documents and/or collection of amounts owed thereunder, including, but not limited to, attorneys' fees, receiver fees, trustee fees, expert fees and any fees, costs and expenses incurred in an effort to collect against guarantors of the Loans; and

(13) Request and receive payments from Beneficiary as advances in order to pay such fees, costs and expenses incurred by Agent in accordance with this Agreement and/or the Loan Documents.

c. **Compensation.** As compensation for the services provided by Agent, Agent may:

(1) Retain any and all fees and charges assessed under the Loan Documents and collected by Agent, including, but not limited to, late charges, maturity late charges, administrative fees, prepayment penalties or premiums, notice fees and services;

(2) Deduct from payments received by Beneficiary an interest participation or minimum service charge equal to the amount set forth in the Direction to Purchase for each Loan to be paid from each monthly payment until paid in full;

(3) Collect and retain any interest on the principal balance of the Loans which is over and above the normal rate set forth in the Promissory Note (the "Note Rate"), including, but not limited to, the Default Interest provided for in the Loan Documents; however, any and all interest, including, but not limited to, Default Interest, collected on any advances (excluding Equity-Flex Advances) made by Beneficiary shall be payable to Beneficiary;

(4) Collect and retain any interest that accrues on any impound accounts;

(5) Collect and retain any assumption fees and charges; and

(6) Collect and retain any extension fees and forbearance fees.

d. **Sale of Interest.** In the event Beneficiary owns less than 100% interest in any loan being serviced by Mortgages Ltd., Agent, in its sole discretion, may liquidate Beneficiary's interest. Upon payment to Beneficiary, Agent will, upon direction of Beneficiary, use its best efforts to reinvest any funds received by Beneficiary in a new Loan.

2. ACCOMMODATION.

Agent provides its services as an accommodation only, and shall incur no responsibility or liability to any person, including, but not limited to, Trustor and Beneficiary, for nonfeasance or malfeasance, misfeasance and nonfeasance.

3. ASSIGNMENT, RESIGNATION AND TERMINATION.

a. Agent shall have the right to assign the collection account or resign as Agent at any time, provided that Agent notifies Beneficiary of such assignment or resignation in writing.

(1) In the event Agent assigns the collection account, Agent will deliver all Loan Documents, directions and account records to assignee, at which time Agent will have no further duties or liabilities hereunder.

(2) In the event Agent resigns, Beneficiary shall have the right to designate a new collection agent and Agent shall deliver to Beneficiary all Loan Documents, directions and account records to Beneficiary or the newly designated collection agent, at which time Agent will have no further duties or liabilities hereunder.

b. In the event that the ownership of the Trust Property becomes vested in the Beneficiary, either in whole or in part, by trustee sale, judicial foreclosure or otherwise, Agent may enter into a real estate broker's agreement on Beneficiary's behalf for the sale of the Trust Property, enter into a management and/or maintenance agreements for management or maintenance of the Trust Property, if applicable, may acquire insurance for the Trust Property, and may take such other actions and enter into such other agreements for the protection and sale of the Trust Property, all as Agent deems appropriate. Beneficiary may terminate this Agreement after it becomes the owner of the Trust Property by written notice to Agent and payment of the fees, costs and expenses incurred by Agent as provided herein.

c. Upon Agent's assignment or resignation, or termination of this Agreement, Beneficiary shall immediately reimburse Agent for any and all fees, costs and expenses incurred hereunder and pay Agent all compensation due. After such reimbursement and payment, Beneficiary shall have no further duties, except indemnification of Agent.

4. INDEMNITY

a. Beneficiary shall immediately indemnify and hold Agent harmless against any and all liabilities incurred by Agent in performing under the terms of this Agreement or otherwise arising, directly or indirectly, from the Loans or Loan Documents, including, but not limited to, all attorneys' fees, insurance premiums, expenses, costs, damages and expenses.

b. In the event that Agent requests that Beneficiary pay any amount owed hereunder, Beneficiary shall remit that amount to Agent within 5 business days of Agent's request.

5. BENEFICIARY'S OBLIGATIONS

a. **Execution of Documents.** As previously set forth herein, Agent is authorized to execute any and all documents Agent deems necessary to facilitate loan servicing or collection. However, in the event that it is necessary, Beneficiary shall execute any and all documents Agent deems necessary to facilitate loan servicing or collection, including, but not limited to, deeds of release and reconveyance (full and partial), indorsements and assignments. If Agent requests Beneficiary execute such a document, then Beneficiary shall execute and deliver that document to Agent within 5 business days of Agent's request.

b. **Failure to Execute Documents.** In the event that Beneficiary fails to execute one of the documents described in paragraph 5.a. above, Agent shall be authorized to execute that document. In the event that Agent is prevented from executing a document due to circumstances beyond Agent's control, then Agent shall be entitled to seek indemnification from Beneficiary for any liabilities Agent may incur as a result.

c. **Assignment.** Beneficiary shall have the right to assign its rights in this Agreement as to any Loan covered by this Agreement at any time upon immediate notification to Agent in writing of any assignment of Beneficiary's rights. Upon assignment, Beneficiary's shall immediately reimburse Agent for any and all fees, costs and expenses incurred hereunder and pay Agent all compensation due. After such reimbursement and payment, Beneficiary shall have no further duties, except indemnification of Agent.

d. **Breach.** In the event that Beneficiary breaches this Agreement, by failing to perform or by interfering with the Agent's ability to perform under this Agreement, then Beneficiary shall pay Agent, within 30 days of written notice of breach, administrative fees, attorneys fees, costs, closeout fees and any other fees or charges owed to Agent as compensation hereunder, along with any additional damages incurred by Agent, whether actual, incidental or consequential.

6. CONFIDENTIALITY

a. For the purposes of this Agency Agreement, the term "Confidential Information" as used herein shall include any and all written and verbal information provided by Agent to Beneficiary in connection with the Loans, whether marked or designated as confidential or not, including without limitation any information regarding Agent's underwriting criteria or procedures. Except with respect to Agent's underwriting criteria and procedures, which shall in all events constitute Confidential Information hereunder, the definition of Confidential Information shall not include any information which: (i) is or becomes generally known to third parties through no fault of Beneficiary; or (ii) is already known to Beneficiary prior to its receipt from Agent as shown by prior written records; or (iii) becomes known to Beneficiary by disclosure from a third party who has a lawful right to disclose the information.

b. Beneficiary acknowledges that the Confidential Information is proprietary and valuable to Agent and that any disclosure or unauthorized use thereof may cause irreparable harm and loss to Agent.

c. In consideration of the disclosure to Beneficiary of the Confidential Information and of the services to be performed by Agent on behalf of Beneficiary hereunder, Beneficiary agrees to receive and to treat the Confidential Information on a confidential and restricted basis and to undertake the following additional obligations with respect thereto:

- (i) To use the Confidential Information only in connection with the Loans.
- (ii) Not to duplicate, in whole or in part, any Confidential Information.
- (iii) Not to disclose Confidential Information to any entity, individual, corporation, partnership, sole proprietorship, customer or client, without the prior express written consent of Agent.
- (iv) To return all Confidential Information to Agent upon request therefor and to destroy any additional notes or records made from such Confidential Information.
- (v) Not to give testimony against Agent in any legal proceeding to which Agent is a party, unless compelled to do so by competent legal authority.

d. The standard of care to be utilized by Beneficiary in the performance of its obligations set forth herein shall be the standard of care utilized by Beneficiary in treating Beneficiary's own information that it does not wish disclosed, except that Agent's underwriting criteria and procedures shall be kept absolutely confidential and privileged regardless of whether such knowledge was previously known to Beneficiary or has been or is in the future disclosed to Consultant by third parties.

e. The restrictions set forth in this Section 6 shall be binding upon Beneficiary, its employees, agents, officers, directors and any others to whom any Confidential Information may be disclosed as part of or in connection with the Loan transactions. Beneficiary shall be responsible for any actions of its employees, agents, officers, directors or others to whom it has provided such information with respect to such information.

f. The restrictions and obligations of this Section 6 shall survive any expiration, termination or cancellation of this Agent Agreement and shall continue to bind Beneficiary, its successors and assigns.

g. Beneficiary agrees and acknowledges that the rights conveyed in this Section 6 are of a unique and special nature and that Agent will not have an adequate remedy at law in the event of failure of Beneficiary or anyone acting on Beneficiary's behalf or for whom Beneficiary acted to abide by the terms and conditions set forth herein, nor will money damages adequately compensate for such injury. It is, therefore, agreed between the parties that Agent, in the event of a breach by Beneficiary of its agreements contained in this Section 6, shall have the right, among other rights, to obtain an injunction or decree of specific performance to restrain Beneficiary or anyone acting on Beneficiary's behalf or for whom Beneficiary is acting from continuing such breach, in addition to damages sustained as a result of such breach. Nothing herein contained shall in any way limit or exclude any and all other rights granted by law or equity to either party.

7. GENERAL PROVISIONS

a. This Agreement is binding on the Parties and their agents, representatives, successors, assigns, beneficiaries and trustees.

b. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Arizona. The Parties hereby submit to the jurisdiction of any Arizona State or Federal Court sitting in the City of Phoenix in any action or proceeding arising out of or relating to this Agreement. The Parties hereby waive the defense of an inconvenient forum.

c. The Parties hereby waive the right to a jury trial on any and all contested matters arising from this Agreement.

MLM0213

d. This Agreement sets forth the entire agreement and understanding of the Parties and is to be read in consistency and accordance with the other Loan Documents.

e. This Agreement replaces and supersedes any and all prior agency agreements between Beneficiary and Mortgages Ltd. including, but not limited to, the Supplemental Collection Instructions and Agent Authorizations and the Beneficiary's Supplemental Agreement with Collection Agent (collectively, "Prior Agency Agreements"). As to all existing Loans, any and all Prior Agency Agreements are hereby null and void, and the terms of this Agreement govern the relationship of the Parties.

f. This Agreement may be amended, modified, superseded, canceled, renewed or extended and the terms or covenants hereof may be waived only by a written instrument executed by Agent and Beneficiary. Agent's failure, at any time, to require performance of any provision of this Agreement shall in no manner affect the right of Agent or Beneficiary at a later time to enforce the same. No waiver by Agent of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver by Agent of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

g. If any term or other provision of this Agreement or any other Loan Document is declared invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect.

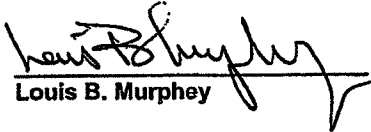
h. This Agreement may be executed by the Parties in counterparts. The executed signature pages may then be attached together constituting an original copy of the Agreement. Copies of executed signature pages obtained via facsimile shall be effective and binding on the Parties.

i. If there is any arbitration or litigation by or among the parties to enforce or interpret any provisions of this Agency Agreement or any rights arising hereunder, the unsuccessful party in such arbitration or litigation, as determined by the arbitrator or the court, shall pay to the successful party, as determined by the arbitrator or the court, all costs and expenses, including without limitation attorneys' fees and costs, incurred by the successful party, such costs and expenses to be determined by the arbitrator or court sitting without a jury.

This Agreement is effective on the date set forth on the first page.

BENEFICIARY:

Louis B. Murphey, an unmarried man


Louis B. Murphey

**AGENT:
MORTGAGES LTD.**


James J. Cordello, Executive Vice President

EXHIBIT "B-4"

RECEIPT

The undersigned hereby acknowledges receipt of Copy Number 1469 of MORTGAGES LTD., an Arizona corporation (the "Company"), Private Offering Memorandum and all exhibits thereto (collectively the "Memorandum") dated April 10, 2005, relating to the offer and sale of whole or partial interests in loans secured by Arizona real estate and the services provided by the Company in connection therewith ("Direct Deed of Trust Investments").

The undersigned hereby agrees that:

- (i) the Memorandum and other materials are CONFIDENTIAL and the property of the Company;
- (ii) the Memorandum and other materials have been delivered to the undersigned solely for the purpose of considering an offer to sell the Direct Deed of Trust Investments as set forth in Memorandum; and
- (iii) upon request by the Company for the return of the Memorandum as well as any and all copies thereof made or caused to be made by the undersigned, the Memorandum shall be immediately returned to the Company.

DATED: 5/2/15

Louis B. Murphy
Offeree: Louis B. Murphy
murphy

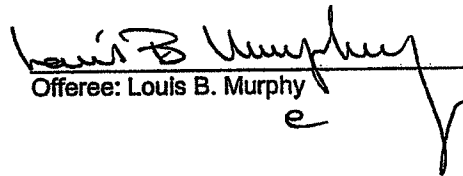
UPON RECEIPT OF THE MEMORANDUM PLEASE DATE THIS RECEIPT, SIGN IT AND RETURN IT TO THE COMPANY AT 55. E. Thomas Road, Phoenix, Arizona 85012.

EXHIBIT "B-5"

**ACKNOWLEDGEMENT OF RECEIPT OF
OPPORTUNITY PORTFOLIO™ MATRIX
AND DIRECT DEED OF TRUST INVESTMENT PROGRAM SUMMARY LETTER**

The undersigned hereby acknowledges that he/she/ it has received and reviewed the April 18, 2005 Opportunity Portfolio Matrix and Direct Deed of Trust Investment Program Summary Letter (collectively the "Program Summary") from Mortgages Ltd. (the "Company") and further acknowledges that the Program Summary supplements, and, to the extent it is inconsistent, supercedes and amends the Private Offering Memorandum for the Company's Direct Deed of Trust Investments (the "Memorandum"). Except as amended by the Program Summary, the terms and conditions in the Memorandum shall remain in full force and effect and shall continue to be applicable, in accordance with their terms, to my investment in the Company's Direct Deed of Trust Investments.

DATED: 5/13/15


Offeree: Louis B. Murphy

UPON RECEIPT OF THE OPPORTUNITY PORTFOLIO™ MATRIX PLEASE DATE THIS RECEIPT,
SIGN IT AND RETURN IT TO THE COMPANY AT 55. E. Thomas Road, Phoenix, Arizona 85012.

EXHIBIT "B-6"

MU06



4455 E. Camelback Rd.
Phoenix, Arizona 85018

P: 602.443.3888
F: 602.287.3076

www.mtgld.com

■ April 15, 2008

Mr. Louis Murphey
P.O. Box 2499
Benson, AZ 85602

 COPY

RE: MU06: Revolving Opportunity™ Program

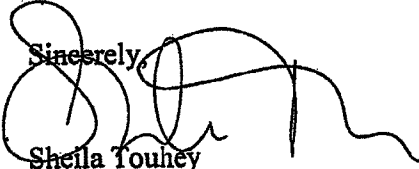
Dear Mr. Louis Murphey:

According to our records, you currently have \$6,000,000.00 invested in the Revolving Opportunity™ program with a contract expiration date of September 20, 2008. Recently, Mortgages Ltd. made the business decision to dissolve the Revolving Opportunity™ program. We would like to encourage you to take advantage of one of our other great products at this time, as we will not be renewing existing contracts upon expiration.

As alternatives to the Revolving Opportunity™ product, Mortgages Ltd. Securities, L.L.C. continues to offer individual Annual Opportunity® investments and balanced income Opportunity Funds®. Please contact me at 602-443-3888 for additional information regarding these products.

Please realize the terms of your existing Revolving Opportunity™ contract are not transferable to our other programs, and Mortgages Ltd. is willing to make certain concessions to stabilize your yields as we phase out this program. Please review the options on the following page concerning your existing contract and sign and return the attached acknowledgement.

Sincerely,


Sheila Touhey
Managing Director

The above information should not be considered as a formal offer, solicitation or acceptance of the subscription. Such offer will be made only by means of the Private Offering Memorandum, and only to individuals who meet the investor suitability, accreditation and sophistication requirements. The Issuer may, in its absolute discretion, reject or accept any subscription for interests in whole or in part.

These investments contain risks which an investor must evaluate, understand and be willing to bear. Prospective investors should read the entire Private Offering Memorandum and consult with appropriate professionals before deciding whether to invest.

Securities offered through Mortgages Ltd. Securities, LLC, member FINRA.

REVEXPR04102008.00(FLEX-050)

MLM0490



■ **MU06: Revolving Opportunity™ Program**

Your Revolving Opportunity™ contract will expire on September 20, 2008. Upon expiration of the contract, prepaid interest will no longer be available and the terms of the contract will no longer exist. Should you choose to take advantage of one of our other products prior to that expiration, the following opportunities are available to you:

- I am interested in transferring my Revolving Opportunity™ investment into Mortgages Ltd. Opportunity Fund MP17, L.L.C. with a current buy-in rate of 11.75%. This investment also provides the additional opportunity to compound monthly interest. I understand this terminates my Revolving Opportunity™ contract on the effective date of the transfer.
- I am interested in converting my Revolving Opportunity™ investment to an Annual Opportunity® investment. I understand that this option allows me to receive full note rate for the life of the loan, and that liquidity is based upon payoff of the loan. Additionally, I understand this terminates my Revolving Opportunity™ contract upon receipt of this form.

I acknowledge that I have read and understand the opportunities that are being offered to me regarding the upcoming expiration of my Revolving Opportunity™ contract.

INVESTOR: Louis B. Murphey, an unmarried man

Louis B. Murphey

Date

MU06

The above information should not be considered as a formal offer, solicitation or acceptance of the subscription. Such offer will be made only by means of the Private Offering Memorandum, and only to individuals who meet the investor suitability, accreditation and sophistication requirements. The Issuer may, in its absolute discretion, reject or accept any subscription for interests in whole or in part.

These investments contain risks which an investor must evaluate, understand and be willing to bear. Prospective investors should read the entire Private Offering Memorandum and consult with appropriate professionals before deciding whether to invest.

Securities offered through Mortgages Ltd. Securities, LLC, member FINRA.

REVEXPR04102008.00(FLEX-050)

MLM0491

EXHIBIT “C”



55 East Thomas Road
Phoenix, Arizona 85012

P: 602.443.3898
F: 602.287.3076

www.mtgld.com

■ March 25, 2008

Mr. Louis Murphey
P.O. Box 2499
Benson, AZ 85602

Dear Mr. Murphey:

As part of our continuous effort to adhere to the highest standards of servicing and protecting your investment, we have enclosed a newly revised Investor Subscription Agreement for each of your accounts.

To protect your investment, we need the ability to act in your best interest by avoiding, to the best of our ability, any interruption in the income stream, or loss of principal that would result from inaction. For those loans that become at risk of not performing per the terms of the loan documents, we need the ability to act. As servicing agent we need your discretion to modify loan documents or enter into agreements with borrowers.

It is extremely important for you to give us the discretion to act in your best interest to protect your investment. Please authorize or grant discretion wherever asked as we truly believe this is in your best interest.

I encourage you to sign and return the revised Investor Subscription Agreement(s) by April 2nd. For your convenience, and to expedite the return, a pre-paid return envelope is enclosed.

Please call me if you have any questions.

Regards,

A handwritten signature in black ink, appearing to read "Scott M. Coles", written over a horizontal line.

Scott M. Coles
President / CEO

EXHIBIT "D"

PRIVATE OFFERING MEMORANDUM

July 10, 2006

PASS-THROUGH LOAN PARTICIPATIONS IN LOANS ORIGINATED OR ACQUIRED BY MORTGAGES LTD.

There is being offered Pass-Through Loan Participations ("Participations"). Each Participation will constitute a fractional undivided interest in a loan ("Loan") to a person, corporation, limited liability company, partnership, or other entity ("Borrower") secured by a deed of trust or mortgage on residential, commercial, or industrial real estate. Substantially all the Loans will be secured by real estate located in Arizona. Each Loan will be originated or acquired by Mortgages Ltd., an Arizona corporation that is a licensed mortgage banker (the "Company").

This Memorandum covers Participations relating to various investment programs ("Programs")

sponsored by the Company, including the Capital Opportunity Loan Program, the Annual Opportunity Loan Program, the Opportunity Plus Loan Program, the Revolving Opportunity Loan Program, and the Performance Plus Loan Program. Each Program is designed to provide investors with a favorable rate of return through the purchase of Participations.

The offering of Participations (the "Offering") is being made only to "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The Offering will continue until terminated by the Company.

AN INVESTMENT IN THESE SECURITIES IS HIGHLY SPECULATIVE AND INVOLVES SUBSTANTIAL RISKS. SEE "RISK FACTORS," BEGINNING ON PAGE 9.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED OR RECOMMENDED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER REGULATORY AUTHORITY NOR HAS THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PRIVATE OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE BEING OFFERED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER, OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IN ACCORDANCE WITH THE PROVISIONS OF SECTION 4(2) AND RULE 506 OF REGULATION D PROMULGATED THEREUNDER BY THE SECURITIES AND EXCHANGE COMMISSION, AND STATE SECURITIES LAWS. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION, OR EXEMPTION THEREFROM.

The Participations will be offered through Mortgages Ltd. Securities, L.L.C. ("MLS"), an affiliate of the Company, on a best efforts basis. Participation holders will not be required to pay MLS a securities commission. The Company will pay any costs of the Offering, including legal, accounting, and printing fees and expenses, that exceed \$30,000.

THE PARTICIPATIONS ARE BEING OFFERED AND SOLD IN RELIANCE ON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND STATE SECURITIES LAWS. THE COMPANY RESERVES THE RIGHT, IN ITS SOLE AND ABSOLUTE DISCRETION, TO REJECT ANY SUBSCRIPTION.

PROSPECTIVE INVESTORS SHOULD NOT CONSTRUE THE CONTENTS OF THIS MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE COMPANY OR THE MANAGER, OR ANY OF THEIR OFFICERS, EMPLOYEES, OR REPRESENTATIVES AS LEGAL OR TAX ADVICE OR AS INFORMATION NECESSARILY APPLICABLE TO A PROSPECTIVE INVESTOR'S INDIVIDUAL FINANCIAL SITUATION. EACH INVESTOR SHOULD CONSULT THE INVESTOR'S OWN FINANCIAL ADVISOR, COUNSEL, AND ACCOUNTANT AS TO TAX AND RELATED MATTERS CONCERNING THE INVESTOR'S INVESTMENT.

NO DEALER, SALESMAN, OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OTHER THAN AS SET FORTH IN THIS MEMORANDUM, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS BEING AUTHORIZED. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH AN OFFER IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM SUCH OFFER WOULD BE UNLAWFUL.

TABLE OF CONTENTS	PAGE
WHO MAY INVEST	3
SUMMARY	5
RISK FACTORS	9
USE OF PROCEEDS	23
COMPENSATION TO THE COMPANY AND ITS AFFILIATES	24
CONFLICTS OF INTEREST	26
THE COMPANY	27
LOAN ORIGATION AND SERVICING	30
DESCRIPTION OF THE PROGRAMS	35
GOVERNING DOCUMENTS	37
FEDERAL INCOME TAX CONSEQUENCES	40
ERISA ASPECTS OF THE OFFERING	44
TERMS OF THE OFFERING	48
RESTRICTIONS ON TRANSFER	49
LEGALITY OF PARTICIPATIONS	49
ADDITIONAL INFORMATION	50
SUPPLEMENTAL SALES LITERATURE	50

- EXHIBIT A: AGENCY AGREEMENT**
- EXHIBIT B: NEW INVESTOR SUBSCRIPTION AGREEMENT**
- EXHIBIT C: PURCHASER REPRESENTATIVE QUESTIONNAIRE**
- EXHIBIT D: FINANCIAL STATEMENTS OF MORTGAGES LTD.**
- EXHIBIT E: REVOLVING OPPORTUNITY LOAN PROGRAM PURCHASE AGREEMENT**

WHO MAY INVEST

Investor Suitability Requirements.

An investment in Participations involves a high degree of risk and is suitable only for persons of substantial financial means that have no need for liquidity in their investments. Participations will be sold only to investors that (1) purchase at least the minimum amount of Participations required by the applicable Program, subject to certain exceptions in the discretion of the Company, and (2) represent in writing that they meet the investor suitability requirements established by the Company and required under federal or state law.

The written representations you make will be reviewed to determine your suitability. The Company may, in its sole and absolute discretion, refuse an offer to purchase Participations in whole or in part if it believes that an investor does not meet the applicable investor suitability requirements or Participations are otherwise an unsuitable investment for the investor, or for any other reason.

You must represent in writing that you meet, among others, all of the following requirements:

- you have read and fully understand this Memorandum and are basing your decision to invest on the information contained in this Memorandum.
- you have relied only on the information contained in this Memorandum and have not relied on any representations made by any other person;
- you are an "accredited investor" as defined in Rule 501(a) of Regulation D under the Securities Act. An accredited investor is an investor that meets any of the following tests:
 - any natural person who has (i) an individual net worth, or joint net worth with his or her spouse, of more than

\$1,000,000; or (ii) individual income in excess of \$200,000, or joint income with his or her spouse in excess of \$300,000, in each of the two most recent years and has a reasonable expectation of reaching the same income level in the current year;

- any corporation, Massachusetts or similar business trust, partnership, or organization described in Section 501(c)(3) of the Internal Revenue Code, not formed for the specific purpose of acquiring Participations, with total assets over \$5,000,000;
- any trust, with total assets over \$5,000,000, not formed for the specific purpose of acquiring Participations and whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in Participations as described in Rule 506(b)(2)(ii) under the Securities Act;
- any broker-dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended;
- any investment company registered under the Investment Company Act of 1940 or a business development company (as defined in Section 2(a)(48) of the Investment Company Act of 1940);
- any small business investment company licensed by the Small Business Administration under Section 301(c) or (d) or the Small Business Investment Act of 1958;
- any employee benefit plan within the meaning of ERISA, if the investment decision is made by a plan fiduciary (as defined in Section 3(21) of ERISA),

which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if such employee benefit plan has total assets over \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons who are accredited investors;

- any private business development company (as defined in Section 202(a)(22) of the Investment Advisers Act of 1940);
- any bank as defined in Section 3(a)(2) of the Securities Act, any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act whether acting in its individual or fiduciary capacity, or any insurance company as defined in Section 2(13) of the Securities Act;
- any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets of more than \$5,000,000;
- any executive officer of the Company;
or
- any entity in which all of the equity owners are accredited investors.

For purposes of calculating your net worth, "net worth" is defined as the difference between total assets and total liabilities, including home, home furnishings, and personal automobiles. In the case of fiduciary accounts, the net worth and income suitability requirements must be satisfied by the beneficiary of the account, or by the fiduciary, if the fiduciary directly or indirectly

provides funds for the purchase of Participations.

- you are acquiring Participations for your own account and for investment purposes only and have no present intention, agreement, or arrangement for the distribution, transfer, assignment, resale, or subdivision of Participations;
- you have such knowledge and experience in financial and business matters that you are capable of evaluating the merits and risks of investing in Participations and have the ability to protect your own interests in connection with such investment or are utilizing the services of a "purchaser representative" that has such knowledge and experience;
- you understand that an investment in Participations is highly speculative and involves substantial risks, and you are fully cognizant of and understand all of the risks relating to an investment in Participations, including those risks discussed under "Risk Factors;"
- your overall commitment to investments that are not readily marketable is not disproportionate to your individual net worth, and your investment in Participations will not cause such overall commitment to become excessive;
- you have adequate means of providing for your financial requirements, both current and anticipated, and have no need for liquidity in this investment; and
- you can bear and are willing to accept the economic risk of losing your entire investment in the Participations you are purchasing.

SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Memorandum. You and your attorneys, accountants, or business advisors should thoroughly review this entire Memorandum prior to making a decision to invest in Participations.

Securities Offered.

There is being offered (the "Offering") Pass-Through Loan Participations ("Participations") in loans ("Loans") originated or acquired by Mortgages Ltd., an Arizona corporation (the "Company"). The Offering will continue until terminated by the Company.

The Company is an Arizona corporation that is an Arizona licensed mortgage banker. Scott M. Coles is the Chairman and Chief Executive Officer of the Company.

The Participations will be offered through Mortgages Ltd. Securities, L.L.C. ("MLS"), an affiliate of the Company that is a member of the National Association of Securities Dealers ("NASD"), on a best efforts basis. The Participation holders will not be required to pay MLS a securities commission. The Company, however, will pay MLS a placement fee, and the Company and MLS will share certain expenses under an expense sharing agreement.

The principal offices of the Company and MLS are located at 55 East Thomas Road, Phoenix, Arizona 85012; telephone (602) 277-5626, and facsimile (602) 264-9374.

Investment Programs Sponsored by the Company.

In addition to serving as the Manager of a number of limited liability companies that acquire interests in Loans, the Company currently sponsors the following investment programs ("Programs"):

- Annual Opportunity™ Loan Program — minimum investment \$100,000;
- Capital Opportunity® Loan Program — minimum investment \$50,000;
- Opportunity Plus® Loan Program — minimum investment \$100,000;
- Revolving Opportunity™ Loan Program — minimum investment \$500,000; and

- Performance Plus® Loan Program — minimum investment \$500,000.

Each Program is designed to provide investors with a favorable rate of return through the purchase of Participations in Loans. See "Description of the Programs."

Description of the Participations.

Each Participation will constitute a fractional undivided interest in a Loan originated or purchased by the Company. Although, there are certain differences in the Programs, interest and principal on the Loans generally are passed through to Participation holders as follows:

- Interest on the Loans generally will be passed through monthly to Participation holders, commencing in the month following their issuance, at a pass-through interest rate equal to the Loan interest rate less the compensation payable to the Company from payments on the Loan.
- Principal payments on the Loans generally will be passed through to Participation holders promptly following receipt by the Company unless reinvested in additional Participations.

Suitability of Investors.

The purchase of Participations is suitable only for investors of substantial means that have no need for liquidity in their investments. Participations will be sold only to accredited investors as defined in Regulation D under the Securities Act of 1933.

Method of Subscription.

Each person or entity desiring to purchase Participations must execute and deliver the following to the Company:

- a New Investor Subscription Agreement substantially in the form of Exhibit B to this Memorandum;

- a Purchaser Representative Questionnaire, if applicable substantially in the form of Exhibit C to this Memorandum;
- a check or wire transfer payable to "Mortgages Ltd." in an amount equal to the purchase price of the Participations the investor desires to purchase in at least the required initial minimum amount (\$50,000 in the case of the Capital Opportunity Loan Program, \$100,000 in the case of the Annual Opportunity Loan Program and the Opportunity Plus Loan Program, and \$500,000 in the case of the Revolving Opportunity Loan Program and the Performance Plus Loan Program). After making the initial required investment, a Participation holder may be able to purchase additional Participations in accordance with the particular Program; and
- a Revolving Opportunity Loan Program Agreement, if applicable, substantially in the form of Exhibit E to this Memorandum.

Except in the case of the Revolving Opportunity Loan Program, the New Investor Subscription Agreement authorizes MLS, as the investor's agent, to accept the Participation holder's oral instructions (1) to purchase Participations in specific Loans meeting the parameters set forth in this Memorandum and (2) to apply payoff proceeds of Participations to purchase Participations in other Loans meeting the parameters described in this Memorandum or to forward the cash proceeds thereof to the Participation holder. The New Investor Subscription Agreement also authorizes Mortgages Ltd. to execute the Agency Agreement on behalf of the Participation holders.

The Loans.

The Loans will be made to various persons, corporations, limited liability companies, partnerships, and other entities ("Borrowers").

Interest Rates on the Loans.

Each Loan will bear interest at a rate determined at the time the Company makes or acquires the Loan. Interest payments will be due at such

time or times as the Company determines, generally monthly.

Some of the Loans will bear fixed interest rates throughout their term. Other Loans will bear variable or adjustable interest rates under which the interest rate will be based on the prime or other benchmark rate published by a designated institutional lender or organization and will be periodically adjusted as such prime or other benchmark rate is adjusted, typically subject to a minimum interest rate.

Principal Payments on the Loans.

Some of the Loans will be "interest only" loans while other Loans will be "amortizing" Loans. An interest only Loan has no principal repayment requirements during its term with a balloon of the full principal obligation due upon the Loan's maturity. An amortizing Loan may either have periodic principal payments, such that the principal is repaid in full by such periodic reductions by the Loan's maturity date, or the periodic principal reductions that result in a partially reduced principal amount by maturity, requiring a "balloon" payment of less than the original principal amount, such as in the case of a loan with principal payments based on a 20-year amortization but only a three-year term.

Security for the Loans.

Each Loan will be secured by a deed of trust or mortgage on residential, commercial, or industrial real estate. The deed of trust or mortgage may be subordinate or subject to one or more existing liens or encumbrances on the real estate. The Company generally will not require an appraisal of the real estate certified by an independent appraiser.

In certain cases, the only collateral securing the Loan will be the real estate or other property underlying the Loan. In other cases, the Loan will be secured by personal or corporate guarantees or may be secured by one or more items of real or personal property in addition to the property constituting the primary security for the Loan. Nevertheless, the primary security for a Loan in most cases will be the property underlying the Loan. The ability of the Borrower to pay the

outstanding balance of a Loan (particularly a non-amortizing Loan) upon maturity will depend primarily upon the Borrower's ability to obtain sufficient funds by the refinancing, sale, or other disposition of the underlying property.

Terms of the Loans.

The length of maturity of the Loans generally will range between one and three years although certain Loans may have shorter or longer maturities.

Principal Amount of Loans; Loan Advances.

Other than the funding in connection with certain specialized loan programs, each Loan will be in a principal amount equal to the funds advanced at the time the Loan is originated, including any interest reserve; any amounts advanced for costs incurred in connection with the acquisition, financing, or refinancing of the underlying property; and title insurance fees, escrow fees, casualty insurance premiums, and other such items. Except for specialized loan programs, such as delayed funding construction loans and certain revolving loan plans, in which funds may be drawn upon in periodic amounts, the entire principal amount will be funded at the closing of the Loan and will earn interest at the agreed upon rate from such date. Although construction loans may be made, the Company will fund a draw to a Borrower under such a Loan for payment to a contractor or subcontractor only after the Company has a lien waiver executed by the Borrower, general contractor, or subcontractor, as appropriate, and the Company or its agent has authorized the release of the funds.

In addition, the Borrower may prepay a Loan in whole or in part, at any time, subject to whatever prepayment penalties the Company may negotiate.

In connection with the sale of the property that secures a Loan, the Company may consent to the sale subject to the Loan or may make a new Loan to the purchaser of the property. In other cases, a Loan may require payment upon sale of all or a portion of the property. The Company may qualify its "due on sale" clause by providing release provisions, so that a portion of the collateral may be released from the related deed of

trust or mortgage by payment of an agreed upon principal portion of a Loan. In determining whether to allow partial releases to a Borrower on a particular Loan, the Company generally will allow such releases upon payment of a sum equal to 130% or more of the pro-rata portion of the principal amount of the Loan secured by the released property although the release price may be a lesser pro-rata portion in certain instances.

Title Insurance on the Loans.

The Company requires title insurance for all newly originated Loans in accordance with industry standards. Title insurance endorsements are obtained to insure against title risks when appropriate. In most cases, the Company requires an insured first lien position for the subject property. A second lien position is permitted in certain circumstances.

Hazard Insurance on the Loans.

Each Borrower will be obligated to maintain hazard insurance for a Loan secured by improved property, insuring the underlying property against risk of loss or damage by fire or other hazards in an amount not less than the full insurable replacement value of the property, exclusive of land and other items normally excluded under a standard hazard insurance policy. No earthquake, flood, or other insurance will be maintained on the property unless such insurance is available and is required by applicable laws and regulations. Any hazard losses not covered by standard hazard insurance will not be insured and, therefore, will be borne directly by the Borrower and may result in default or delinquency under the Loan.

Resale of Defaulted Loans.

The Company typically sells for its unpaid principal amount any Loan that is in default in the payment of principal or interest. As a result, except with respect to the Performance Plus Loan Program, the Participation holders generally will not have the opportunity to receive interest at a default interest rate, which typically is a rate of 27% per annum, or to make a profit as a result of a sale of the underlying property at a foreclosure sale. While such sales are intended to protect the Participation holders' capital, there is no assurance

that any sale of a defaulted Loan can be made at a price equal to the unpaid principal amount.

Agency Agreement.

The Company and each Participation holder will be a party to an Agency Agreement, substantially in the form of Exhibit A to this Memorandum, that provides for the Company to administer Loans on behalf of the Participation holders. The Company will act as the agent for the Participation holders under the Agency Agreement, as the beneficiary under the deeds of trust on the underlying properties, and will have certain powers and duties including administering the Loans on behalf of the Participation holders.

Compensation of the Company.

The Company will receive certain compensation for services rendered regardless of the returns to the Participation holders. See "Compensation to the Company and its Affiliates" and "Conflicts of Interests." The compensation to be received by the Company has been determined by the Company without arms'-length negotiations.

- a payment by a Borrower, generally 1.0% of the requested Loan amount, to compensate the Company for a portion of its underwriting expenses (the "Loan Commitment Fee"), which is credited to the Borrower in the event the Loan is originated;
- a nonrefundable fee from the Borrower to compensate the Company for a portion of its costs to conduct a physical inspection of the property to secure the Loan (the "Property Inspection Fee") in an amount that varies with the location of the property;
- origination points on each Loan in which the Participation holders acquire an interest,

generally ranging between 3.0% to 6.5% of the principal amount of the Loan ("Origination Points");

- a portion of the interest payments on each Loan in which the Participation holders acquire an interest in an amount determined by the Company, in its sole discretion, on a Loan-by-Loan basis at the time of the origination or making of the Loan based upon a percentage of the interest rate charged to the Borrower, but generally between 1% and 2% (the "Interest Rate Spread");
- a servicing fee, payable by the Borrower, for servicing each Loan relating to the Participations, typically ranging from \$10.00 up to \$50.00 per month ("Servicing Fee");
- for all Programs except the Performance Plus Loan Program, the difference between the stated interest rate on a Loan and the interest rate provided for in the event of a default on the Loan, which is currently 27% (the "Default Interest Spread");
- any prepayment penalty for the early payment of any Loan in which the Participation holders acquire an interest ("Prepayment Penalty"); and
- a late charge on any Loan in which the Participation holders acquire an interest ("Late Charge");

Conflicts of Interest.

The Company will be subject to various conflicts of interest. See "Conflicts of Interest."

Risk Factors.

An investment in Participations is speculative and involves a high degree of risk. See "Risk Factors."

RISK FACTORS

The purchase of Participations is speculative and involves a high degree of risk. In addition to the general investment risks described throughout this Memorandum, investors should carefully consider the risk factors set forth below. Nevertheless, investors should realize, however, that factors other than those set forth below may ultimately affect their investment in Participations.

Income Tax Risks:

Circular 230 Notice.

The following was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties that may be imposed on an holder. This Memorandum was written to support the promotion or marketing of the transaction or matter addressed in this Memorandum. The holder should seek advice based on the holder's particular circumstances from an independent tax advisor.

General.

The following is a brief summary of what the Company believes are the most significant federal income tax risks involved in an investment in Participations. An unfavorable outcome with respect to any tax risk factor may have an adverse effect on an investment.

The tax considerations involved in an investment in Participations that should be significant to holders are discussed under "Federal Income Tax Consequences." Those considerations involve additional tax risks not discussed below. Each prospective investor is urged to review that material and to discuss with the investor's own tax advisors the tax consequences to the investor of an investment in Participations.

Tax Liabilities in Excess of Cash Payments.

Generally, each holder will be required to pay federal and state income taxes at the holder's individual rate on his income from Participations. In some situations, the cash payments, if any, received by a holder may be less than the tax attributable to the holder's Participations. Such a situation can occur, for

example, if the original issue or market discount rules require the holder to report interest income with respect to a Loan in a fiscal year when such interest is not received.

Limitation on Deductions.

In the case of a noncorporate holder, servicer fees (to the extent not otherwise disallowed, *e.g.*, because they exceed reasonable compensation) will be deductible in computing the holder's regular tax liability only to the extent that the fees, when added to other miscellaneous itemized deductions, exceed 2% of adjusted gross income and may not be deductible to any extent in computing the holder's alternative minimum tax liability. In addition, the amount of itemized deductions otherwise allowable for the taxable year for an individual whose adjusted gross income exceeds an applicable amount will be reduced.

The deductibility of interest incurred to carry investments is limited to the holder's net investment income. With respect to any Loan that is considered to be "held for investment," the investment interest rules should be applicable. Qualified dividend income subject to the 15% maximum tax rate will not constitute investment income for this purpose for tax years beginning on or before December 31, 2010, except if the taxpayer so elects. Net capital gain attributable to the disposition of property held for investment is excluded from investment income for purposes of computing the investment income limitation; however, a taxpayer may elect to include the net capital gain in investment income if the taxpayer also reduces his net capital gain by the same amount.

Investment by Tax-Exempt Entities.

A tax-exempt holder of Participations, including IRAs, Keogh Plans, and other qualified

retirement plans, may have unrelated business taxable income if the Participations are debt-financed and the income from the Participations plus any other unrelated trade or business income exceeds \$1,000 in any year.

If a holder is investing through a pension or profit-sharing trust, the holder needs to consider the ERISA Regulations.

In considering an investment in Participations with a portion of the assets of a qualified pension, profit-sharing, or other retirement trust, a fiduciary, taking into account the facts and circumstances of such trust, should consider among other things: (1) the definition of "plan assets" under the Employee Retirement Income Security Act of 1974 ("ERISA") and the labor regulations regarding the definition of "plan assets"; (2) whether the investment satisfies the diversification requirements of Section 404(a) of ERISA; and (3) whether the investment is prudent, considering the nature of an investment in Participations. The fiduciary should also consider the fact that there is not expected to be a market created in which to sell or otherwise dispose of the Participation. See "ERISA Aspects of the Offering."

Investments in Participations by qualified plans are subject to Department of Labor Regulations.

If a holder is investing through a Qualified Plan, the holder should be aware that, under certain circumstances, the United States Department of Labor or others could contend that the Company will be treated as a fiduciary under provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Department of Labor has adopted regulations pursuant to ERISA concerning the definitions of plan assets and concerning the fiduciary obligations of Qualified Plan trustees. Although there are exemptions from the application of such regulations, in the event the exemptions do not apply to a holder, the holder's investment could result in various ERISA violations and in penalties being levied against the Qualified Plan fiduciaries, and/or suits being brought by Qualified Plan participants or by the Department of Labor

against the Qualified Plan or its fiduciaries. See "ERISA Aspects of the Offering."

Investment Risks:

Investors should understand the risks of relying on the Company.

Investors will have the choice of selecting the Loans with respect to which they acquire Participations (except in the Revolving Opportunity Loan Program) or to give the Company the right to select Loans on their behalf. Investors relying on the Company for Loan selection must be willing to bear the risk that they will not know the security for or the terms of the Loans with respect to which they hold Participations until after the investment has been made.

All investors will rely on the Company for various activities, including servicing the Loans and operating, holding, and disposing of any properties acquired upon default and foreclosure of Loans. Accordingly, no investor that authorizes the Company to make such decisions should purchase Participations unless such investor is willing to entrust all activities relating to Loans to the Company. The Company's inability to originate or acquire suitable Loans on behalf of such Participation holders may result in a reduction in the rate of return to the Participation holders. See "The Company."

The Company will compete with other entities for Loans.

The Company will compete for lending opportunities with many others engaged in real estate financing that have similar objectives, including banks, insurance companies, savings and loan associations, mortgage bankers, pension funds, real estate investment trusts, investment bankers, and other lenders. The competitors may also include Affiliates of the Company. Some of those competitors have greater marketing, financial, and other resources than the Company and may have longer and stronger relationships than the Company with potential borrowers. Such competition may impede the Company's ability to acquire

interests in favorable Loans. Moreover, an increase in the availability of funds for lending may increase competition for Loans and reduce the yields available therefrom.

The risk of Loans will increase with any increases in their loan-to-value ratios.

The risk of a Loan will increase with any increase in the ratio of the amount of the Loan to the value of the property securing such Loan because the property will possess less protective equity in the event of a default by the Borrower. The Company will make an assessment of the loan-to-value ratio prior to making or acquiring a Loan. In making its assessment of the value of the property to secure a Loan, the Company will review any available appraisals of the property by qualified appraisers, the purchase price of the property, recent sales of comparable properties, and a wide variety of other factors. The Company generally will not retain an independent third party to conduct a formal appraisal, but will rely on its own assessment of the value of a property. It should be noted that appraisals are estimates of value and not a measure of true worth or realizable value. The Company is not a real estate appraiser, however, and the absence of an independent appraisal removes an independent estimate of value. There can be no assurance that the Company's estimated values will be comparable or bear any relation to the actual market value of a property or the amount that could be realized upon the refinancing, sale, or other disposition of a property. As a result, the amount realized in connection with the refinancing, sale, or other disposition of the property in the ordinary course of business or at following a foreclosure sale may not equal the then outstanding balance of the related Loan.

There may not be adequate security for certain Loans.

Certain Loans may be made on a nonrecourse basis. In such a case, the Participation holder will be required to rely for security solely on the value of the underlying property and will not have any right to make any claims for repayment personally against the Borrower. Other Loans may be full recourse loans, may be secured by personal or

corporate guarantees, or may be secured by one or more items of real or personal property in addition to the property constituting the primary security for the Loan. Nevertheless, the property underlying the Loan in most cases will be the primary source for repayment of the Loan upon maturity or in the event of a default. The ability of the Borrower to pay the outstanding balance of a Loan (particularly a non-amortizing Loan) at maturity will depend primarily upon the Borrower's ability to obtain sufficient funds by the refinancing, sale, or other disposition of the underlying property.

If the property underlying a Loan is acquired following a foreclosure, there can be no assurance that the amount realized in connection with the sale of the property in the ordinary course of business or at a foreclosure sale will equal the Company's assessment of the value of the property or the then outstanding principal amount of the Loan.

Balloon payment Loans entail greater risks than amortizing Loans.

The ability of a Borrower to repay the outstanding principal amount of a Loan that does not provide for the payment of all or any part of its principal prior to maturity will depend primarily upon the Borrower's ability to obtain, by refinancing, sale, or other disposition of the underlying property or otherwise, sufficient funds to pay the outstanding principal balance of the Loan at a time when such funds may be difficult to obtain, with the result that the Borrower may default on its obligation to repay the amount of the Loan in accordance with its terms. In addition, a substantial reduction in the value of the property securing a Loan could precipitate or otherwise result in the Borrower's default. Any such default could result in a loss to the Participation holder of all or part of the principal or interest on such Loan.

Development and construction Loans involve greater risk than conventional Loans.

Any development and interim construction Loans in which Participation holders acquire an interest may entail greater risks than conventional Loans. Such a Loan will be subject to substantial risk

because the ability of the Borrower to complete or dispose of the project being developed or constructed on the underlying property, and the repayment of the Loan may be affected by various factors described below relating to the risks of real estate, including adverse changes in general economic conditions, changes in interest rates, the availability of permanent mortgage funds, and local conditions, such as excessive building resulting in an excess supply of real estate, a decrease in employment reducing the demand for real estate in the area, and the Borrower's ability to control costs and to conform to plans, specifications, and time schedules, which will depend upon the Borrower's management and financial capabilities and which may also be affected by strikes, adverse weather, and other conditions beyond the Borrower's control. Such contingencies and adverse factors could deplete the Borrower's funds and working capital and could result in substantial deficiencies precluding compliance with specified conditions of commitments for permanent mortgage funds relied on as a primary source of repayment of the Loan.

Loans on leasehold interests are subject to the termination of the ground lease.

Although, the Company does not typically originate or acquire Loans secured by liens on leasehold interest in properties, a default under such a Loan gives the Borrower the right to develop or use the underlying property under a ground lease gives the owner of the property the right to terminate the ground lease. Any termination of a ground lease on the property underlying a Loan generally would leave the Participation holder as an unsecured creditor of the Borrower. The risk is increased if the landlord under the leasehold loan does not agree to give the Company notice of any default in the ground lease and afford the Company, on behalf of the Participation holders, the right to cure on behalf of the Borrower any default under the ground lease.

Uninsured losses may adversely affect the properties underlying the Loans.

Although the Company will require Borrowers to carry comprehensive insurance, including liability, fire, and extended coverage for the properties underlying the Loans, there are certain types of losses, such as earthquakes, floods, wars, or terrorism, that are either uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also may make it unfeasible to use insurance proceeds to replace a property if damaged or destroyed.

Partial releases will reduce the security for Loans.

The Company generally allows partial releases of portions of a property underlying a Loan upon prepayment of a sum equal to at least 130% of the pro rata portion of the principal amount of the Loan. By allowing partial releases, there is a risk that over time the remaining collateral securing the Loan may not be as valuable as the remaining unpaid balance of the Loan.

Junior Loans entail greater risks of default than senior Loans.

Although not typically originated or made by the Company, a junior mortgage Loan generally entails greater risks than a senior mortgage Loan on the same property. In the event of default under a senior Loan, the holder of a junior Loan may be forced to cure the default on the senior Loan in order to prevent the sale of the underlying property or to discharge the senior Loan entirely by paying the entire amount of principal and interest then outstanding in the event of the acceleration of the senior Loan. There can be no assurance that the Participation holder will have sufficient funds to pay amounts owing on the related senior Loan to prevent default, to discharge the senior Loan entirely, or to dispose of the Loan without incurring a significant loss. If the Company, on behalf of a Participation holder, decides to cure a default under a senior mortgage Loan or purchases an underlying property at a foreclosure or trustee's sale, the Participation

holders will be subject to the risks of ownership of real property.

Joint venture Loans entail special risks.

Entering into joint ventures, general partnerships, and loan participations with third parties for the purpose of acquiring interests in Loans entails special risks, although such joint venture Loans are rarely originated or made by the Company. Joint ventures, general partnerships, and loan participations involve the potential risk of impasse on decision making in situations in which no single party fully controls the Loan with the result that neither the Company, on behalf of Participation holders, nor any other party will be able to exercise full authority with respect to the protection of the investment in the Loan. In addition, although the Company or another party to the transaction often will have the right to purchase the interest of any other party in the Loan, the party seeking to acquire the interest of another party may not have sufficient funds to do so. There also is a risk that a Participation holder will become a tenant in common with joint venture partners following a foreclosure and that disagreements may arise regarding the disposition of the property.

There will be a lack of geographic diversity of the properties underlying the Loans.

It is anticipated that an overwhelming majority of the Loans will be secured by properties located in the state of Arizona. Any downturn in the economy or the real estate market in Arizona may reduce the value of the properties securing the Loans and result in an increase in the default rate on the Loans. Such circumstances could reduce the return on the Participations.

Loans may permit prepayments, which could affect the Participation holder's return.

In the event that a Borrower prepays all or a portion of the principal amount of a Loan before its maturity, the amount of interest that the Participation holders will receive in the future may decrease if an appropriate reinvestment is not made, thereby reducing the amount of the return to the Participation holders.

The absence of sinking funds may adversely affect Loans.

No sinking fund generally will be provided by a Borrower for repayment of a Loan. Therefore, the sources for repayment of a specific Loan will depend primarily upon the economic viability of a Borrower or the successful refinancing, sale, or other disposition of the underlying property. No assurance can be given that a Borrower will remain economically viable or that a refinancing, sale, or other disposition can be accomplished at a time when the principal amount of a Loan is required to be paid on terms that will permit its repayment or that a Borrower will have sufficient funds to satisfy its obligation under a Loan from other sources.

The presence or absence of a due on sale clause may affect the ability to sell a property underlying a Loan.

A due on sale clause in a Loan may make the underlying property less marketable, thereby making it more difficult for a Borrower to repay the Loan. The absence of a due on sale provision will enable a Borrower to sell the underlying property subject to the lien of the Company's deed of trust or mortgage on behalf of the Participation holders, which may involve the risk that the knowledge, experience, and financial resources of the new purchaser is not equal to that of the original Borrower, thereby affecting the potential successful refinancing, sale, or other disposition of the underlying property or otherwise impairing the chances of repayment of the Loan.

The interest rates on the Loans will be subject to ceilings under usury statutes.

State and federal usury laws govern the rate of interest and the amount and types of fees, including maximum interest charges, that lenders may charge borrowers. Certain ambiguities in the language and structure of the Arizona usury laws make it unclear whether certain charges and fees that may be imposed in connection with a Loan constitute violations of such laws. If a Loan were found to be usurious or in violation of usury laws, the Participation

holders might be subject to certain penalties and liabilities under such laws, including restitution of excess interest and unenforceability of the Loan. Such penalties would reduce the returns to the Participation holders. The Company does not intend to make or acquire Loans on behalf of the Participation holders at usurious rates, but uncertainties in determining the legality of rates of interest and other borrowing charges may result in inadvertent violations.

Real estate market conditions will affect the Loans.

The Loans will be secured by real estate. Real estate is speculative in nature, and the Participation holders will be subject to the high degree of risks generally incident to the ownership of and investment in real estate because of the impact of such risks on the ability of a Borrower to repay a Loan and the ability to refinance, resell, or dispose of the underlying property for an amount at least equal to the Loan. These risks include the following:

- the investment climate for real estate investments;
- the availability and cost of financing in connection with the purchase, sale, or refinancing of properties;
- the demand for and supply of competing properties;
- the illiquid nature of real estate and real estate investments;
- local market conditions;
- the availability and cost of necessary utilities and services;
- real estate tax rates and other operating expenses;
- costs to maintain, renovate, refurbish, and maintain properties;
- the level of interest rates, real estate taxes, and other operating expenses in relation to revenue;
- unanticipated holding costs;
- the ratio of fixed operating expenses to those that vary with revenues;
- an increase in vacancy rates, which may result from tenants deciding not to renew existing leases or discontinuing operations;

- an increase in tenant payment defaults;
- a decline in rental rates as leases are entered into, renewed, or extended;
- a decline in the financial condition of a major, anchor, or sole tenant;
- the age, design, and construction quality of any structures on the property;
- perceptions regarding the safety, convenience, and attractiveness of the property;
- the characteristics of the neighborhood where the property is located;
- the adequacy of the property's management and maintenance;
- national, regional, or local economic conditions, including plant closings, industry slowdowns, and unemployment rates;
- customer tastes and preferences;
- retroactive changes in building codes;
- fiscal policies and governmental rules and regulations, including rent, wage and price controls, zoning and other land use regulations, and environmental controls;
- any costs necessary to bring a property in compliance with the Americans with Disabilities Act of 1990 and the possibility of fines by the federal government or an award of damages in private litigation resulting from noncompliance;
- the treatment for federal and state income tax purposes of income derived from real estate;
- natural disasters and civil disturbances, such as earthquakes, hurricanes, floods, eruptions, or riots, including those that may result in uninsured losses; and
- other factors beyond the control of the Company.

In recent years, the presence of hazardous substances or toxic waste has adversely affected real estate values in certain circumstances and resulted in the imposition of costs and damages to real estate owners and lenders. In addition, certain expenses related to properties, such as property taxes and insurance, tend to increase over time. These and other factors could increase the cost of holding properties or adversely affect the terms and conditions upon which properties underlying Loans may be refinanced, sold or otherwise disposed of. In addition, all mortgage loans,

including the Loans, are subject to loss resulting from the priority of real estate tax liens, mechanic's liens, and materialmen's liens. Therefore, the success of the Company will depend in part upon events beyond its control.

The types and concentrations of properties underlying the Loans in which the Company acquires an interest may subject an investment in Participations to special risks.

The types and concentration of properties underlying the Loans with respect to which the Participation holders acquire interests may result in special risks in addition to the general real estate risks described above.

Unimproved Properties.

Factors affecting the value of unimproved properties include the following:

- the Participation holders will be subject to a greater risk of loss in the event of delinquency or default by a Borrower on a Loan secured by a deed of trust, mortgage, or similar instrument on unimproved real property than if such Loan were secured by a deed of trust, mortgage, or similar instrument on improved real property;
- a Loan secured by unimproved real property involves a particularly high degree of risk since the property generally does not have access to utilities, such as water, sewer, electricity, or cable, and may not be zoned or subdivided for its highest and best use; and
- an unimproved property does not generate income other than as the result of a refinancing, sale, or other disposition, and the Borrower's Loan payments generally will be the Participation holders' source of cash flow on the Loan until a sale, refinancing, or other disposition of the property.

Multifamily Rental Properties.

Factors affecting the value and operation of a multifamily rental property include the following:

- the physical attributes of the property, such as its age, appearance, and construction quality;
- the types of amenities and services offered at the property;
- the location of the property;
- the characteristics of the surrounding neighborhood, which may change over time;
- the rents charged for dwelling units at the property relative to the rents charged for comparable units at competing properties;
- the ability of the owner to provide adequate maintenance and insurance;
- the level of mortgage interest rates, which may encourage tenants to purchase rather than lease housing;
- competition from existing or new alternative residential properties, including other apartment buildings, manufactured housing communities, mobile home parks, and single-family houses;
- the tenant mix and whether the property is primarily occupied by workers from a particular company or type of business, personnel from a local military base, or students;
- the extent to which the cost of operating the property, including the cost of utilities and required capital expenditures may increase;
- the extent to which increases in operating costs may be passed through to tenants;
- local, regional, or national economic conditions, which may limit the amount that may be charged for rents and may result in a reduction in timely rent payments or a reduction in occupancy levels;
- state and local regulations, which may impose rent controls or otherwise affect the property owner's ability to increase rents;
- the extent to which the property is subject to land use restrictive covenants or contractual covenants that require that units be rented to low income tenants; and
- the applicability of state "Unfair and Deceptive Practices Acts" and other general consumer protection statutes for coercive, abusive, or unconscionable leasing and sales practices.

Condominiums.

Factors affecting Loans on a condominium project include the following:

- a default on a Loan on a condominium will not allow the holder of the Loan the same flexibility in realizing on its collateral as is generally available with respect to multifamily rental properties that are not condominiums; and
- the rights of other unit owners, the governing documents of the condominium owners' association, and the state and local laws applicable to condominiums must be considered and respected.

Cooperatively Owned Apartment Buildings.

Factors affecting cooperatively owned apartment buildings include the following:

- the rights of a tenant/shareholder to occupy a particular apartment unit under a long-term lease or occupancy agreement;
- a cooperative corporation's ability to meet debt service obligations on a Loan secured by, and to pay all other operating expenses of, the cooperatively owned property depends primarily upon the receipt of maintenance payments from the tenant/shareholders and any rental income from units or commercial space that the cooperative corporation might control;
- the ability of a cooperative corporation to impose special assessments on the tenant/shareholders in order to pay unanticipated expenditures; and
- the existence of any non-eviction plan, allowing a tenant at the time of conversion who chooses not to purchase shares to reside in the unit as a subtenant of the owner of the shares allocated to the apartment unit.

Retail Properties.

The success of a retail property depends on a number of factors, including the following:

- the ability to attract and retain tenants, particularly significant tenants that are able to meet their lease obligations;
- the number and type of customers that tenants will be able to attract;
- competition from other retail properties;
- perceptions regarding the safety, convenience, and attractiveness of the property and the surrounding area;
- demographics of the surrounding area;
- the strength and stability of the local, regional, and national economies;
- traffic patterns and access to major thoroughfares;
- the visibility of the property;
- the availability of parking;
- the particular mix of the goods and services offered at the property;
- customer tastes, preferences, and spending patterns; and
- the drawing power of other tenants.

Office Properties.

Factors affecting the value and operation of an office property include the following:

- the number and quality of the tenants, particularly significant tenants, at the property;
- the physical attributes of the building in relation to competing buildings, including age, condition, and design;
- the location of the property with respect to the central business district or population centers;
- demographic trends within the metropolitan area to move away from or towards the central business district;
- social trends combined with space management trends, which may change towards options, such as telecommuting or "hoteling," to satisfy space needs;
- tax incentives offered to businesses or property owners by municipalities adjacent to or near where the property is located;
- local competitive conditions, such as the supply of office space or the existence or construction of new competitive office buildings;

- vacancy levels;
- the quality of property management;
- access to mass transportation;
- changes in zoning laws;
- competitive factors affecting office properties, including rental rates; and
- amenities offered to tenants, including sophisticated building systems, such as fiber optic cables, satellite communications, or other technological features.

Hospitality Properties.

Factors affecting the economic performance of a hospitality property include the following:

- the location of the property and its proximity to major population centers or attractions;
- the seasonal nature of business at the property;
- the level of occupancy and room rates relative to those charged by competitors;
- local, regional, and national economic conditions, which may limit the amount that can be charged for a room and may result in a reduction in occupancy levels;
- the existence or construction of competing hospitality properties;
- the nature and quality of the services and facilities;
- the financial strength and capabilities of the owner and operator;
- the need for continuing expenditures for modernizing, refurbishing, and maintaining existing facilities;
- increases in operating costs, which may not be offset by increased room rates;
- the property's dependence on business and commercial travelers and tourism;
- changes in travel patterns caused by changes in economic conditions, vacation patterns, energy prices, labor strikes, the relocation of highways, the construction of additional highways, and other factors; and
- in the case of a franchised property, the strength and reputation of the franchisor and the ability of the franchisee to operate the property in accordance with the franchise agreement, including operating standards,

maintenance, and capital improvement requirements.

Casino Properties.

Factors affecting the economic performance of a casino property include the following:

- the location of the property, including proximity to or easy access from major population centers;
- appearance;
- local, regional, and national economic conditions, which may limit the amount of disposable income that potential patrons may have for gambling;
- the ability to attract patrons by providing alternate forms of entertainment, such as performers and sporting events, and offering low-priced or free food and lodging;
- the existence or construction of competing casinos;
- dependence on tourism;
- local or state governmental regulation covering matters such as requirements to maintain or transfer necessary licenses; and
- the need to modernize, refurbish, and maintain existing facilities.

Health Care-Related Properties.

Factors affecting the economic performance of a health-care related facility include the following:

- the dependence for a substantial portion of revenues from government reimbursement programs, primarily Medicaid and Medicare;
- governmental cost-containment measures that affect payments to health care providers;
- regulations under federal, state, and local law that can increase the cost of operation, limit growth, and, in extreme cases, require or result in suspension or cessation of operations,
- federal and state licensing requirements, facility inspections, rate setting, and reimbursement policies; and

- laws relating to the adequacy of medical care, distribution of pharmaceuticals, use of equipment, personnel operating policies, and maintenance of and additions to facilities and services.

Industrial Properties.

The success of an industrial property depends on the following:

- the demand for industrial space occasioned by conditions in a particular industry segment or by the strength of the economy;
- the location and desirability of the property, which may depend on a variety of factors, including the availability of labor services;
- proximity to supply sources and customers;
- accessibility to various modes of transportation and shipping, including railways, roadways, airline terminals, and ports;
- the quality and creditworthiness of individual tenants; and
- environmental risks depending upon the nature of the business conducted at the property.

Warehouse, Mini-Warehouse, and Self-Storage Facilities.

The successful operation of a warehouse, mini-warehouse, or self-storage property depends on a variety of factors, including the following:

- building design;
- competition;
- location and visibility;
- efficient access to the property;
- perceptions by prospective users of the safety and security of the property;
- proximity to potential users, including apartment complexes or commercial users;
- services provided, such as security;
- the property's age, appearance, and improvements; and
- the quality of management.

Restaurants and Taverns.

Factors affecting the economic viability of an individual restaurant, tavern, or other establishment that is part of the food and beverage service industry include the following:

- the cost, quality, and availability of food and beverage products;
- perceptions by prospective customers of safety, convenience, service, and attractiveness;
- competition with the operators of comparable establishments in the area in which the property is located;
- negative publicity resulting from instances of food contamination, food-borne illness, crime, and similar events;
- changes in neighborhood demographics, consumer habits, and traffic patterns;
- the ability to provide or contract for capable management;
- retroactive changes to building codes, similar ordinances, and other legal requirements; and
- in the case of a franchised property, the strength and financial condition of the franchisor, actions and omissions of the franchisor, including management practices that adversely affect the nature of the business or that require renovation, refurbishment, expansion, or other expenditures, and the degree of support the franchisor provides or arranges.

Manufactured Housing Communities, Mobile Home Parks, and Recreational Vehicle Parks.

Factors that affect the successful operation of a manufactured housing community, mobile home park, or recreational vehicle park include the following:

- the number of competing properties in the local market;
- the age, appearance, and reputation of the property;
- the quality of management;
- the types of facilities and services it provides;

- competition against alternative forms of residential housing, including multifamily rental properties, cooperatively owned apartment buildings, condominium complexes, and single-family residential developments; and
- governmental regulations, including rent controls.

Recreational and Resort Properties.

Factors affecting a recreational or resort property include the following:

- the location and appearance of the property;
- the appeal of the recreational activities offered;
- the existence or construction of competing properties, whether or not offering the same activities;
- the need to make capital expenditures to maintain, refurbish, improve, or expand facilities in order to attract potential patrons;
- geographic location and dependence on tourism;
- changes in travel patterns caused by changes in energy prices, strikes, location of highways, construction of additional highways, and similar factors;
- the seasonality of the business, which may cause periodic fluctuations in operating revenues and expenses;
- sensitivity to weather and climate;
- local, regional, and national economic conditions; and
- statutes and government regulations that govern the use of, and construction on, rivers, lakes, and other waterways, affecting a marina or other recreational or resort property located adjacent to water.

Arenas and Stadiums.

The success of an arena or stadium generally depends on its ability to attract patrons to a variety of events, such as sporting events, musical concerts, theatrical presentations, animal shows, and circuses, which depend on such factors as the following:

- the appeal of events at the facility;
- the cost of admission;
- perceptions by prospective patrons of the safety, convenience, services, and attractiveness of the property;
- perceptions by prospective patrons of the safety of the surrounding area;
- alternative forms of entertainment available in the particular locale; and
- the ability to attract and keep a sporting team as a tenant.

Churches and Other Religious Facilities.

Factors affecting a church or other religious facility include the following:

- the level of charitable donations to meet expenses and pay for maintenance and capital expenditures;
- social, political, and economic factors affecting attendance and the willingness of attendees to make donations; and
- local, regional, and national economic conditions affecting donations.

Parking Lots and Garages.

Factors affecting the success of a parking lot or garage include the following:

- the number of rentable parking spaces and rates charged;
- the location of the lot or garage and its proximity to places where large numbers of people work, shop, or live;
- the amount of alternative parking spaces in the area;
- the availability of mass transit; and
- perceptions of the safety, convenience, and services of the lot or garage.

A Borrower's bankruptcy may adversely affect payment on its Loan and therefore the return on the Participations.

The United States Bankruptcy Code ("Bankruptcy Code") and state insolvency laws may interfere with or affect a lender's ability to realize upon collateral or to enforce a deficiency

judgment. For example, under the Bankruptcy Code, the filing of a petition in bankruptcy by or against a Borrower will stay the sale of the property securing a Loan, as well as the commencement or continuation of a foreclosure action. In addition, if a court determines that the value of the property securing a Loan is less than the principal balance of the Loan it secures, the court may reduce the amount of secured indebtedness to the then-value of the property. Such an action would make a Participation holder, as the lender, a general unsecured creditor for the difference between the then-value of the property securing a Loan and the amount of the related Loan. A bankruptcy court also may take any of the following actions:

- grant a debtor a reasonable time to cure a payment default on a Loan,
- reduce monthly payments due under a Loan,
- permit the debtor to cure a loan default by paying the arrearage over a number of years,
- change the rate of interest due on a Loan, or
- extend or shorten the term to maturity or otherwise alter the Loan's repayment schedule.

Under the Bankruptcy Code, a tenant has the option of assuming or rejecting any unexpired lease. If the tenant rejects the lease, the landlord's claim for breach of the lease would be a general unsecured claim against the tenant unless there is collateral securing the claim. The claim would be limited to the following:

- the unpaid rent under the lease for the periods prior to the bankruptcy petition or any earlier surrender of the leased premises, plus
- an amount equal to the rent under the lease for the greater of one year or 15% (but not more than three years) of the remaining lease term.

Additionally, the Borrower, as debtor-in-possession, or its bankruptcy trustee has certain special powers to avoid, subordinate, or disallow debts. In certain circumstances, the claims of a secured lender, such as a Participation holder, may be subordinated to financing obtained by a

debtor-in-possession subsequent to its bankruptcy.

Under the Bankruptcy Code, a lender will be stayed from enforcing a Borrower's assignment of rents and leases. The Bankruptcy Code also may interfere with a lender's ability to enforce lockbox requirements. The legal proceedings necessary to resolve these issues can be time consuming and may significantly delay the receipt of rents. Rents also may escape an assignment to the extent they are used by a Borrower to maintain its property or for other court authorized expenses.

As a result of the foregoing, a Participation holder's recovery, as a lender, with respect to a Borrower's in bankruptcy proceedings may be significantly delayed, and the total amount ultimately collected may be substantially less than the amount owed on the Loan.

There will be limited remedies upon default by a Borrower.

Loans are subject to the risk of default, in which event the lender has the added responsibility of foreclosing and protecting its Loans. In the state of Arizona, where most of the Loans will be made or acquired, these will be a choice of two alternative and mutually exclusive remedies in the event of default by a Borrower with respect to a Loan secured by a deed of trust. In such case, the lender either can proceed to cause the trustee under the deed of trust to exercise its power of sale under the deed of trust and sell the collateral at a non-judicial sale or it can choose to have the deed of trust judicially foreclosed as if it were a mortgage. In the event of default by a Borrower with respect to a Loan secured by a mortgage, the lender will have no election of remedies and will be required to foreclose the mortgage judicially. Remedies in other states in which Loans may be made or acquired could vary significantly from those available in Arizona.

A judicial foreclosure usually is a time-consuming and potentially expensive undertaking. Under judicial foreclosure proceedings, the borrower does not have a right to reinstate the loan, but can cure its default by either paying the entire

accelerated sum owing under the note before the judicial sale or by redeeming the property within six months after the date of the judicial sale.

A non-judicial trustee's sale conducted under the power of sale provided to the trustee may not take place until 90 days after notice of default has been given to the borrower and a notice of sale has been recorded. Before a trustee's sale, the borrower under a deed of trust has a right to reinstate the contract and deed of trust as if no breach or default had occurred by payment of the entire amount then due, plus costs and expenses, reasonable attorney's fees actually incurred, the recording fee for a cancellation of notice of sale, and the trustee's fee. The accelerated portion of the loan balance need not be paid in order to reinstate. As a result, a borrower could repeatedly be in default under a deed of trust and use its right to reinstate the loan under successive non-judicial sale proceedings. Nonetheless, the borrower's right to reinstate a deed of trust without payment of the accelerated portion of the loan balance can be cut off upon the filing of an action to judicially foreclose the deed of trust as a mortgage.

In the case of both judicial and non-judicial foreclosure, if a proceeding under the Bankruptcy Code is commenced by or against a person or other entity having an interest in the real property that secures payment of the loan, then the foreclosure will be prevented from proceeding until authorization to foreclose is obtained from the Bankruptcy Court. During the period when the foreclosure is stayed by the Bankruptcy Court, it is possible that payments, including payments from any interest reserve account, may not be made on the loan if so ordered by the Bankruptcy Court. The length of time during which the foreclosure is delayed as a result of the bankruptcy, and during which the payments may not be made, is indefinite. In addition, under the Bankruptcy Code, the Bankruptcy Court may render a portion of the loan unsecured if it determines that the value of the real property that secures payment of the loan is less than the balance of the loan and, under other circumstances, may modify or otherwise impair the lien of the lender in connection with the defaulted mortgage or deed of trust. In addition, in certain areas, lenders can lose priority of liens

to mechanics' liens, materialmen's liens, and real estate tax liens.

The lender will have the right to bid on and purchase the property underlying a Loan at a foreclosure or trustee's sale following a default by the Borrower. If the lender is the successful bidder and purchases the property underlying a Loan, the lender's return on such Loan will depend upon the amount of cash or other funds that can be realized by refinancing, selling, or otherwise disposing of the property. There can be no assurance that the lender will be able to refinance, sell, or otherwise dispose of such a property on terms favorable to the lender, particularly in the event of unfavorable real estate market conditions. Conditions in real estate loan markets may affect the availability and cost of real estate loans, thereby making real estate financing difficult and costly to obtain and impeding the ability of real estate owners to sell their properties at favorable prices. Such conditions may adversely affect the ability to sell the property securing a Loan in the event that it is in the best interests to foreclose upon and purchase the property. To the extent that the funds generated by such actions are less than the amounts advanced by the lender for such Loan, the lender may realize a loss of all or part of the principal and interest on the loan. Thus, there can be no assurance that the Participation holders will not experience financial loss upon a default by a Borrower.

The presence of hazardous substances or toxic waste may adversely impact real estate values.

The Company cannot provide Participation holders any assurance as to the accuracy of any environmental testing conducted on the underlying property in connection with the origination of any Loan. Moreover, the Company cannot guarantee that the results of environmental testing will be accurately evaluated in all cases; that the related Borrowers have implemented or will implement all operations and maintenance plans and other remedial actions recommended by an environmental consultant that conducted the testing at the related real properties; or that any

recommended remedial action will fully remediate or otherwise address all the identified adverse environmental conditions and risks.

The presence of hazardous substances or toxic waste may adversely impact property values. These and other factors could adversely affect the terms and conditions upon which a Borrower may sell, refinance, or otherwise dispose of the property and ultimately the Borrower's ability to repay the Loan.

Furthermore, if there are hazardous substances or toxic waste present on a property and an obligor defaults on its obligations under the Loan, the lender, if it forecloses on such property, it may be responsible (depending on certain circumstances) for the costs of clean up of any such waste. The owner's liability for any required remediation generally is unlimited and could exceed the value of the property and/or the total assets of the owner, which could be the lender in the event of a foreclosure or the Borrower prior to a foreclosure. In addition, the presence of hazardous or toxic substances, or the failure to remediate the adverse environmental condition, may adversely affect the owner's or operator's ability to use the affected property. Contamination of the property may give rise to a lien on the property to ensure the costs of cleanup. In some states, this lien has priority over the lien of an existing mortgage. In addition, third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to hazardous substances, including asbestos and lead-based paint. Persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of removal or remediation of the substances at the disposal or treatment facility.

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, commonly referred to as "CERCLA," together with certain other federal and state laws, provide that a secured lender, such as the Participation holders, may be liable as an "owner" or "operator" of a property, regardless of whether the Borrower or a previous owner

caused the environmental damage, under the following conditions:

- agents or employees of the lender are deemed to have participated in the management of the borrower; or
- under certain conditions, the lender actually takes possession of a borrower's property or control of its day-to-day operations, including through the appointment of a receiver or foreclosure.

Although recently enacted legislation clarifies the activities in which a lender may engage without becoming subject to liability under CERCLA and similar federal laws, that legislation has no applicability to state environmental laws. Moreover, future laws, ordinances or regulations could impose material environmental liability.

Property owners may be liable for injuries to their tenants or third parties resulting from exposure under various laws that impose affirmative obligations on property owners of residential housing containing lead-based paint.

The Company will be subject to various conflicts of interest.

The Company will be subject to various conflicts of interest. See "Conflicts of Interest."

There is no public market for the Participations, and none is expected to develop.

No public market for Participations currently exists or will result from the Offering. In addition, the Participations are being offered pursuant to exemptions from registration under federal and applicable state securities laws, which will subject the Participations to substantial restrictions on transfer. Accordingly, Participations may be transferred only under appropriate exemptions and only if the transferee provides the Company with an opinion of counsel that is satisfactory to the Company to the effect that the proposed transfer is in compliance with appropriate exemptions from the registration requirements of federal and any relevant state securities laws. Consequently,

holders of Participations may not be able to liquidate their investment in the event of an emergency or for any other reason, and Participations may not be readily accepted as collateral for a loan. The purchase of Participations, therefore, should be considered only as a long-term investment. See "Restrictions on Transfer."

The Offering does not include the presence of an independent underwriter.

Under federal securities laws, underwriters of securities offered to investors may be expected to

take such steps as may be necessary to insure that the information contained in a private offering memorandum is accurate and complete. These steps are typically taken by a "lead underwriter" or "dealer manager" that participates in the preparation of the private offering memorandum and is independent of the issuer. Because there is no independent lead underwriter or dealer manager for the offering of Participations being made by this Memorandum, investors will not have the benefit of an independent review and must rely on the Company regarding the information contained in this Memorandum.

USE OF PROCEEDS

The net proceeds of the Offering will be invested in Loans. The Company will pay the

expenses of the Offering, estimated to be \$30,000.

COMPENSATION TO THE COMPANY AND ITS AFFILIATES

The following table shows all of the types of compensation and fees that will be received by the Company and its Affiliates:

<u>Person Receiving Compensation</u>	<u>Form of Compensation</u>	<u>Method and Amount of Compensation</u>
Company	Loan Commitment Fee	The Company will receive from each prospective Borrower a payment, generally equal to 1% of the requested Loan amount (the "Loan Commitment Fee"), to compensate the Company for a portion of its Loan underwriting expenses, which is credited to the Borrower in the event the Loan is originated.
Company	Property Inspection Fee	The Company will receive a nonrefundable fee from the Borrower to compensate the Company for a portion of its costs to conduct a physical inspection of the Property underlying a requested Loan (the "Property Inspection Fee") in an amount that varies with the location of the Property.
Company	Origination Points	The Company will receive from each Borrower origination points ("Origination Points") based on a percentage of the principal amount on each Loan originated or acquired by the Company in which Participation holders acquire an interest. The Company, as a licensed mortgage banker, will retain all Origination Points paid by Borrowers. The Company will be responsible for payment of any origination amounts to other third-party mortgage brokers or bankers involved in a particular Loan. The Origination Points paid to the Company will depend upon current market rates for similar loans but generally will range from 3% to 6.5% of the principal amount of the Loan.
Company	Interest Rate Spread	The Company will receive a portion of the interest payments on each Loan in which the Participation holders acquire an interest (the "Interest Rate Spread") in an amount determined by the Company, in its sole and absolute discretion, at the time of originating or making a Loan on a Loan-by-Loan basis based upon a percentage of the interest rate charged to the Borrower, but generally between 1% and 2%.
Company	Servicing Fees	The Company will receive a servicing fee ("Servicing Fee") from the Borrower on each Loan in which the Participation holders acquire an interest for servicing the Loan, collecting Loan payments, and paying with the expenses associated with the Loan. A typical Servicing Fee on a Loan is currently in the range of \$10.00 up to \$50.00 per month.

<u>Person Receiving Compensation</u>	<u>Form of Compensation</u>	<u>Method and Amount of Compensation</u>
Company	Prepayment Penalties	The Company will receive all or any portion that it deems appropriate of any prepayment penalty provided for by the terms of a Loan in which the Participation holders hold an interest ("Prepayment Penalty").
Company	Default Interest Spread	For all Programs except the Performance Plus Loan Program, the Company will receive all or any portion that it deems appropriate of any additional interest payments ("default interest") provided for in any Loan in which the Participation holders have an interest above the stated interest rate under the terms of the Loan (the "Default Interest Spread"). The initial default interest rate to be charged on Loans is 27%, but may be changed by the Company in its sole discretion.
Company	Retention of Certain Fees under the Loan	The Company will be entitled to retain all late charges in the event of a default by the Borrower, all assumption fees in the event of the assumption of a Loan by a new Borrower, any interest on any impound accounts, and any extension or forbearance fees in the event of the reinstatement of a defaulted Loan. All of the above fees, other than the interest on the impounds, are paid by the Borrower, although such amounts will be deducted from the payments received from the Borrower on a Loan. The amount of such fees is subject to change from time to time in the Company's sole discretion.
Company	Defaulted Loan Acquisition Processing Fee	Under the Performance Plus Loan Program, upon the acquisition by Participation holders of interests in an existing defaulted Loan, the Company will receive a processing fee equal to 1.5% of the outstanding principal balance of the defaulted Loan. This processing fee is to compensate the Company for time and effort in locating the defaulted Loan as well as processing the paperwork to transfer the Loan.
Company or its Affiliates	Miscellaneous other fees or costs	The Company or its affiliates may receive other fees for services provided to the Participation holders in lieu of outside, third-party contractors, so long as such services are competently performed and at costs that are not greater than would be paid for such services from unrelated parties. Without limiting the foregoing, Realty Ltd., an affiliate of the Company, is an Arizona licensed real estate broker. Therefore, in the event of foreclosure of the property securing a Loan and a subsequent sale of the underlying property, Realty Ltd. may earn a standard real estate commission.

CONFLICTS OF INTEREST

The Company will be subject to various conflicts of interest arising out of the relationships between the Company, various limited liability companies or programs sponsored by the Company or its Affiliates, and other entities or persons to which or whom the Company renders services.

The Company and its Affiliates render services to other entities, which may reduce the time and effort they can devote to Participation holders.

The Company or its Affiliates are not prohibited from providing services to and otherwise doing business with others. The Company or its Affiliates currently serves various entities, programs, and clients that have the same investment objectives as those of the Participation holders. The Company also operates a mortgage banking company and various other related businesses. In addition, certain officers, directors, and key employees of the Company are also key employees of MLS, an NASD broker-dealer through which the Offering is being made. As a result, the Company, its employees, and its Affiliates may experience conflicts of interest in allocating time and management services among the Company and other entities, programs, and clients with which they may be involved. The Company, its Affiliates, and their officers, directors, partners, and employees will devote only such time to the Programs as they, in their sole discretion, determine to be reasonably necessary.

The Company and its Affiliates will receive fees and other compensation regardless of the profitability of or cash distributions to Participation holders.

The Company will have the sole authority to determine whether or not to consummate a particular Loan purchase on behalf of the Participation holders. In making or acquiring a Loan, the Company or its Affiliates will receive certain fees. This circumstance creates a potential conflict of interest in that an incentive of the Company to consummate a particular Loan (i.e. potential fee income) may conflict with the Participation holders' interest in acquiring Participations in Loans that are well collateralized, have a significant likelihood of repayment, and

provide a favorable rate of return. In addition, the Company will have substantial discretion in the amount of fees that it and its Affiliates will receive.

The Participation holders may encounter competition from the Company and its Affiliates.

Neither the Company nor its Affiliates is prohibited from engaging in activities that would either be directly or indirectly in competition with the Participation holders. The Company will continue to act as a mortgage banker for Loans that are not presented to the Participation holders for funding. Although the Company will be the primary source of available lending opportunities for the Participation holders, there may be any number of circumstances that might cause the Company not to offer the funding of a particular Loan to the Participation holders. One of those circumstances is the fact that the Company currently manages or sponsors a number of limited liability companies and programs and has other clients with similar business objectives. To the extent that any of those other limited liability companies, programs, or clients have available funds, an available Loan could be offered to them before the Company offers such Loan opportunity to the Participation holders. In addition, the Company or its Affiliates could form additional entities and establish other programs with similar business purposes in the future. All of these possibilities give rise to potential conflicts of interest if the Participation holders were competing with other entities for potential Loans, with the lending party being determined solely by the Company. Moreover, a similar conflict of interest may arise where all or a portion of a Loan held by Participation holders is re-sold before its maturity to another limited liability company or program sponsored by the Company or an individual investor.

THE COMPANY

The Company.

The Company is an Arizona corporation formed in 1963. The Company is a mortgage banker licensed with the Arizona Department of Banking. As an Arizona licensed mortgage banker, the Company currently assists borrowers in financing various types of loans secured by deeds of trust or mortgages on residential, commercial, and industrial real estate throughout the state of Arizona. Loan amounts, payment terms, and maturities vary and are structured according to the individual needs of the Borrower. The Company is the original beneficiary/lender on Loans, but the funds actually used are those of the intended assignee of the Loan through a method referred to as "table funding." The Loans are simultaneously re-sold to the assignee corporations, limited liability companies, partnerships, and other persons, including the Company, following the loan closing.

The history of the Company's loan originations for its October 31 fiscal year end for the last seven years is as follows:

<u>Year End</u>	<u>Principal Amount Loan Originations</u>
2005	\$ 429,519,741
2004	\$ 256,864,505
2003	\$ 189,624,000
2002	\$ 135,586,225
2001	\$ 96,122,550
2000	\$ 85,040,864
1999	\$ 69,320,635

The gross income of the Company for its October 31 fiscal year end for the last five years was approximately as follows:

<u>Year End</u>	<u>Gross Income</u>
2005	\$29,020,000
2004	\$20,850,000
2003	\$12,700,000
2002	\$12,400,000
2001	\$ 8,900,000
2000	\$ 6,300,000
1999	\$ 4,900,000

The Company uses the accrual method of accounting for financial and tax purposes. The Company's accounting year begins November 1 and ends on October 31 each year. The financial statements of the Company for the fiscal years ended October 31, 2005 and 2004, as audited by Mayer Hoffman McCann, PC, the Company's independent certified public accountants, are attached hereto as Exhibit D. The attached financial statements for the Company have been provided to you so that you can obtain an indicator of the financial condition of the Company. The information is not indicative of the return that you may earn from your Participations. In addition, you should also be aware that you will not acquire any ownership interest in the Company by purchasing Participations. Investors will only be entitled to receive income relating to the particular Loans with respect to which they hold Participations.

The Company will originate most if not all of the Loans with respect to which Participation holders acquire an interest. However, in some instances, a particular Borrower may have been introduced to the Company by another licensed mortgage broker or banker, in which case the Company may pay a portion of its origination points to such third party. In addition to originating the Loan, the Company will underwrite the Loan. The process of loan underwriting involves physically inspecting the property underlying the Loan and reviewing third-party reports about the Borrower and the underlying property (which may include surveys, title reports, environmental reports, and appraisals) as well as reviewing information about the Borrower (which may include loan applications, financial statements, tax returns, and credit reports) in order to determine whether the Company should make or acquire the Loan. In order to compensate the Company for a portion of its expenses for underwriting a potential Loan, the Company requires the Borrower to pay to the Company (1) at the time that the Company issues a loan commitment, a loan commitment fee, which is non-refundable to the Borrower and generally equals 1% of the Loan amount, which is credited to the amount

due on other fees in the event the Loan is funded; and (2) at the time of the inspection, an inspection fee, the amount of which varies depending primarily on the location of the underlying property, which fee is also non-refundable to the Borrower but is not credited toward amounts due for other Loan fees. Both of these fees are retained by the Company as part of its compensation for underwriting the potential Loan and examining the underlying property, and are not passed on to the Participation holders.

In addition, the Company will act as the servicer of each Loan on behalf of the Participation holders. As the servicer, the Company will (a) collect the periodic payments from the Borrower on the Loan; (b) disburse those funds pursuant to the terms of the Loan to pay expenses associated with the Loan; and (c) distribute the interest payments to the Participation holders.

The sole shareholder of the Company is SMC Revocable Trust dated 12/22/94, whose sole trustee is Scott M. Coles. Mr. Coles is the sole director of the Company.

Scott M. Coles.

Scott M. Coles, age 45, is the Chairman and Chief Executive Officer of the Company. He is the chief underwriter and manager of Beneficiary/Investor relations. In addition, Mr. Coles is responsible for money procurement, marketing mortgages, and research and development. He graduated from the University of Arizona in 1982 with a Bachelor's Degree in general business and has successfully completed the Harvard University Business School's Owner/President Management Program.

Mr. Coles joined the Company in 1987 and became President in 1992. He has assisted in the Company's growth from acting as a mortgage banker on \$5 million in loans to its 2005 production of \$429.5 million in loans. He is a member of the Arizona Mortgage Brokers Association, the Arizona Mortgage Lenders Association and Kivel Nursing Association. He is a licensed real estate broker, holds an insurance license and is a designated party under

the Company's mortgage banker's license. He is also a Principal of, and ACCSD and NASD registered securities salesman for, MLS.

Michael Denning.

Michael Denning, Ph.D., age 62, is the President of the Manager. He joined the Company in November 2005 and has primary responsibility for all administrative, operating, and planning functions. Dr. Denning has previously founded and/or managed a number of successful firms, is a faculty member of Arizona State University's W.P. Carey School of Business, and has been a consultant to a number of chief executives. He also serves as a Director or Trustee of several non-profit organizations. He is a ACCSD and NASD registered principal of MLS. Dr. Denning's accomplishments have been recognized by membership in many honor societies and he is profiled in "Who's Who."

Christopher Olson.

Christopher Olson, age 39, is the Chief Financial Officer of the Company. As the Chief Financial Officer he is responsible for the accounting and loan servicing departments of the Company, including financial statement preparation, annual financial audits, and all loan processing functions. He is a graduate of Minnesota State University, where he earned a Bachelor of Science Degree in accounting and is a certified public accountant. He is also licensed as a real estate salesperson. He is also a registered principal of MLS with the NASD and the Arizona Corporation Commission Securities Division.

Mortgages Ltd. Securities LLC.

Mortgages Ltd. Securities, L.L.C. ("MLS") is an Arizona limited liability company. MLS is a member of the NASD and is registered as a broker dealer with the Arizona Corporation Commission Securities Division.

The sole purpose of MLS is to sell the Participations and interests in various companies sponsored by the Company as well as whole or fractional interests in Loans through MLS's exclusive placement agent agreement with the Company. MLS will not receive any

commission for the sale of the Participations. Rather, the Company will pay MLS a flat-rate monthly management fee, which is subject to adjustment from time to time. Moreover, MLS and the Company have entered into a cost sharing agreement that permits MLS to use the facilities, technology, equipment, support staff, and supplies of the Company for a fee equal to

MLS's proportionate use of such items as calculated under the terms of such agreement. The employees of MLS are also employees of the Company, and as such they will maintain their current office arrangement and will conduct their duties as the need arises during the normal course of operations for the Company.

LOAN ORIGINATION AND SERVICING

General.

The Company will originate or acquire substantially all of the Loans in which the Participation holders acquire interests. The Company then will convey all or a portion of the Loans it so originates or acquires to the Participation holders and other entities and individuals with which it has various relationships together with an assessment of all or a portion of the promissory note evidencing the Loan and the deed of trust or mortgage securing the Loan on the underlying property. In connection with its origination of a Loan, the Company will also provide various due diligence and loan underwriting functions, including the preparing and negotiating all loan documents and evaluating and obtaining any third-party evaluations of the real estate securing the Loan.

The Company also will act as servicer for the Loans on behalf of the Participation holders, which includes the collection and disbursement of Loan payments.

Source of Loans.

Loan applications are submitted to the Company directly by property owners or by third-party correspondents. Correspondents consist of a network of mortgage professionals that rely on the Company to fund loans for their clients. They include real estate professionals, mortgage brokers, mortgage bankers, community banks, regional banks, and national banks. Certain types of correspondents may charge an origination fee as compensation for their services. Applicants or correspondents may submit loan requests by phone or by written loan packages.

Loan Criteria.

The following sets forth the parameters for all Loans:

- minimum initial principal balance in excess of \$1,000;

- secured by a first or second lien on real estate located in the states of Arizona, Colorado, Nevada, or California;
- term of not less than three months nor more than 30 years from funding, subject to the ability of the Company to extend the maturity date of a Loan;
- maintenance by the Borrower of such insurance for general liability and property casualty and loss and other matters as the Company may determine; and
- maintenance by Borrower of an extended lender's ALTA title insurance policy on the property.

The Company may change the above lending criteria in its discretion.

Types of Properties Underlying the Loans.

Participation holders may acquire interests in Loans on a wide variety of real estate properties, including the following:

- unimproved properties;
- multifamily rental properties, including apartment houses, condominium projects, and cooperative apartments;
- retail properties, including shopping centers, factory outlet centers, shopping malls, department stores, grocery stores, convenience stores, specialty stores, automotive sales and service centers, movie theatres, fitness centers, bowling alleys, beauty salons, dry cleaners, and other consumer oriented businesses.
- hospitality properties, including full-service hotels, resort hotels, limited service hotels, and other lodging facilities;
- healthcare properties, including hospitals, nursing homes, emergency centers, and congregate care facilities;
- industrial properties;
- warehouse, mini-storage, and self-storage facilities;
- restaurants and taverns;

- manufactured housing communities, mobile home parks, and recreational vehicle parks; and
- churches and other religious facilities.

Principal Amount of Loans; Loan Advances.

Other than the funding of certain specialized loan programs, each Loan will be in a principal amount equal to the funds advanced at the time the Loan is originated, including any interest reserve; any amounts advanced for costs incurred in connection with the acquisition, financing, or refinancing of the underlying property; and title insurance fees, escrow fees, casualty insurance premiums, and other such items. Except for specialized loan programs, such as delayed funding construction loans and certain revolving loan plans that may be drawn upon in periodic amounts, the entire principal amount will be that at the closing of the Loan and will earn interest at the agreed upon rate from such date. Although construction loans may be made, the Company will deliver a draw to a Borrower for payment to a contractor only after the Company has provided a lien waiver to be executed by the Borrower, general contractor, or subcontractor, as appropriate, and the Company or its agent has authorized the release of the funds.

Interest Rates on the Loans.

Each Loan will bear interest at a rate determined at the time the Company makes or acquires a Loan. Interest payments will be due at such time or times as the Company determines, generally monthly, but not less frequently than on an annual basis.

Some of the Loans will bear a fixed interest rate throughout the Loan term. Other Loans will bear a variable or adjustable interest rate under which the interest rate will be based on the prime or other benchmark rate published by a designated institutional lender or organization and will be periodically adjusted as such prime or other benchmark rate is adjusted, typically, subject to a minimum interest rate. The adjustability of the interest rate with respect to a Loan generally will reduce the Participation holders' exposure to and enhance their returns in

the event of increases in market interest rates. In the event of a general decline in such market rates of interest, however, such adjustability will result in a lowering of the Participation holders' return, subject to the minimum interest rate.

Security for the Loans.

The Loans will be secured by a first lien or a second lien on the fee title of, or by a beneficial interest in, the real estate acquired, held, owned, developed, improved, or refinanced with the Loan proceeds or on a long-term leasehold interest in such property or on such other property as determined by the Company in its sole discretion. The overwhelming portion of the Loans will be secured by real estate located in Arizona, although some Loans may be secured by real estate in California, Colorado, and Nevada. Additional liens may be taken on additional real property, either as additional collateral or as the primary collateral.

In all events, the Company will obtain such evidence as it deems satisfactory to reflect the condition of the title to the property that secures a Loan and the priority of the lien securing such Loan. The Company will obtain an extended lender's ALTA title insurance policy or commitment as to the priority of the deed of trust or other equivalent instrument and the condition of title and will record its interest in the property.

Certain of the Loans may be made on a nonrecourse basis. In such a case, the Participation holders will be required to rely for their security solely on the value of the underlying property and will not have any right to make any claims for repayment personally against the Borrower. Certain other Loans will be full recourse loans, may be secured by personal or corporate guarantees, or may be secured by one or more items of real or personal property in addition to the property constituting the primary security for the Loan. Nevertheless, the primary security for a Loan in most cases will be the property underlying the Loan. The ability of the Borrower to pay the outstanding balance of a Loan (particularly a non-amortizing Loan) upon maturity will depend primarily upon the Borrower's ability to obtain sufficient funds

by the refinancing, sale, or other disposition of the underlying property.

Principal Payment Terms.

Some of the Loans will be "interest only" loans while other Loans will be "amortizing" Loans. An interest only Loan has no principal repayment requirements during its term with a balloon of the full principal obligation due upon the Loan's maturity. An amortizing Loan may either have periodic principal payments, such that by the Loan's maturity the principal has been repaid in full by such periodic reductions, or the periodic principal reductions that result in a partially reduced principal amount by maturity, requiring a "balloon" payment of less than the original principal amount, such as a loan with principal payments based on a 20-year amortization but only a three-year term.

In addition, the Borrower may prepay a Loan in whole or in part, at any time, subject to whatever prepayment penalties the Company may negotiate.

In connection with the sale of the property that secures a Loan, the Company may consent to such sale subject to the Loan or may make a new Loan to the purchaser of the property. In addition, a Loan may require payment upon sale of all or a portion of the property. The Company may qualify its "due on sale" clause by providing release provisions, so that a portion of the collateral may be released from the related deed of trust or mortgage by payment of an agreed upon principal portion of a Loan. In determining whether to allow partial releases to a Borrower on a particular Loan, the Company generally will allow such releases upon payment of a sum equal to 130% or more of the pro-rata portion of the principal amount of the Loan secured by the released property although the release price may be a lesser pro-rata portion in certain instances.

Underwriting of Loans.

In originating Loans, the Company will have the discretion to determine the terms of the Loans, including matters such as interest rate, term, security, release schedules, partial releases, and other similar matters. In addition, the Company

will conduct certain due diligence relating to each Loan in order to evaluate various factors that it considers material to such determination, including the condition and use of the property that will secure the Loan, its potential for appreciation, and the operating history, capitalization, and creditworthiness of the Borrower.

The Company reviews various factors in connection with making or acquiring Loans on behalf of the Company. These factors will vary with individual Loans, but may include the following:

- review of sale comparables and other market research;
- review of credit reports, credit references, character references, and bank references on the Borrower;
- analysis of pro forma budgets and marketing plans for the property;
- review and analysis of any leases for the property;
- verification of zoning and special use permits for the property;
- verification that the proposed use of the property conforms with local ordinances and building codes;
- verification of all necessary approvals from the applicable city or county for site plans, plats, and utilities;
- verification of all utilities available to service the property;
- review of deed, purchase contract, property liens, entity formation documents, and other title related documentation for the property;
- verification of flood insurance status;
- verification of other assets, sources of payments, and third-party financing for the Borrower;
- determination of the Borrower's strategy for repayment of the Loan;
- review and analysis of any general contractor;
- review of development and construction plans;
- review of development and construction budget;

- review of pro forma - gross sales revenue less cost of acquisition, development, construction, financing, marketing, sales, and general and administrative dynamics;
- review of absorption estimates;
- review of third-party reports on soil, drainage, surveys, contractor experience, and financial statements;
- review of development stipulations and requirements;
- review of third-party contracts with the general contractor, utility agreements, architectural contracts, and engineering contracts; and
- a physical inspection of the property.

The Company utilizes a variety of sources to gather information about the property underlying a Loan. Sources of property information include the county assessor's data, MLS data, local real estate brokers, planning and zoning offices, and third-party property inspectors. The Company makes a final determination of the condition of the property and the local market through a property inspection.

The Company may obtain copies of the Borrower's tax returns, financial statements, and credit report to make a determination of the Borrower's financial condition and ability to repay the proposed Loan. Consideration is given to the Borrower's cash liquidity, other debt obligations, and cash flow. Inquiries are made to other creditors and business relationships in order to determine the Borrower's character and ability to perform. When applicable, the Borrower's experience with similar projects is evaluated.

Title Insurance.

The Company obtains title insurance for all newly originated Loans according to industry standards. Title insurance endorsements are obtained to insure against title risks when appropriate. In most cases, the Company requires an insured first lien position for the subject property. A second lien position generally is permitted in the following limited circumstances:

- when additional collateral is included;
- when the Company records a junior lien on the subject property, subject to a first mortgage originated by the Company; and
- in rare instances, when the first mortgage was not originated by the Company and the holder is unaffiliated with the Company.

Preliminary title reports are reviewed to determine the status of liens, assessments (existing and proposed), taxes, property vesting, surveys, easements, property access, legal descriptions, and other items that may effect the quality of the Loan. Title insurance endorsements are required to address specific areas of title concern for each Loan. Recording instructions, which are prepared as the final instruction to the title company at loan closing, address each "subject to" item listed in Schedule B and each requirement listed in the preliminary Title report. As an additional quality control point, the Company monitors and reviews all title policies, as they are received, for accuracy.

Revolving Mortgage Line of Credit Program.

The Company's revolving loan program allows a Borrower the opportunity to request additional advances during the term of the Loan without having to go through a new, formal loan origination process. The Borrower can generally pay down the Loan principal balance, subject to the pre-payment period, and re-borrow the funds up to the maximum amount of the Loan, subject to the terms and conditions of the program.

The revolving loan program currently has the following requirements (although the Company may change any such terms in its sole discretion):

- minimum Loan amount of \$250,000;
- minimum initial funding amount at close of escrow of the greater of 25% of the principal or \$250,000;
- maximum Loan term of 10 years;
- first requested advance not more than 91 days from initial funding;
- minimum subsequent advance of the lesser of 25% of initial funding or \$150,000;
- prepayment penalties;

- discount points based on the greater of initial Loan funding amount or \$3,750; and
- minimum principal balance equal to the greater of 25% of the initial funding amount or \$25,000.

"Section 32 Mortgages."

A Section 32 Mortgage is a type of mortgage that has certain parameters and requires certain disclosures as set forth in Section 226.32 of Regulation Z, as adopted by the Board of Governors of the Federal Reserve System, which implements the Truth in Lending Act. Section 32 Mortgage legislation regulates closed-end consumer credit, which is credit primarily for personal, family, or household purposes to a consumer who is a natural person and whose principal dwelling acts as security for the credit advanced. The legislation applies to single-family and owner-occupied properties and excludes residential purchase money mortgages and deeds of trust or debt secured by the

consumer's principal dwelling to finance the acquisition of such residence or initial construction of the dwelling, as long as there is no existing debt on the property.

Loans from Another Lender.

Depending on the interest rate payable with respect to an existing outstanding loan originally made by another party (including another entity or program managed or sponsored by the Company), the Company may acquire all or a portion of such loan for either its principal balance or an amount less than its principal balance. The Participation holders may realize additional revenues from Loans acquired at a discount at the time such Loans are repaid. The additional revenue would be equal to the difference between the amount paid by the Company to acquire such Loans and the principal amount. This revenue, when added to revenue from interest payable on Loans, could increase the effective yield on the Company's investment in such Loan.

DESCRIPTION OF THE PROGRAMS

Annual Opportunity™ Loan Program.

- **Duration.** The Loans relating to Participations in this program typically will have maturities ranging from one to three years. Some Loans will be somewhat "seasoned," having previously been originated or acquired by the Company and held for a period by an affiliate of the Company without any Borrower default before becoming part of the program.
- **Minimum Investment.** \$100,000.
- **Rate.** The pass-through interest rate will depend on the interest rates on the related Loans and the amount of investment by the investor, with current pass-through rates approximating 9.5% for investments up to \$1.0 million, 10.125% for investments of between \$1.0 million and \$2.0 million, 11% for investments between \$2.0 million and \$5.0 million, 11.25% for investments between \$5.0 million and \$7.5 million, and 11.5% for investments above \$7.5 million.
- **Liquidity.** Liquidity depends on principal payments on the related Loans, subject to potential early withdrawal, depending on the liquidity of the Company, for a withdrawal fee currently equal to 2% of the amount of the investment.

Capital Opportunity® Loan Program.

- **Duration.** Investors currently can select a duration of 30, 60, 90, or 180 days.
- **Minimum Investment.** \$50,000.
- **Rate.** 6.0%.
- **Liquidity.** The Company will use its best efforts to cause the repurchase of the related Loans at the end of the period selected by the investors and will cause the repurchase of the related Loans by a third party or repurchase the related Loan itself, subject to the liquidity of the Company, if it is unable

to cause another party to repurchase the Loans.

Revolving Opportunity™ Loan Program.

- **Duration.** Investors commit to purchase Participations selected by the Company at any time and from time to time during the 12-month period after the date of the commitment to participate in the program.
- **Minimum Investment.** \$500,000.
- **Rate.** The pass-through rate on the Participations will depend on the amount invested in the program and the then interest rate posted by the Company for the program, consisting of prepaid interest and annual interest, which currently are as follows:

<u>Capital</u>	<u>Prepaid Interest</u>	<u>Annual Interest Rate</u>
\$ 500,000 - \$2,999,999	0.333%	10.00%
\$3,000,000 - \$4,999,999	0.500%	10.50%
\$5,000,000 - \$7,999,000	0.666%	11.00%
\$7,500,000 or more	0.917%	11.25%

- **Liquidity.** Investors will be obligated to invest during the 12-month period after commitment but each investment in Participations will be repaid within 120 days through payments on the related Loans or by the Company causing the purchase or purchasing the investment.

Performance Plus® Loan Program.

- **Duration.** The Loans relating to the Participations in this program typically will have maturities ranging from one to three years, but will be in default in payment of principal or interest or in a breach of a Loan covenant when the Loans become subject to the program.
- **Minimum Investment.** \$500,000, which is applied to the purchase of one or more defaulted Loans, accrued but

unpaid interest on the defaulted Loans, and expenses of collection.

- **Rate.** Pass-through of portion of defaulted interest, which is paid upon the cure of default or following foreclosure, historically averaging 18% per annum.
- **Liquidity.** Uncertain as a result of the Loan default but historically averaging 153 days.

Opportunity Plus® Loan Program.

- **Duration.** The Loans, which are Junior Loans, relating to Participations in this program will typically have maturities ranging from one to three years.
- **Minimum Investment.** \$100,000.
- **Rate.** The pass-through rate on the Participations relating to the Loans will depend on the interest rate on the Loans, with current pass-through rates approximating 10.5%, which could change at any time.
- **Liquidity.** Liquidity depends on principal payments on the related Loans.

GOVERNING DOCUMENTS

The type and provisions of the Governing Documents for each Program will vary depending upon the nature of the Program. The following summaries describe certain provisions that may appear in the Governing Documents for various Programs. The summaries in this Memorandum do not describe all of the provisions of the Governing Documents for each Program. Prospective investors are urged to read each Governing Document prior to investing in Participations.

The Property Information Sheet.

A Property Information Sheet will be available for each Loan relating to Participations that generally contains the following information:

- description of the terms of the Loan, including the principal amount, origination date, maturity date, and Borrower's name; and
- a legal and physical description of the underlying property;

In addition to the Property Information Sheet, Participation holders will be able and are encouraged to review any and all information in the Company's loan file for the Loan related to the Participations. The Company's Loan files contain the information gathered and compiled by the Company during its underwriting and due diligence process.

Agency Agreement.

The Agency Agreement grants the Company the authority, and provides for fees, to service the Loans relating to Participations. The fees to be paid to the Company include the Interest Rate Spread, which is the portion of the interest rate paid by the Borrower on a Loan that is retained by the Company. Among other things, the Agency Agreement authorizes the Company to do all of the following with respect to any Loans in which Participation holders have an interest:

- calculate the portion of the Loans owned by Participation holders at any time;

- receive and process all payments due from the Borrowers under the Loans;
- apply all sums received to fees, costs, and expenses relating to the Loans, including real estate taxes, administrative fees, service fees, inspection fees, appraisal fees, expert fees, attorneys' fees, litigation costs, insurance premiums, late charges, collection expenses and compensation to the Company;
- hold the original Loan documents;
- evaluate and process any assumption of any Loan by a new Borrower;
- file and record any documents relating to the Loans, including full or partial deeds of release and reconveyance;
- take any actions for the benefit of the Participation holders in the event of delinquent payments, such as the failure to make tax and insurance payments, including placing the Loan in default and negotiating and executing any forbearance agreements or extension or modification of the Loan documents;
- request any additional payments from the Participation holders for any fees, costs, or expenses not covered by payments by Borrower on the Loan, including enforcing the Loan in an event of default; and
- unless otherwise notified in writing, name the Company as the lender/payee/beneficiary, as agent for the Participation holders, under the Governing Documents.

A purchase is subject to timely receipt of the required documents, the full payment of the subscription price, and the Company's review and acceptance of the documents. The Company may, in its absolute discretion, reject any subscription for Participations in whole or in part. The Company, in its sole discretion, also may change or modify the minimum investment per person at any time.

If the Borrower is being loaned funds in stages (commonly referred to as "draws"), Participation holders may, at the Company's discretion, be required to fund such amounts subsequent to

their initial purchase of Participations. The aggregate principal amount of the Loan will consist of both the initial loan amount and the subsequent fundings or "draws." Such advances are additional principal on the underlying Loan. In either event, the Agency Agreement permits the Company to sell all or a portion of Participations held by a Participation holder that fails to make any such requested payments within three business days.

The Agency Agreement releases the Company from any and all liability to any person, including the Borrower and the Participation holders, for nonfeasance or malfeasance. The Participation holders agree to indemnify and hold the Company harmless from any liability incurred by it in performing under the Agency Agreement or otherwise arising, directly or indirectly, from the Loan or the Loan Documents and to pay such amounts to the Company within five business days of such request. Moreover, in the event of the breach of the Agency Agreement by Participation holders (including by interfering with the Company's ability to perform), the breaching Participation holders are required to pay, within 30 days of written notice of such breach, all costs due to the Company under the agreement as well as any damages, including actual, incidental, and consequential damages.

The Company is also permitted to assign the collection of the Loan payments or resign as servicer at anytime by providing the Participation holders with written notice. At such time, the Company is entitled to receive the collection fee pursuant to the terms of the Loan and/or the Interest Rate Spread based on the remaining term of the loan over the life of the Loan.

Assignment of Beneficial Participation in Deed of Trust.

Substantially all the Loans will be secured by deeds of trust recorded against properties located in the state of Arizona. A deed of trust is a three-party instrument. The parties to a deed of trust are as follows:

- the trustor, the equivalent of a mortgagor;
- the trustee to whom the real property is conveyed; and
- the beneficiary, who is the lender.

Under a deed of trust, the trustor grants the property, irrevocably until the debt is paid, in trust and generally with a power of sale, to the trustee to secure repayment of the related note or bond.

Pursuant to the terms of the assignment of beneficial interest in the deed of trust, each Participation holder will be granted an interest in the lien securing the underlying property. The deed of trust sets forth the terms under which the lender can exercise the holder's rights to perfect the interest in the property, including the definition of events of default. Both the underlying deed of trust and the assignment are recorded in the office of the county recorder in the county in which the property is located so that the interest in the lien is a matter of public record.

Promissory Note Endorsement.

Under the terms of the endorsement, the Participation holders transfer all right, title, and interest in all or their proportionate share of the promissory note evidencing the Loan. The endorsement is attached to the underlying note and retained by the Company as the servicer of the Loan under the Agency Agreement. The underlying note sets forth all of the material terms of the Loan, including principal amount, interest rate, maturity date, payment terms, and events of default.

Assignment of Assignment of Rents, Leases, and Profits.

A Loan that encumbers an income-producing property often contains an assignment of rents, leases, and profits. Under an Assignment of Rents, Leases, and Profits, the Borrower assigns to the lender the Borrower's rights under, and all income from, each lease. The Borrower generally retains a revocable license to directly collect the rents until an event of default. If the Borrower defaults, the license terminates and the

lender is entitled to collect the rents directly. Local law may require that the lender take possession of the property, obtain a court-appointed receiver, or take other similar action before becoming entitled to collect the rents.

Under the terms of the Assignment of Rents, Leases and Profits, the Participation holders are granted an interest in the security interest in rents, leases and profits of the property securing the Loan (i.e., the underlying Assignment of Rents, Leases, and Profits). The underlying Assignment of Rents, Leases, and Profits sets forth the terms under which the lender can exercise the lender's rights to the rents, leases, and profits arising from the property upon the occurrence of an event of default. Both the underlying Assignment of Rents, Leases, and Profits and the assignment are recorded in the office of the county recorder in the county in which the property is located so that Participation holders' interests in the lien is a matter of public record.

Assignment Of Assignment Of Rights.

Under the terms of this assignment, Participation holders are granted a security interest in certain rights and agreements relating to the property securing the Loan (i.e., the underlying Assignment of Rights). The underlying Assignment of Rights grants the lender a security interest in certain agreements relating to the property, which may include architectural and engineering agreements, surveys, studies, and any other agreements relating to the plans and specifications of the property. Similar to the other assignments, both the underlying Assignment of Rights and the assignment are recorded in the office of the county recorder in

the county in which the property is located so that the interest in the lien is a matter of public record.

Quarterly Statement:

Each quarter, the Company will send Participation holders a quarterly statement, which will set forth the following:

- certain basic information about each Participation owned at that time, including the Loan number, the Borrower's name, the percentage of the Loan owned, the net rate to the Participation holder, the maturity date of the Loan, the remaining monthly term of the Loan, the next payment date on the Loan, the regular payment amount on the Loan, the payments made on the Loan, and the Loan balance; and
- any material changes or new information, if any, about the status of each Participation, including the underlying property.

Annual Statement.

Within a reasonable period of time after the end of each calendar year, the Company will furnish to each Participation holder who at any time during the calendar year was a holder of a Participation, a statement containing the same information as provided in the Quarterly Statement but for the entire year. The Company will also provide each Participation holder with a 1099 IRC Form or substantially comparable information provided pursuant to any requirements of the Internal Revenue Code.

FEDERAL INCOME TAX CONSEQUENCES

Circular 230 Notice.

The following was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties that may be imposed on a holder of Participation. This Memorandum was written to support the promotion or marketing of the transaction or matter addressed in this Memorandum. The investor should seek advice based on the investor's particular circumstances from an independent tax advisor.

General.

The following summary of the tax aspects of an investment in Participations is based on the Internal Revenue Code of 1986, as amended (the "Code"), on existing Treasury Department regulations ("Regulations"), and on administrative rulings and judicial decisions interpreting the Code. Significant uncertainty exists regarding certain tax aspects of such an investment. Such uncertainty is due, in part, to continuing changes in federal tax law that have not fully been interpreted through regulations or judicial decisions. Tax legislation may be enacted in the future that will affect an investment in Participations. Legislative or administrative changes and judicial decisions could modify or change completely statements and opinions expressed below about the federal income tax consequences of an investment in Participations. Additionally, the interpretation of existing law and regulations described here may be challenged by the IRS during an audit of an investor's tax return.

The following summary of tax aspects generally assumes that the investor is an individual and is a U.S. citizen or resident. The following discussion is only a summary and is limited to those areas of federal income tax law that are considered to be material to individual investors owning Participations. No information regarding the taxation of non-U.S. persons is provided.

No information regarding state and local taxes is provided. Prospective investors are urged to consult their tax advisors about their individual circumstances (especially if the prospective investor is not an individual or is not U.S. citizen or resident) and the federal, state, local and other tax consequences arising from an investment in Participations

Status as Owners of an Undivided Interest in a Loan.

The Subscription Agreement and the Agency Agreement are structured such that each Participation holder will be treated as owning an undivided interest in a Loan. A Participation holder will be considered to have purchased a pro rata undivided interest in a Loan.

Each holder must report on the holder's federal income tax return the holder's share of the gross income derived from a Loan. The servicing fee and will treat the payment of the servicing fees as a direct expense of the holder. The Participation holder will generally be entitled to deduct servicer fees under Section 162 or Section 212 of the Code to the extent that such fees represent "reasonable" compensation for the services rendered by the servicer. In the case of a noncorporate holder, however, servicer fees (to the extent not otherwise disallowed, e.g., because they exceed reasonable compensation) will be deductible in computing the holder's regular tax liability only to the extent that the fees, when added to other miscellaneous itemized deductions, exceed 2% of adjusted gross income and may not be deductible to any extent in computing the holder's alternative minimum tax liability. In addition, the amount of itemized deductions otherwise allowable for the taxable year for an individual whose adjusted gross income exceeds an applicable amount will be reduced. This reduction is scheduled to be phased-out over a five-year period beginning in 2006.

Limitation on Interest Deductions.

The deductibility of a taxpayer's investment interest expense generally is limited to the amount of the taxpayer's net investment income. Investment interest expense does not include any interest expense that is taken into account in determining the income or loss from a passive activity, but does include (i) interest on indebtedness incurred or continued to purchase or carry property "held for investment," (ii) interest expense attributable to portfolio income under the passive loss rules, and (iii) the portion of interest expense incurred or continued to purchase or carry an interest in a passive activity to the extent attributable to portfolio income (within the meaning of the passive loss rules). Debt of a taxpayer generally is allocated among the taxpayer's activities by tracing the proceeds of each debt. A detailed analysis of the tracing rules is beyond the scope of this discussion. Consequently, investors that intend to use borrowed funds to purchase Participations should consult their own tax advisors before borrowing such funds. A holder should maintain careful records of any debt he incurs to carry or acquire a Participation.

Net investment income includes gross income from property held for investment and amounts treated as gross portfolio income pursuant to the passive loss rules less deductible expenses (other than interest) directly connected with the production of investment income. Qualified dividend income subject to the 15% maximum tax rate will not constitute investment income for this purpose for tax years beginning on or before December 31, 2010, except if the taxpayer so elects. Net capital gain attributable to the disposition of property held for investment is excluded from investment income for purposes of computing the investment income limitation; however, a taxpayer may elect to include the net capital gain in investment income if the taxpayer also reduces the taxpayer's net capital gain by the same amount. Investment interest deductions that are disallowed may be carried forward and deducted in subsequent years to the extent of net investment income in such years.

With respect to any Loan that is considered to be "held for investment," the investment interest rules should be applicable to limit, to the extent of net investment income, a holder's ability to currently deduct interest paid to carry an allocable portion of the holder's Participations.

Also, in the case of an investor that holds tax-exempt securities, including shares in a regulated investment company that distributes exempt interest dividends, and that plans to borrow money to purchase Participations, it is possible that the IRS might seek to disallow the deductibility of all or a portion of such investor's interest expenses incurred in connection with such borrowing, claiming that the indebtedness was incurred to "purchase or carry" tax-exempt securities under Section 265(2) or Section 265(4) of the Code. Such risk would substantially increase for an investor whose tax-exempt obligations were used as security for the debt incurred to purchase Participations.

Discount on Participations.

To the extent the holder's purchase price of an undivided interest in a Loan is less than the portion of the principal balance of the Loan allocable to such holder, the holder's interest in the Loan will be deemed to have been acquired at a discount. If a holder purchases Participations at a discount, the difference is considered "market discount," unless such difference is de minimis. Under the market discount rules, any gain realized by the holder on a taxable disposition of a Loan having "market discount," as well as any principal payment made with respect to such Loan, will be treated as ordinary income to the extent of the then "accrued market discount" of the Participations. Market discount will accrue ratably from the date of acquisition to the maturity date of the Loan, unless the holder elects to accrue market discount on a constant interest rate method. The constant interest rate method generally requires the accrual of interest at times and in amounts equivalent to the result that would have occurred had the market discount been original issue discount computed from the acquisition of the Loan through the

maturity date. In addition, a portion of the interest expense in connection with debt incurred to purchase or carry Participations with market discount may not be currently deductible.

A Loan may be made for which the stated redemption price at maturity will be greater than the cash advanced to the borrower (the "Issue Price"). For federal income tax purposes, the difference between the Issue Price of a Loan and its stated redemption price at maturity, which stated redemption price is equal to the sum of all payments due under the Loan other than interest based on a fixed rate and payable unconditionally at fixed periodic intervals of one year or less, constitutes "original issue discount" ("OID"). The holder generally will be required to include a portion of the OID, if any, in gross income annually as interest pursuant to a compounding method, even though the holder will not receive any payment of such amount prior to maturity.

Sale or Exchange.

A holder's tax basis in a Participation is the price the holder pays for the Participation, appropriately adjusted to take into account amortization of OID, market discount and premium, if any, and any payments received with respect to the Participation (other than qualified stated interest payments). Gain or loss recognized on a sale or exchange, measured by the difference between the amount realized and the Participation's basis as so adjusted, will generally be capital gain or loss, assuming that the Participation is held as a capital asset and will generally be long-term capital gain or loss if the holding period of the Participation is more than one year and short-term capital gain or loss if the holding period of the Participation is one year or less. Non-corporate taxpayers are subject to reduced maximum rates on long-term capital gains and are generally subject to tax at ordinary income rates on short-term capital gains. The deductibility of capital losses is subject to certain limitations. Prospective investors are encouraged to consult their own tax advisors concerning these tax law provisions.

Treatment as a Partnership.

It is possible that the holding of a Participation may be treated as a partnership for federal income tax purposes. Holders may elect out of the partnership provisions for federal income tax purposes in the event the holders (i) own the property as co-owners, (ii) reserve the right separately to take or dispose of their shares of any property acquired or retained, and (iii) do not actively conduct business or irrevocably authorize some person or persons acting in a representative capacity to purchase, sell, or exchange such investment property, although each separate participant may delegate authority to purchase, sell, or exchange its share of any such investment property for the time being for its account, but not for a period of more than one year. The election is made by either filing an election with the IRS or an election will be deemed to be made if there is an intent to make the election in the ownership agreement. The Treasury Regulations provide that either one of the following will indicate the requisite intent: (a) at the time of the formation of the organization, there is an agreement among the members that the organization be excluded from Subchapter K beginning with the first taxable year of the organization or (b) the members of the organization owning substantially all of the capital interest report their respective shares of the items of income, deductions, and credits of the organization on their respective returns (making such elections as to individual items as may be appropriate) in a manner consistent with the exclusion of the organization from Subchapter K, beginning with the first taxable year of the organization. While there is no agreement among the holders, the holders should be deemed to have complied with (b) above. Consequently, the holders should be deemed to have made an election to be excluded from the partnership provisions of the Code for federal income tax purposes.

Backup Withholding.

A holder may, under certain circumstances, be subject to "backup withholding" with respect to payments on the Participations or the proceeds of a sale to or through brokers. This

withholding generally applies if the holder of a Participation:

- fails to furnish the holder's taxpayer identification number;
- furnishes an incorrect taxpayer identification number; or
- fails to report properly interest, dividends or other "reportable payments" as defined in the Code.

Backup withholding will not apply, however, with respect to certain payments made to holders, including payments to certain exempt recipients (such as exempt organizations and corporations) and to certain nonresident alien individuals, foreign partnerships, or foreign corporations. Holders are encouraged to consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

Investment by Tax-Exempt Entities.

Certain entities, including trusts formed as part of Keogh and pension and profit-sharing plans that are qualified under Code Section 401(a), individual retirement accounts ("IRAs"), and certain charitable and other organizations described in Code Section 501(c), are generally exempt from federal income taxation. Such entities ("Tax-Exempt Entities"), however, are subject to federal income tax to the extent of their unrelated business taxable income ("UBTI").

UBTI is defined as the aggregate gross income derived by a Tax-Exempt Entity from unrelated trades or businesses less the deductions (such as operating expenses and interest) directly connected with such trades or businesses, all subject to certain modifications. Certain items of income are excluded from the definition of UBTI. The relevant exclusions from UBTI include (1) interest income; (2) most rents from real property; and (3) gains from the sale, exchange, or other disposition of assets held for investment. These exclusions are subject to many conditions and restrictions and generally are not available in the case of debt-financed property. A Loan may be considered debt-

financed if an investor purchases Participations with funds that are available for such purpose as a result of borrowings. Tax-Exempt Entities should consult their tax advisors with respect to the debt-financed rules if they are subject to any debt obligations.

A Tax-Exempt Entity that realizes UBTI is taxed on that income at regular trust rates if the entity is a trust and at regular corporate rates if the entity is a corporation. The tax is imposed directly on, and paid out of the assets of, the entity. In computing UBTI, deductions are generally allowed for all expenses that are directly connected with the earning of the income and a specified deduction of \$1,000 for each Tax-Exempt Entity. Even if a portion of the income of a Tax-Exempt Entity is UBTI, income from other investments that is not UBTI will continue to be exempt from federal income tax. For certain types of Tax-Exempt Entities, however, the receipt of any unrelated business income could affect the exempt status of the entity. For example, if a charitable remainder annuity trust or a charitable remainder unitrust (as defined in Section 664 of the Code) has UBTI during the year, all of its income from all sources in that year will be taxable. In addition to possible federal income taxation, any UBTI may be subject to state and local income taxation, which may differ in method of computation and amount.

ERISA ASPECTS OF THE OFFERING

The purchase of Participations may be appropriate for various tax deferred retirement plans, including any pension, profit sharing, Keogh (H.R. 10) plan or other employee retirement benefit plans qualified under Section 401(a) of the Code or any IRA qualified under Code Section 408 (hereinafter referred to as a "Benefit Plan" or "Benefit Plans"). Before purchasing Participations, the trustee or other responsible fiduciary of a plan contemplating investment should consider, (1) whether the Benefit Plan is considered an employee benefit plan subject to certain fiduciary standards of the Employee Retirement Income Security Act of 1974 ("ERISA"); (2) whether the investment is in accordance with the documents and instruments governing such Benefit Plan; (3) whether the investment will result in unrelated business taxable income to the Benefit Plan (see "Federal Income Tax Matters Tax-Exempt Investors"); (4) whether the investment provides sufficient distributions to permit benefit payments to be made as they become due; (5) any requirement that the fiduciary annually value the assets of the Benefit Plan; and (6) whether the investment is prudent, since no public market is expected to develop in which Participations may be sold or otherwise transferred. An employee benefit plan is defined in Section 3(3) of ERISA and includes all Benefit Plans defined above except (a) plans covering only owners of the Plan sponsor (including owners of sole proprietorships) and their spouses, or (b) most IRAs ("ERISA Plans").

ERISA subjects trustees of Benefit Plans to special fiduciary standards with respect to the affairs of such Benefit Plans. The prohibited transaction rules under ERISA proscribe certain dealings between Benefit Plans and related persons. The purpose of the prohibited transaction rules is to curb all forms of fiduciary misconduct through prohibition of certain types of conduct in the first instance. A discussion of the general duties and restrictions imposed by ERISA, such as the duty to diversify the investments of Benefit Plans, is beyond the scope of this discussion, this material being

limited to those prohibited transaction rules under ERISA that most likely would bear upon the holding of Participations by Benefit Plans. Therefore, trustees of Benefit Plans, before purchasing Participations, should seek legal counsel having expertise in ERISA to assure that the investment by the Benefit Plans in Participations is not, and is not likely to become, a violation of any rules or laws relating to investments by Benefit Plans. The costs of obtaining such advice should be taken into account in evaluating an investment in Participations.

Conflicts of Interest.

General.

Fiduciaries and other related parties (referred to as "parties in interest" in the labor provisions and as "disqualified persons" under the Code provisions, collectively referred to herein as "parties in interest") are not to compromise their fiduciary duties or exploit their relationships with Benefit Plans to confer benefit upon themselves other than to receive reasonable compensation for services rendered. ERISA sections 406(a)(1)(A)-(D) and 406(b)(1)-(3) and Code sections 4975(c)(1)(A)-(F) prohibit (1) direct or indirect sales or exchanges of property between Benefit Plans and parties in interest; (2) the direct or indirect lending of money or extension of credit between Benefit Plans and parties in interest; (3) the direct or indirect furnishing of goods, services, or facilities between Benefit Plans and parties in interest; (4) direct or indirect transfers of plan assets to parties in interest; (5) fiduciaries from dealing with plan assets for their own account; (6) fiduciaries from acting on the behalf of parties whose interests are adverse to the interests of the Benefit Plan; and (7) the receipt by fiduciaries of consideration ("kickbacks") from any party dealing with the Benefit Plan with respect to plan assets.

The Company will have full control over the Participations. Such authority could result in the Company being deemed to be a party in interest

or even a fiduciary with respect to Benefit Plans holding Participations. Under certain rules that are discussed in detail below, the assets held by an entity in which a Benefit Plan has invested can be treated as "plan assets" of such Benefit Plan. See "ERISA Aspects of the Offering -- Plan Asset Rules." Under section 3(21)(A) of ERISA and section 4975(e)(3)(A) of the Code, the term "fiduciary" is defined as including any person who exercises any authority or control respecting the management or disposition of the assets of a Benefit Plan. The Company will hold such power with respect to Participations. If such assets are deemed to be "plan assets," then the Company would be treated as a fiduciary for purposes of the prohibited transaction rules. As a fiduciary, the Company would be subject to the prohibited transaction rules applicable to parties in interest, and the higher standards that apply to fiduciaries.

Even if the Company is not treated as a fiduciary, it nevertheless could be deemed to be a service provider, and thereby a party in interest with respect to all Benefit Plans holding Participations. A "party in interest" is defined at section 3(14)(B) of ERISA and section 4975(e)(2)(B) of the Code as including any person "providing services to the plan."

If the Company is deemed to be a fiduciary, it would be subject to a much more strict standard of loyalty to Benefit Plans holding Participations than mere parties in interest. ERISA exacts undivided loyalty of fiduciaries to Benefit Plans. Pursuant to such duty, the Company would be required to refrain from dealing with the Participations on its own behalf or on the behalf of those with interests adverse to those of Benefit Plans holding Participations. In that regard, a conflict potential could exist by virtue of the Company's authority under the Agency Agreement. Moreover, there are circumstances under which the interests of the Company and the holder of Participations could become adverse.

If the Company engages in conduct that results in a violation of the prohibited transaction rules, the Company could be subject to prohibited transaction excise taxes under the Code, the

Company would be liable for any losses incurred by the Benefit Plan occasioned by such conduct, and all aspects of the activity comprising the violation could be required to be reversed. Such violation should not, however, produce direct adverse consequences for Benefit Plans under the prohibited transaction rules.

Potential Conflicts upon Investment.

Affiliates of the Company may be associated in other capacities with respect to similar investments currently outstanding in the commercial community. See "Conflicts of Interest." Such investments could result in the Company being deemed to be a service provider (a class of party in interest) or a fiduciary with respect to Benefit Plans holding interests in such investments. Thus, the rule prohibiting the sale or exchange of property between a party in interest and a Benefit Plan could be violated if a Benefit Plan purchases Participations at a time when the Company or entity bearing certain relations to it are parties in interest with respect to such Benefit Plans by virtue of such outstanding investments.

Conflicts of interest that could result in violations of one or more of the prohibited transaction rules also could occur if Participations are purchased upon the decision or recommendation of a fiduciary or any other party in interest with respect to investing Benefit Plans in a position to affect the determination as to whether or not to purchase Participations if such party also bears any affiliation to the Company (other than through the ownership of Participations purchased from the Company). The Company is not in a position to make representations as to the existence or absence of such relationships and, therefore, makes no such representations.

In the event it is determined that one or more of the parties responsible for making the investment decisions of, or providing investment advice, to a Benefit Plan do in fact bear an affiliation to the Company, it is possible that permitting an independent fiduciary to make an independent determination as to whether to make the purchase will eliminate the potential

violation. However, proscribed transactions which are not specifically excepted by statute or the grant of an exemption by the United States Department of Labor (the "DOL") are prohibited. As no specific exemption will be procured in this case, the Secretary of Labor could determine the purchase to be a technical violation of the prohibited transaction rules despite the fact that the spirit of ERISA is not violated. Advisory Opinions issued by the DOL suggest that it would be predisposed to such position.

Potential Conflicts in Operations.

If the Company is deemed to be a fiduciary, the question arises as to whether the performance of duties and the receipt of the fees would violate the prohibited transaction rule against the direct or indirect furnishing of goods, services or facilities between Benefit Plans and parties in interest. Even assuming that the Company is a fiduciary, the Company believes that the rendition of such services should not violate the multiple services rule as it would not be exercising the powers that would make it a fiduciary to appoint the Company to perform additional services. Rather, the Company would be pre-appointed as a manager and the various fees and profit allocation would be pre-established pursuant to the offering documents, which appointment, commissions, and fees would be ratified by the named fiduciaries of the investing Benefit Plans through their decision to invest. In addition, such services and fees could fall within the exceptions set forth at section 408(c)(2) of ERISA and section 4975(d)(10) of the Code, each of which exempt from the prohibited transaction rules the receipt of reasonable compensation for services rendered or for the reimbursement of expenses properly and actually incurred in the establishment or operation of Benefit Plans. No assurance can be given as to the applicability of those exceptions, however, since they could be deemed to apply only to the payment for services and the reimbursement of expenses incurred in the administration of Benefit Plans as opposed to those incurred in connection with investments.

The status of the Company as a fiduciary of Benefit Plans that hold Participations is discussed in detail under the section entitled "Plan Asset Rules" immediately following this section. As to the status of Company as a party in interest other than as a fiduciary, absent any pre-existing relationships between the investing Benefit Plans and the Company, the Company's status as a party in interest depends upon whether or not it is a "service provider" by virtue of the functions it performs as Company. Section 3(14)(B) of ERISA and Code section 4975(e)(2)(B) each include within the definition of party in interest any person "providing services to the plan." In that a private ruling is not being obtained from the DOL with respect to the issue, a definitive statement cannot be made as to whether the Company would be a party in interest with respect to Benefit Plans holding Participations.

With respect to each of the potential conflicts of interest described above, the broad manner in which ERISA is drafted precludes the making of a definitive statement as to whether any such potential conflicts would be deemed to be violations of the prohibited transaction rules. If a violation of a prohibited transaction rule occurs, any person participating in such transaction could be subjected to prohibited transaction excise taxes under the Code. If a fiduciary participates in the violation he can be held liable for any losses incurred by the Benefit Plan which are occasioned by the misconduct. Furthermore, all aspects of the activity comprising the violations could be required by the DOL to be reversed.

Plan Asset Rules.

The DOL has issued regulations ("DOL Regulations") that treat the underlying assets of certain investments in which Benefit Plans are investors or partners as plan assets, as opposed to treating the partnership interest in the entity or investment as the plan asset. The general rule under the DOL Regulations is that when a Benefit Plan invests in another entity, its assets include the investment, but do not, solely by reason of such investment, include any of the underlying assets of the entity. The holding of a

Participation may be treated as a Partnership for purposes of ERISA. Moreover, the purchase by a Benefit Plan of greater than a 25% interest in a Participation may cause the entire Participation to be deemed a Plan Asset unless an applicable exception applies. A special rule set forth in the DOL Regulations, however, provides that if a Benefit Plan acquires an equity interest in an entity that is neither a publicly offered security nor a security issued by certain registered investment companies, its assets include both the equity interest and an individual interest in each of the underlying assets of the entity, unless (1) the entity is an operating company or (2) the equity interests of certain benefit plan investors are not significant. The Participations will be neither publicly offered nor issued by a prescribed investment company. Thus, one of two exceptions must apply in order for a Participation not to be treated under the DOL Regulations as a plan asset of a Benefit Plan holding Participations.

A special category of operating company referred to as a "Venture Capital Operating Company" (a "VCOC") is set forth for entities engaged in investment related activities. Generally, a company is a VCOC if it holds at least 50% of its assets, determined on a cost basis, in "venture capital investments" or "derivative investments" and exercises "management rights" with respect to at least one investment each year. A "venture capital investment" is an investment in an "operating company" (i.e., an entity primarily engaged in the production or sale of a product or service other than the investment of capital) in which the VCOC acquires "management rights" (i.e., the right to substantially participate in, or substantially influence the conduct of, management.) A "derivative investment" is a venture capital investment as to which the investor's management rights have ceased in connection with the public offering of the securities of the operating company or an investment required by a VCOC in exchange for an existing venture capital investment in certain types of transactions. Special rules apply with respect to the start-up of a VCOC and the distribution of its assets.

A second special category of operating company referred to as a "Real Estate Operating Company" (a "REOC") is set forth for entities engaged in investment in real estate related activities. Generally, a company is a REOC if it holds at least 50% of its assets, determined on a cost basis, in real estate which is managed or developed by the operating company and with respect to which such entity has the right to substantially participate directly in the management or development activities.

For purposes of the second exception to the special rule, the DOL Regulations provide that the equity participation of benefit plans is significant if 25% or more of the value of any class of equity interests in the entity is held by such plans. The Participations will be offered for sale to benefit plans within the regulatory definition and to persons not falling within such definition. If a Participation or Participations are intended to qualify as a VCOC or REOC under the DOL Regulations, it would not need to meet the second exception to the special rule. However, the Participations will most likely not qualify as a VCOC or REOC. Therefore, Company will limit the Participations purchased by benefit plan investors to fewer than 25% of all of the Participations purchased excluding Participations purchased by the Company or its Affiliates, in which case the second exception to the special rule should be applicable and an undivided interest in the Participations should not be treated as a plan asset of Benefit Plans holding Participations under the DOL Regulations. Moreover, each Participation will be limited to Benefit Plan investors owning less than 25% of such Participation, excluding an interest in the Participation purchased by the Company or its Affiliates, in order for the Participation to not be treated as a plan asset.

TERMS OF THE OFFERING

General.

Pursuant to this Memorandum, there are being offered Participations.

Duration of Offering.

The Offering will continue until terminated by the Company:

Method of Subscription:

Anyone desiring to purchase Participations must forward the following to the Company at 55 East Thomas Road, Phoenix, Arizona 85012:

- a fully executed Subscription Agreement in substantially the form of Exhibit B to this Memorandum;
- If appropriate, a fully completed and executed Purchaser Representative Questionnaire substantially in the form of Exhibit C to this Memorandum;
- a check or wire transfer payable to "Mortgages Ltd." in an amount equal to the purchase price of the Participations the investor desires to purchase in at least the required initial minimum amount (\$50,000 in the case of the Capital Opportunity Loan Program, \$100,000 in the case of the Annual Opportunity Loan Program and the Opportunity Plus Program, and \$500,000 in the case of the Revolving Opportunity Loan Program and the Performance Plus Loan

Program). After making an initial investment in accordance with the particular Program, an Investor generally will be able to purchase additional Participations. Each purchase is subject to timely receipt of the required documents, the full payment for the subscription price, and the Company's review and acceptance of the documents. The Company may, in its absolute discretion, reject any subscription for Participations in whole or in part; and

- in the case of the Revolving Opportunity Loan Program, a Revolving Opportunity Loan Program Agreement substantially in the form of Exhibit E to this Memorandum.

Except in the case of the Revolving Opportunity Loan Program, the New Investor Subscription Agreement authorizes MLS, as the Participation holder's agent, to accept the Participation holder's oral instructions (1) to purchase Participations in specific Loans meeting the parameters set forth in this Memorandum and (2) to apply payoff proceeds of Participations to purchase Participations in other Loans within the parameters described in this Memorandum or to forward the cash proceeds thereof to the Participation holders. The Subscription Agreement also authorizes Mortgages Ltd. to execute the Agency Agreement on behalf of the Participation holder.

RESTRICTIONS ON TRANSFER

The Participations offered hereby have not been registered under the Securities Act or any state securities laws in reliance on specific exemptions from registration provided by such acts. Accordingly, each investor will be required to acknowledge that the purchase of Participations is for investment, solely for the investor's own account, and without any view to the sale or other

disposition thereof. Participation holders will not have the right to require the registration of their Participations under the Securities Act or any state securities laws. In addition, the Company has no intention to register the Participations, and it is highly unlikely that there will be any such registration in the future.

LEGALITY OF PARTICIPATIONS

The legality of the Participations offered hereby will be passed on for the Company by

Greenberg Traurig, LLP, Phoenix, Arizona.

ADDITIONAL INFORMATION

Copies of all documentation described in this Memorandum are available at the offices of the Company. Upon request, copies of such

documentation will be made available at any reasonable time to investors at: 55 East Thomas Road, Phoenix, Arizona 85012.

SUPPLEMENTAL SALES LITERATURE

In connection with the Offering, the Company may use a brochure or pamphlet that describes certain aspects of the Offering. Such brochure or pamphlet will not contain any material

information that is not also set forth in this Memorandum. The Offering will be made only by means of this Memorandum.

**EXHIBIT A
TO
PRIVATE OFFERING MEMORANDUM FOR
PASS-THROUGH LOAN PARTICIPATIONS
IN LOANS
ORIGINATED OR PURCHASED BY MORTGAGES LTD.**

Agency Agreement

2000
1000
1000
1000

1000

AGENCY AGREEMENT

THIS AGENCY AGREEMENT (this "Agreement") dated effective as of _____, 2____, is between Mortgages Ltd. ("Agent") and _____ ("Participant").

Background

This Agreement is executed in connection with all loans (each a "Loan" and collectively, the "Loans") with respect to which Participant may hold Pass-through Loan Participations pursuant to any program sponsored by Agent, including the Annual Opportunity™ Loan Program, the Capital Opportunity® Loan Program, the Opportunity Plus® Loan Program, the Revolving Opportunity™ Loan Program, and the Performance Plus® Loan Program (collectively, the "Programs"), all as described in the Private Offering Memorandum of Agent relating to the Programs.

Agreement

Participant and Agent (collectively, the "Parties") agree as follows.

1. APPOINTMENT AND AUTHORITY OF AGENT.

Participant appoints Agent to act as Participant's agent with regard to the Loans and the Loan Documents (as defined below). Participant agrees that Agent will be named as the lender/payee/beneficiary (as agent for Participant) under the Loan Documents. Notwithstanding the foregoing, Participant may notify Agent in writing that Participant desires to obtain a separate assignment of the beneficial interest in any of the deeds of trust that are executed in connection with any of the Loans. Upon receipt of such written notice, Agent will comply with Participant's request provided that the Parties agree that all other provisions of this Agreement (including all other rights and powers of Agent) shall remain in full force and effect.

Participant authorizes Agent to perform all of the tasks described in this Agreement on Participant's behalf, at Agent's sole discretion. Participant irrevocably appoints, with full power of substitution, Agent as its true and lawful attorney-in-fact, with authority to sign and endorse all documents and perform any other task to effectuate the intent of this Agreement. This power is a power coupled with an interest, and such power is irrevocable and shall remain in full force and effect until renounced by Agent.

a. **Account Servicing.** In order to aid Agent's management of Participant's investment in the Loans, Agent may do any of the following at the sole discretion of Agent:

(1) Request from Participant, Participant's percentage ratio of any delayed fundings to any borrower (each a "Borrower" and collectively, the "Borrowers") under the Loan Documents related to any Loan, which funds Participant shall deliver to Agent within three business days to be held or disbursed by Agent pursuant to the Loan Documents. If Participant fails to deliver the funds to Agent within the specified time period, Agent may, at its option, do the following:

(a) Divide Participant's total funding of any Loan by the face amount of such Loan to determine Participant's current percentage ratio and transfer to a new investor the difference between Participant's assigned percentage ratio and Participant's current percentage ratio; or

(b) Liquidate Participant's investment in any Loan and transfer all of Participant's assigned percentage ratio in the Loan to a new participant.

(2) Hold the originals of the promissory note, deed of trust and all other documents signed by any Borrower or any guarantor in connection with any Loan (collectively, the "Loan Documents").

(3) Service and administer the Loans in any manner provided by the applicable Loan Documents.

(4) Process payments with respect to any Loan from any Borrower or any other payor (each a "Borrower Payment") as follows:

(a) Upon receipt of a Borrower Payment, deposit that Borrower Payment in an account held by Agent, and transmit or deposit the appropriate funds to Participant.

(b) Agent may delay disbursing funds to Participant from any Borrower Payment until funds from the applicable Borrower or the applicable payor are collected by Agent's financial institution.

(c) If a Borrower Payment is returned by the financial institution of the Borrower or the applicable payor, Agent may send a notice to the applicable Borrower or the applicable payor requesting payment of the past due amount, together with interest at the default interest rate provided for in the Loan Documents.

(5) Assess and process all fees and charges set forth in the Loan Documents, including administrative fees, notice fees and late charges.

(6) Apply any funds received by Agent to the fees and costs incurred or assessed by Agent before applying the funds to the amounts owing under the Loan Documents. These fees and costs include notice fees, service fees, administrative fees, inspection fees, appraisal fees, expert fees, attorneys' fees, litigation costs, forced placed insurance premiums, late charges and guarantor collection expenses (as described herein). Any insurance placed by Agent may be placed with an affiliate of Agent or captive insurance company.

(7) Retain deposits received under the Loan Documents as impounds for the payment of the following: (a) future payments due; (b) taxes and assessments; (c) construction expenses; (d) insurance premiums; (e) extension fees; (f) administration fees; and (g) any other expenditure required under the Loan Documents.

Any impound account may be held in the name of Agent for the benefit of Participant and others, and Agent may apply and/or disburse any such deposits in accordance with the Loan Documents.

(8) Evaluate, effectuate and process an assumption of any Loan, and assess and receive an assumption fee and/or an interest rate increase.

(9) Sign, file and record all documents which are reasonable or desirable to facilitate servicing of the Loans and administration of the Programs, including: (a) deeds of release and reconveyance (full and partial); (b) endorsements and assignments of the Loan Documents (including assignments of all or a portion of the beneficial interest of any deed of trust included in the Loan Documents); (c) corrections, amendments and extensions of the Loan Documents; (d) disclaimers; (e) financing statements; and (f) assumptions and certifications.

(10) To the extent permitted by law, upon Participant's request, hold funds from the full or partial payoff of any Loan in Agent's trust account pending Participant's written direction as to the use of such funds.

b. **Collection.** In order to protect Participant's interests in the Loans, Agent may do any of the following at Agent's sole discretion:

(1) Correspond directly with any Borrower at any time on any matter regarding any Loan or the Loan Documents, including sending notices of delinquency and default, and demands for payment and compliance.

(2) Incur fees, costs and expenses deemed necessary by Agent to protect Participant's interests under the Loan Documents.

(3) Incur fees, costs and expenses deemed necessary by Agent to protect the property securing any Loan (each a "Trust Property"), including insurance premiums, receiver fees, property manager fees, maintenance expenses and security expenses.

(4) Negotiate, accept and/or process partial payments of amounts due and owing under the Loan Documents.

(5) Send the applicable Borrower a request to deposit sufficient funds for delinquent real estate taxes and insurance premiums (including forced placed insurance) relating to the applicable Trust Property.

(6) Obtain forced placed insurance on any portion of the applicable Trust Property if the applicable Borrower fails to maintain insurance as required by the Loan Documents.

(7) Sign, file and record all documents Agent deems necessary to protect Participant's interests and/or pursue Participant's remedies upon default, including a statement of breach or non-performance, a substitution of trustee, a notice of election to foreclose, an affidavit of non-military service, a notice of proposed disposition of collateral and various verifications.

(8) In the event of default, commence foreclosure of the applicable Trust Property, initiate a trustee's sale and/or institute any proceeding necessary to collect the amounts due under the applicable Loan Documents or to enforce any provision therein, including: (a) pursuing an action against the applicable Borrower or any guarantor of the Loan; (b) pursuing injunctive relief, the appointment of a receiver, provisional remedies or a deficiency judgment; (c) pursuing claims in bankruptcy court; (d) pursuing an appeal; (e) collecting rents; or (f) taking possession of and/or operating the applicable Trust Property.

(9) Amend the Loan Documents.

(10) Facilitate the sale of Participant's interests in the Loan Documents by communicating with potential purchasers or their agents and by providing information regarding any Loan to third parties, including copies of the Loan Documents and accounting information related to any Loan.

(11) Retain attorneys, trustees and other agents necessary to collect the amounts due under the Loan Documents, to protect the applicable Trust Property and/or to proceed with foreclosure of the applicable Trust Property, initiate a trustee's sale and/or institute, defend, appear or otherwise participate in any proceeding (legal, administrative or otherwise) that Agent deems necessary.

(12) Incur and pay such costs, expenses and fees as Agent deems appropriate in undertaking and pursuing enforcement of the Loan Documents and/or collection of amounts owed thereunder, including attorneys' fees, receiver fees, trustee fees, expert fees, notice fees and any fees, costs and expenses incurred in an effort to collect against a guarantor of any Loan.

(13) Request and receive payments from Borrowers or Participant as advances in order to pay such fees, costs and expenses incurred by Agent in accordance with this Agreement and/or the Loan Documents.

c. **Compensation.** As compensation for the services provided by Agent, Agent may do any of the following in its sole discretion:

(1) Retain fees and charges assessed under the Loan Documents and collected by Agent, including commitment fees, originations fees or points, late charges, maturity late charges, administrative fees, property inspection fees, prepayment penalties or premiums, notice fees and services.

(2) Deduct from payments received by Participant a portion of the interest payments on any Loan in which Participant acquires an interest in an amount determined by Agent at the time of the origination of such Loan and/or a servicing fee.

(3) Collect and retain any interest on the principal balance of any Loan which is over and above the normal rate set forth in the applicable promissory note, including the default interest rate provided for in the applicable Loan Documents.

(4) Collect and retain any interest that accrues on any impound accounts to the extent permitted by applicable law.

(5) Collect and retain any assumption fees and charges.

(6) Collect and retain any extension fees and forbearance fees.

d. **Sale of Interest.** If Participant owns less than 100% interest in any Loan being serviced by Agent under a Servicing Agent Agreement, Agent, in its sole discretion, may liquidate Participant's interest. Upon payment to Participant, Agent will, upon direction of Participant, use commercially reasonable efforts to reinvest any funds received by Participant in a new Loan.

2. **ACCOMMODATION.**

Agent provides its services as an accommodation only, and shall incur no responsibility or liability to any person, including Borrowers and Participant, for any act or omission by Agent or any person or entity acting for Agent.

3. **ASSIGNMENT, RESIGNATION AND TERMINATION.**

a. Agent shall have the right to assign the collection account or resign as Agent at any time, provided that Agent notifies Participant of such assignment or resignation in writing.

(1) If Agent assigns the collection account, Agent will deliver all Loan Documents, directions and account records to assignee, at which time Agent will have no further duties or liabilities hereunder.

(2) If Agent resigns, Participant shall have the right to designate a new collection agent and Agent shall deliver to Participant all Loan Documents, directions and account records to Participant or the newly designated collection agent, at which time Agent will have no further duties or liabilities hereunder.

b. If the ownership of any Trust Property becomes vested in Participant, either in whole or in part, by trustee's sale, judicial foreclosure or otherwise, Agent may enter into one or more real estate broker's agreement on Participant's behalf for the sale of the applicable Trust Property, enter into a management and/or maintenance agreements for management or maintenance of the applicable Trust Property, if applicable, may acquire insurance for the applicable Trust Property, and may take such other actions and enter into such other agreements for the protection and sale of the applicable Trust Property, all as Agent deems appropriate in its sole discretion. Any real estate broker engaged by Agent may be an affiliate of Agent. Participant may terminate this Agreement after it becomes the sole owner of the Trust Property by written notice to Agent and payment of the fees, costs and expenses incurred by Agent as provided herein.

c. Upon Agent's assignment or resignation, or termination of this Agreement, Participant shall immediately reimburse Agent for all fees, costs and expenses incurred

hereunder and pay Agent all compensation due. After such reimbursement and payment, Participant shall have no further duties to Agent, except indemnification of Agent.

4. INDEMNITY

a. Participant shall indemnify, protect, defend and hold Agent harmless for, from and against all liabilities incurred by Agent in performing under the terms of this Agreement or otherwise arising, directly or indirectly, from any Loan or the Loan Documents, including all attorneys' fees, insurance premiums, expenses, costs, damages and expenses.

b. If Agent requests that Participant pay any amount owed hereunder, Participant shall remit that amount to Agent as soon as possible, but in no event later than five business days of Agent's request.

5. PARTICIPANT'S OBLIGATIONS

a. **Execution of Documents.** Agent is authorized to sign all documents Agent deems necessary to facilitate loan servicing or collection. However, if it is necessary, Participant shall sign any documents Agent deems necessary to facilitate loan servicing or collection, including deeds of release and reconveyance (full and partial), endorsements and assignments. If Agent requests Participant sign such a document, then Participant shall sign and deliver that document as soon as possible, but in no event later than five business days of Agent's request.

b. **Failure to Execute Documents.** If Participant fails to sign any of the documents described in Section 5.a. above, Agent shall be authorized to sign any such document. If Agent is prevented from executing a document due to circumstances beyond Agent's control, then Agent shall be entitled to seek indemnification from Participant for any liabilities Agent may incur as a result.

c. **Assignment.** Participant shall have the right to assign its rights in this Agreement at any time upon immediate notification to Agent in writing of any assignment of Participant's rights. Upon assignment, Participant shall immediately reimburse Agent for all fees, costs and expenses incurred hereunder and pay Agent all compensation due. After such reimbursement and payment, Participant shall have no further duties to Agent, except indemnification of Agent.

d. **Breach.** If Participant breaches this Agreement by failing to perform or by interfering with Agent's ability to perform under this Agreement, then Participant shall pay Agent, within 30 days of written notice of breach, administrative fees, attorneys' fees, costs, closeout fees and any other fees or charges owed to Agent as compensation hereunder, along with any additional damages incurred by Agent, whether actual, incidental or consequential.

6. CONFIDENTIALITY

a. For the purposes of this Agreement, the term "Confidential Information" as used herein shall include all written and verbal information provided by Agent to Participant in connection with any Loan, whether marked or designated as confidential or not, including information regarding Agent's underwriting criteria or procedures. Except with respect to Agent's underwriting criteria and procedures, which shall in all events constitute Confidential

Information hereunder, the definition of Confidential Information shall not include any information which: (i) is or becomes generally known to third parties through no fault of Participant; or (ii) is already known to Participant prior to its receipt from Agent as shown by prior written records; or (iii) becomes known to Participant by disclosure from a third party who has a lawful right to disclose the information.

b. Participant acknowledges that the Confidential Information is proprietary and valuable to Agent and that any disclosure or unauthorized use thereof may cause irreparable harm and loss to Agent.

c. In consideration of the disclosure to Participant of the Confidential Information and of the services to be performed by Agent on behalf of Participant hereunder, Participant agrees to receive and to treat the Confidential Information on a confidential and restricted basis and to undertake the following additional obligations with respect thereto:

(i) To use the Confidential Information only in connection with the Loans.

(ii) Not to duplicate, in whole or in part, any Confidential Information.

(iii) Not to disclose Confidential Information to any person or entity, without the prior express written consent of Agent.

(iv) To return all Confidential Information to Agent upon request therefore and to destroy any additional notes or records made from such Confidential Information.

(v) Not to give testimony against Agent in any legal proceeding to which Agent is a party, unless compelled to do so by competent legal authority.

d. The standard of care to be utilized by Participant in the performance of its obligations set forth herein shall be the standard of care utilized by Participant in treating Participant's own information that it does not wish disclosed, except that Agent's underwriting criteria and procedures shall be kept absolutely confidential and privileged regardless of whether such knowledge was previously known to Participant or has been or is in the future disclosed to Consultant by third parties.

e. The restrictions set forth in this Section 6 shall be binding upon Participant, its employees, agents, officers, directors and any others to whom any Confidential Information may be disclosed as part of or in connection with any Loan transaction. Participant shall be responsible for any actions of its employees, agents, officers, directors or others to whom it has provided such information with respect to such information.

f. The restrictions and obligations of this Section 6 shall survive any expiration, termination or cancellation of this Agreement and shall continue to bind Participant, its successors and assigns.

g. Participant agrees and acknowledges that the rights conveyed in this Section 6 are of a unique and special nature and that Agent will not have an adequate remedy at law if Participant or anyone acting on Participant's behalf or for whom Participant acted fails to abide

by the terms and conditions set forth herein, nor will money damages adequately compensate for such injury. It is, therefore, agreed between the Parties that upon a breach by Participant of its agreements in this Section 6, Agent shall have the right, among other rights, to obtain an injunction or decree of specific performance to restrain Participant or anyone acting on Participant's behalf or for whom Participant is acting from continuing such breach, in addition to damages sustained as a result of such breach. Nothing in this Agreement shall in any way limit or exclude any other rights granted by law or equity to either of the Parties.

7. GENERAL PROVISIONS

a. This Agreement is binding on the Parties and their agents, personal representatives, heirs, successors, assigns, beneficiaries and trustees.

b. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Arizona, without regard to the choice of law rules of the State of Arizona. The Parties submit to the exclusive jurisdiction of any Arizona State or Federal Court sitting in the City of Phoenix in any action or proceeding arising out of or relating to this Agreement. The Parties waive the defense of an inconvenient forum.

c. The Parties waive the right to a jury trial on any matters arising from this Agreement.

d. This Agreement sets forth the entire agreement and understanding of the Parties with respect to the subject matter hereof and is to be read in consistency and accordance with the Account Application, the Existing Investor Account Agreement, the New Investor Subscription Agreement, and the Loan Documents.

e. This Agreement replaces and supersedes all prior agency agreements between Participant and Agent relating to any of the Loans. All such prior agency agreements are null and void.

f. This Agreement may be amended, modified, superseded, canceled, renewed or extended and the terms and covenants hereof may be waived only by a written instrument signed by Agent and Participant. Agent's failure, at any time, to require performance of any provision of this Agreement shall in no manner affect the right of Agent at a later time to enforce the same. No waiver by Agent of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver by Agent of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

g. If any term or other provision of this Agreement is declared invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect.

h. This Agreement may be signed by the Parties in counterparts. The signature pages may then be attached together constituting an original copy of the Agreement. Copies of signature pages obtained via facsimile shall be effective and binding on the Parties. As used in

this Agreement, the word "include(s)" means "include(s), without limitation," and the word "including" means "including, without limitation."

i. No remedy herein conferred upon or reserved to Agent is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

j. If there is any arbitration or litigation by or among the parties to enforce or interpret any provisions of this Agreement or any rights arising hereunder, the unsuccessful party in such arbitration or litigation, as determined by the arbitrator or the court, shall pay to the successful party, as determined by the arbitrator or the court, all costs and expenses, including attorneys' fees and costs, incurred by the successful party, such costs and expenses to be determined by the arbitrator or court sitting without a jury.

k. Agent is entitled to sign this Agreement on behalf of Participant as the attorney-in-fact of Participant pursuant to the authority granted under the Existing Investor Account Agreement or the New Investor Subscription Agreement executed by Participant.

IN WITNESS WHEREOF, the Parties have signed this Agreement effective as of the date first set forth above.

PARTICIPANT:

MORTGAGES LTD., as attorney-in-fact for Participant

By: **Scott M. Coles, CEO**

AGENT:

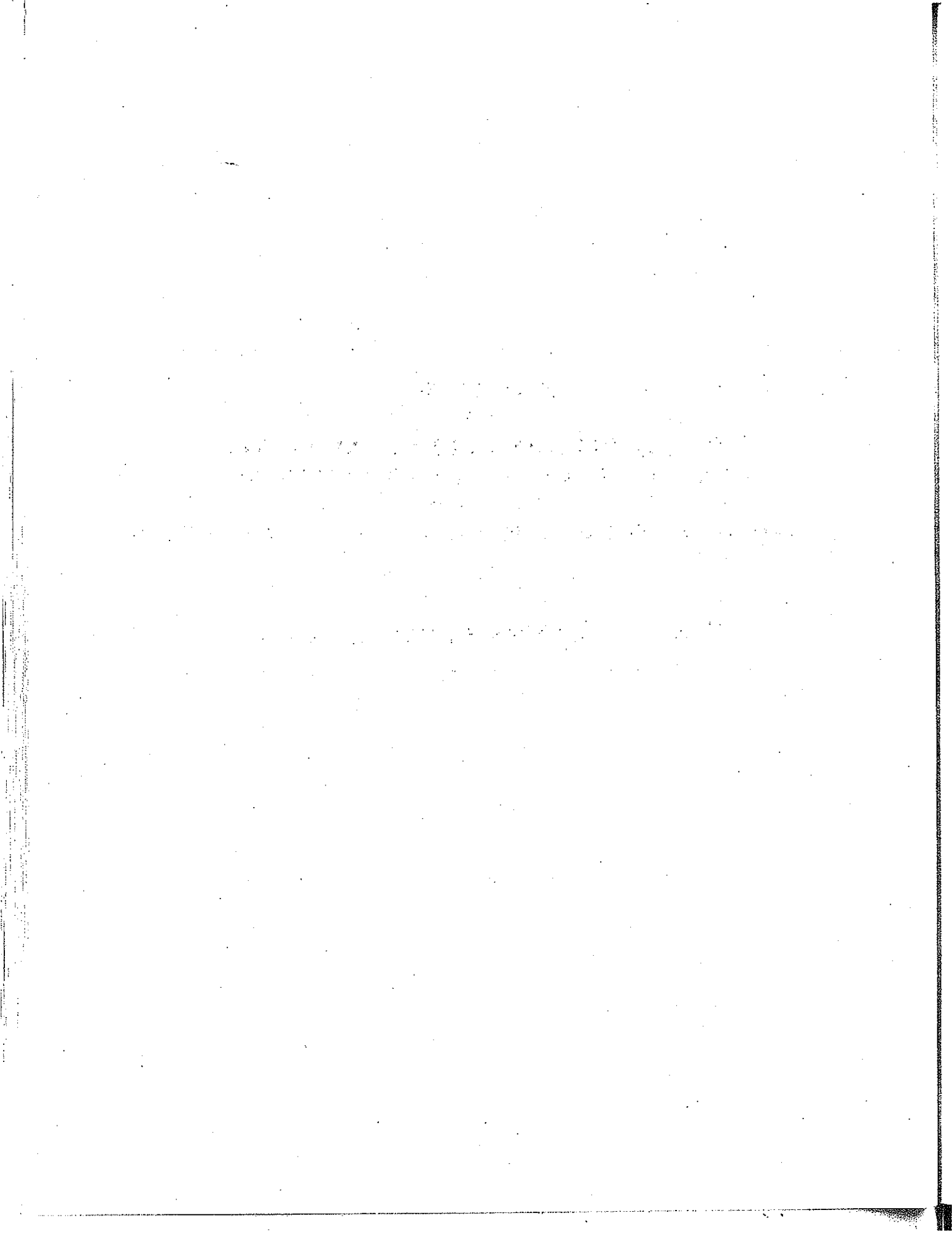
MORTGAGES LTD.

By: **Scott M. Coles, CEO**

(This page intentionally left blank)

**EXHIBIT B
TO
PRIVATE OFFERING MEMORANDUM FOR
PASS-THROUGH LOAN PARTICIPATIONS
IN LOANS
ORIGINATED OR PURCHASED BY MORTGAGES LTD.**

New Investor Subscription Agreement



MORTGAGES LTD.

NEW INVESTOR SUBSCRIPTION AGREEMENT

In order to subscribe for Pass-Through Loan Participations ("Participations") in loans originated or acquired by Mortgages Ltd., a prospective Investor must complete and execute this Agreement in accordance with the instructions set forth herein. This Agreement, together with the appropriate payment as described herein, should then be returned to:

MORTGAGES LTD. SECURITIES, L.L.C.

**55 East Thomas Road
Phoenix, Arizona 85018
Telephone: (602) 264-9374**

If your subscription is not accepted, this Agreement and payment will be returned to you. Please be sure that your name appears in exactly the same way in each signature and in each place where it is indicated in this Agreement.

Subscriptions from suitable prospective Investors will be accepted at the sole discretion of the Mortgages Ltd. and Mortgages Ltd. Securities, L.L.C. after receipt of all subscription documents, properly completed and executed, with the appropriate payment.

If you have any questions concerning the completion of this Agreement, please contact Mortgages Ltd. Securities, L.L.C. at (602) 264-9374.

Mortgages Ltd., which is the issuer of the Participations in which you are considering an investment, and Mortgages Ltd. Securities, L.L.C., which is the licensed broker-dealer for the offering of the Participations, are commonly controlled by Scott M. Coles, who is the Chairman and Chief Executive Officer of Mortgages Ltd. and the Managing Member of Mortgages Ltd. Securities, L.L.C.

MORTGAGES LTD.

NEW INVESTOR SUBSCRIPTION AGREEMENT

1. **Subscription.** The undersigned, desiring to purchase Pass-Through Loan Participations ("Participations") in loans originated or acquired by Mortgages Ltd. hereby subscribes for and agrees to purchase Participations as described in that certain Private Offering Memorandum dated July 10, 2006 (the "Memorandum") upon acceptance of this New Investor Subscription Agreement. The offering of Participations (the "Offering") is being made through Mortgages Ltd. Securities, L.L.C. ("MLS").

The undersigned is subscribing for Participations and has enclosed a check or sent a wire transfer payable to Mortgages Ltd. for the Program or Programs in the amount or amounts set forth below:

<u>Subscription Amount</u>	<u>Program</u>
\$ _____	Capital Opportunity® Loan Program - minimum investment of \$50,000.
\$ _____	Annual Opportunity™ Loan Program - minimum investment of \$100,000.
\$ _____	Opportunity Plus® Loan Program - minimum investment of \$100,000.
\$ _____	Revolving Opportunity™ Loan Program - minimum investment of \$500,000.
\$ _____	Performance Plus® Loan Program - minimum investment of \$500,000.

If paying by check, the check must be payable to Mortgages Ltd. No third-party checks will be accepted other than cashier's checks displaying the remitter's name. Wire transfers should be sent as follows:

Bank Name:	Irwin Union Bank, FSB
Bank Address:	2425 East Camelback Road, Suite 250 Phoenix, Arizona 08397-4467
Bank Routing Number:	083974467
Account Name:	Loan Funding Trust
Account Number:	83015651
Contact Person:	Heather Solomon (602) 553-7803

2. **Representations and Warranties.** By executing this New Investor Subscription Agreement, the undersigned:

(a) Represents and warrants that the Account Application and any other personal and financial information previously provided, provided herewith, or subsequently provided by the undersigned to Mortgages Ltd. or MLS was, is, or will be true and correct.

(b) Acknowledges that the undersigned has received, and is familiar with and understands the Memorandum, including the section captioned "Risk Factors."

(c) Acknowledges that the undersigned is fully familiar with Mortgages Ltd. and its business, affairs, and operating policies and has had access to any and all material information, including all documents, records, and books pertaining to Mortgages Ltd., that the undersigned deems necessary or appropriate to enable the undersigned to make an investment decision in connection with the purchase of Participations.

(d) Acknowledges that the undersigned has been encouraged to rely upon the advice of the undersigned's legal counsel, accountants, and other financial advisors with respect to the purchase of Participations, including the tax considerations with respect thereto.

(e) Represents and warrants that the undersigned, in determining to purchase Participations, has relied solely upon the Memorandum and the advice of the undersigned's legal counsel, accountants, and other financial advisors with respect to the purchase of Participations (including the tax aspects thereof) and has been

offered the opportunity to ask such questions and inspect such documents as the undersigned has requested so as to understand more fully the nature of the investment and to verify the accuracy of the information supplied.

(f) Represents and warrants that the undersigned has the full power to execute, deliver, and perform this Agreement and that this Agreement is a legal and binding obligation of, and is enforceable against, the undersigned in accordance with its terms.

(g) Represents and warrants that the undersigned is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act") and satisfies one of the standards set forth in the Memorandum under the section captioned under "Who May Invest" and that the undersigned will inform Mortgages Ltd. and MLS of any change in such accredited investor status.

(h) Represents and warrants that the Participations being acquired will be acquired for the undersigned's own account without a view to public distribution or resale and that the undersigned has no contract, undertaking, agreement, or arrangement to sell or otherwise transfer or dispose of any Participations or any portion thereof to any other person.

(i) Represents and warrants that the undersigned (i) can bear the economic risk of the purchase of Participations, including the loss of the undersigned's investment and (ii) has such knowledge and experience in business and financial matters, including the analysis of or participation in private offerings and real estate investments, as to be capable of evaluating the merits and risks of an investment in Participations or that the undersigned is being advised by others (acknowledged by the undersigned as being the "Purchaser Representative(s)" of the undersigned) such that they and the undersigned together are capable of making such evaluation.

(j) Represents and warrants, if subject to the Employee Retirement Income Security Act ("ERISA"), that the undersigned is aware of and has taken into consideration the diversification requirements of Section 404(a)(3) of ERISA in determining to purchase Participations and that the undersigned has concluded that the purchase of Participations is prudent.

(k) Understands that the undersigned may be required to provide additional current financial and other information to Mortgages Ltd. and MLS to enable them to determine whether the undersigned is qualified to purchase Participations.

(l) Understands that the Participations will not be registered under the Securities Act or the securities laws of any state or other jurisdiction and therefore will be subject to substantial restrictions on transfer.

(m) Agrees that the undersigned will not sell or otherwise transfer or dispose of any Participations or any portion thereof unless such Participations are registered under the Securities Act and any applicable state securities laws or the undersigned obtains an opinion of counsel that it is satisfactory to Mortgages Ltd. and MLS that such Participations may be sold in reliance on an exemption from such registration requirements.

(n) Understands that (i) there is no obligation or intention to register any Participations for resale or transfer under the Securities Act or any state securities laws or to take any action (including the filing of reports or the publication of information as required by Rule 144 under the Securities Act) that would make available any exemption from the registration requirements of any such laws, and (ii) the undersigned therefore may be precluded from selling or otherwise transferring or disposing of any Participations or any portion thereof for an indefinite period of time or at any particular time.

(o) Represents and warrants that neither Mortgages Ltd. or MLS nor anyone purportedly acting on behalf of either of them has made any representations or warranties respecting the Participations except those contained in the Memorandum nor has the undersigned relied on any representations or warranties in the belief that they were made on behalf of any of the foregoing, nor has the undersigned relied on the absence of any such representations or warranties in reaching the decision to purchase Participations.

(p) Represents and warrants that (i) if an individual, the undersigned is at least 21 years of age; (ii) the undersigned satisfies the suitability standards set forth in the Memorandum; (iii) the undersigned has adequate means of providing for the undersigned's current needs and contingencies; (iv) the undersigned has no need for liquidity in the undersigned's investments; (v) the undersigned maintains the undersigned's business or residence as provided to Mortgages Ltd. and MLS; (vi) all investments in and commitments to non-liquid investments are, and after the purchase of Participations will be, reasonable in relation to the undersigned's net worth and current needs; and (vii) any financial information previously provided, provided herewith, or subsequently provided at the request of Mortgage Ltd. or MLS did, does, or will accurately reflect the undersigned's financial sophistication and condition with respect to which the undersigned does not anticipate any material adverse change.

(q) Understands that no federal or state agency, including the Securities and Exchange Commission or the securities commission or authorities of any state, has approved or disapproved the Participations, passed upon or endorsed the merits of the Offering, or made any finding or determination as to the fairness of the Participations for investment.

(r) Acknowledges that Mortgages Ltd. and MLS have the unconditional right to accept or reject this Agreement.

(s) Understands that the Participations are being offered and sold in reliance on specific exemptions from the registration requirements of federal and state laws and that Mortgages Ltd. and MLS are relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgements, and understandings set forth herein in order to determine the suitability of the undersigned to acquire Participations.

(t) Acknowledges that the undersigned understands that, if this Agreement is rejected or if the Offering is terminated or withdrawn prior to acceptance of this Agreement, the funds deposited by the undersigned will be refunded promptly.

(u) Represents, warrants, and agrees that, if the undersigned is acquiring Participations in a fiduciary capacity (i) the above representations, warranties, agreements, acknowledgements, and understandings shall be deemed to have been made on behalf of the person or persons for whose benefit such Participations are being acquired, (ii) the name of such person or persons is indicated below under the subscriber's name, and (iii) such further information as Mortgages Ltd. and MLS deem appropriate shall be furnished regarding such person or persons.

(v) Represents and warrants that the information set forth herein, or contained in the undersigned's Account Application, is true and complete and agrees that Mortgages Ltd. and MLS may rely on the truth and accuracy of the information for purposes of assuring that Mortgages Ltd. and MLS may rely on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2) of the Securities Act and Regulation D under the Securities Act and of any applicable state statutes or regulations, and further agrees that Mortgages Ltd. and MLS may present such information to such persons as it deems appropriate if called upon to verify the information provided or to establish the availability of an exemption from registration under Section 4(2) of the Securities Act, Regulation D, or any state securities statutes or regulations or if the contents are relevant to any issue in any action, suit, or proceeding to which Mortgages Ltd. or MLS are a party or by which either of them may be bound.

(w) Understands and acknowledges that the Participations are subject to a number of important risks and uncertainties as set forth under the section captioned "Risk Factors" in the Memorandum, including significant competition; the risks generally incident to the development, ownership operation, and rental of real property; changes in national and local economic and market conditions; changes in the investment climate for real estate investments; the availability and cost of mortgage funds; the obligations to meet fixed and maturing obligations, if any; the availability and cost of necessary utilities and services; changes in real estate tax rates and other operating expenses; changes in governmental rules, fiscal policies, zoning, environmental controls, and other land use regulations; acts of God, which may result in uninsured losses; conditions in the real estate market; the availability and cost of real estate loans; and other factors beyond the control of Mortgages Ltd. The undersigned further understands and acknowledges that Participations will also be subject to the risks associated with the

development of real estate, including the cost of construction, the time it takes to complete such construction, worker strikes and other labor difficulties, energy shortages, material and labor shortages, inflation, adverse weather conditions, subcontractor defaults and delays, changes in federal, state, or local laws, ordinances, or regulations, and other unknown contingencies.

(x) Understands and acknowledges that the representations and warranties contained in this Agreement must remain true and correct at any time that the undersigned purchases any additional Participations and that the payment for any additional Participations will constitute such a reconfirmation of the truth and correctness of the representations and warranties contained in this Agreement.

(y) Understands and acknowledges that the success of any investment is impossible to predict and that no representations or warranties of any kind are made by Mortgages Ltd. or MLS or any of their affiliates with respect to the prospects of the investment or the ultimate rate of return on the Participations.

3. **General Information. Purchaser Representative.** Please check (a) or (b) below:

(a) The undersigned is not relying upon the advice of a Purchaser Representative, such as an attorney, accountant, or other advisor, in making a final investment decision to purchase Participations. The undersigned believes that the undersigned has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Participations.

(b) The undersigned does not have sufficient knowledge and experience in financial and business matters as required above. The undersigned intends to rely on and hereby designates as the undersigned's Purchaser Representative the individual(s) named below to assist the undersigned in evaluating the risks and merits of an investment in Participations. The undersigned authorizes Mortgages Ltd. to furnish such person with a Purchaser Representative Questionnaire requesting certain information regarding his or her expertise and background and the undersigned agrees to furnish such questionnaire to Mortgages Ltd.

Name of Purchaser Representative: _____

Address: _____

Occupation: _____

Employer: _____

If Item 3(b) is checked, each Purchaser Representative must complete a Purchaser Representative Questionnaire.

4. **Adoption of the Agency Agreement.** By executing this Agreement, the undersigned accepts and agrees to be bound by the Agency Agreement in the form of an exhibit to the Memorandum or as otherwise furnished to the undersigned. The undersigned further hereby irrevocably constitutes and appoints Mortgages Ltd., with full power of substitution, as the undersigned's true and lawful attorney and agent, with full power and authority in the undersigned's name, place, and stead, to make, execute, swear to, acknowledge, deliver, file, and record the following:

(a) The Agency Agreement and amendments thereto;

(b) Any Assignments of Beneficial Participation in Deeds of Trust, Promissory Note Endorsements, Assignments of Assignment of Deeds, Leases and Profits, and Assignments of Assignments of Rents

that Mortgages Ltd. deems necessary and appropriate to effectuate the purposes of the Programs and the purchase of Participations.

(c) All certificates, instruments, documents, and other papers and amendments thereto that may from time to time be required under the laws of the United States of America, the state of Arizona, any other state or jurisdiction, or required by any political subdivision or agency of any of the foregoing or otherwise, or which Mortgages Ltd. deems appropriate or necessary to carry on the objects and intent of the Programs and the purchase of Participations;

(d) All conveyances and other instruments that Mortgages Ltd. deems appropriate to effect the transfer of Participations.

(e) Unless authorization is withheld by so indicating below or in another written document to Mortgage Ltd. and MLS, the undersigned hereby authorizes Mortgages Ltd. to be named as the lender/payee/beneficiary as agent for the undersigned in the deed of trust or deeds of trust or mortgage or mortgages securing the Loan or Loans and other documentation relating to the Loans.

Authorization granted

Authorization withheld

This power of attorney granted hereby shall be deemed to be a power coupled with an interest, shall survive the death, legal incapacity bankruptcy, merger, sale, dissolution, termination, or other fundamental change of the undersigned, and shall survive the delivery of an assignment by the undersigned of all or any portion of the undersigned's Participations or any interest therein except that, when the assignee thereof has been approved by Mortgages Ltd. as a Participation holder, the power shall survive the delivery of such assignment with respect to the assigned interest only for the purpose of enabling Mortgages Ltd. to execute, acknowledge, and file any instruments necessary to effect such substitution.

5. **Authorization to Purchase Following Verbal Instructions.** The undersigned hereby authorizes Mortgages Ltd. Securities, L.L.C., as the undersigned's agent, to accept the undersigned's oral instructions (a) to purchase Participations in Loans secured by deeds of trusts or mortgages on the properties underlying the Loans so long as the Participations are within the parameters described in the Memorandum and (b) to apply payoff proceeds of Participations to purchase Participations in other Loans within the parameters described in the Memorandum or to forward the cash proceeds thereof to the undersigned. By executing this Agreement, the undersigned also acknowledges and confirms the following:

(a) The undersigned understands and acknowledges that Mortgages Ltd. will have the authority, based upon the undersigned's oral instructions, to make various determinations and take various actions with Loans with respect to the Participations currently owned or owned in the future by the undersigned, including extending the terms of the Loans, modifying the payment terms of the Loans, accepting prepayments on the Loans, releasing a portion of the collateral securing the Loans, and otherwise dealing with the Loans on behalf of the undersigned.

(b) To the extent that the undersigned requests with respect to a Loan, the undersigned understands that the undersigned will have the opportunity to (i) review the Property Information Sheet for the Loan, which describes material information about the Loan and the deed of trust or mortgage securing the Loan, (ii) to review Mortgage Ltd.'s entire loan file with respect to the Loan, which contains information and documentation concerning the Loan, the real property underlying the Loan, and the Borrower under the Loan; (iii) to ask any questions the undersigned has about the Loan and such documentation; and (iv) the undersigned will receive answers to any questions that the undersigned may have.

To the extent that a representative of MLS is unable to contact the undersigned following the payoff of a Loan with respect to which the undersigned owns Participations, the undersigned authorizes MLS to apply such proceeds to the Capital Opportunity Loan Program for the minimum investment period pending oral instructions from the undersigned for the application of such proceeds after such minimum period.

6. **Grant of Discretion.** Until revoked at any time in writing, the undersigned hereby grants discretion to Mortgages Ltd., in its sole discretion, to select for purchase and sale the Loan or Loans with respect to which the undersigned acquires Participations. Without limiting the foregoing, the undersigned understands that this grant of discretion will give Mortgages Ltd. the authority, in its sole discretion, to make various determinations and take various actions with Loans with respect to Participations to be acquired, acquired, or sold by the undersigned, including extending the terms of the Loans, modifying the payment terms of the Loans, accepting prepayments on the Loans, releasing a portion of the collateral securing the Loan, and otherwise dealing with the Loans on behalf of the undersigned.

_____ Discretion granted

_____ Discretion withheld

7. **Disclosure of Existing Power of Attorney.** Please indicate if the undersigned has granted a power of attorney with respect to Mortgages Ltd. investment products.

Yes No

If yes, please attach a copy of the document.

8. **Miscellaneous.**

(a) **Choice of Law.** This Agreement and all questions relating to its validity, interpretation, performance, and enforcement, will be governed by and construed in accordance with the laws of the state of Arizona, notwithstanding any Arizona or other conflict-of-law provision to the contrary.

(b) **Binding Agreement.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and the respective heirs, personal representatives, successors, and assigns of the parties hereto, except that the undersigned may not assign or transfer any rights or obligations under this Subscription Agreement without the prior written consent of the Mortgages Ltd.

(c) **Entire Agreement.** This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written, except as herein contained.

(d) **Dispute Resolution.**

(i) This section applies to any controversy or claim arising from, relating to, or in any way connected with this Agreement, the Offering, the Loans, the Agency Agreement, and any other documents relating to the Loans.

(ii) In the event of any such controversy or claim, the parties shall use their best efforts to settle the controversy or claim. To this effect, they shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to both parties. If they do not reach such solution within a period of 60 days, then, upon notice by either party to the other, all such controversies or claims shall be submitted to mediation administered by the American Arbitration Association under its Commercial Mediation Procedures.

(iii) In the event that mediation does not result in a resolution, any party that still wishes to pursue a controversy or claim shall first notify the other party in writing within 60 days after the mediation. Upon receipt of such notice, the receiving party shall elect, in its sole and absolute discretion, to compel the dispute either to court for litigation pursuant to this section or to arbitration pursuant to this section. The receiving party shall notify the other party of the election within 10 days after receipt of the notice.

(iv) In the event that the dispute is compelled to arbitration, the parties agree to submit the unresolved controversies or claims to arbitration administered by the American Arbitration Association

in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Within 15 days after the commencement of arbitration, each party shall select one person to act as arbitrator and the two selected shall select a third arbitrator within ten days of their appointment. If the arbitrators selected by the parties are unable or fail to agree upon the third arbitrator, the third arbitrator shall be selected by the American Arbitration Association. The arbitrators will have no authority to award punitive or other damages not measured by the prevailing party's actual damages, except as may be required by statute. The arbitrators shall not award consequential damages. Any award in an arbitration initiated under this clause shall be limited to monetary damages and shall include no injunction or direction to any party other than the direction to pay a monetary amount. The arbitrators shall award to the prevailing party, if any, as determined by the arbitrators, all of its costs and fees. "Costs and fees" mean all reasonable pre-award expenses of the arbitration, including the arbitrators' fees, administrative fees, travel expenses, out-of-pocket expenses, such as copying and telephone, court costs, witness fees, and attorneys' fees. Except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of the other parties. The place of arbitration shall be Phoenix, Arizona.

(v) In the event that the dispute is compelled to court for litigation, the parties agree that the unresolved controversies or claims shall be determined in federal or state court sitting in the city of Phoenix, and they agree to waive the defense of inconvenient forum and any right to jury trial.

IN WITNESS WHEREOF, intending to irrevocably bind the undersigned and the heirs, personal representatives, successors, and assigns of the undersigned and to be bound by this Subscription Agreement, the undersigned is executing this Subscription Agreement on the date indicated.

Dated: _____

Name in which Individual Investment Is to Be Registered:

Print Name of Individual Investor:

Signature of Individual Investor:

Print Name of Individual Co-Investor:

Signature of Individual Co-Investor:

Name of corporate, partnership, limited liability company, trust, qualified pension, profit sharing, stock/Keogh, or 401k Plan Investor:

By: _____
(Signature of first executing party)

Its: _____

By: _____
(Signature of second executing party)

Its: _____

ACCEPTED:

MORTGAGES LTD.

By: _____

Its: _____

(This page intentionally left blank)

**EXHIBIT C
TO
PRIVATE OFFERING MEMORANDUM FOR
PASS-THROUGH LOAN PARTICIPATIONS
IN LOANS
ORIGINATED OR PURCHASED BY MORTGAGES LTD.**

Purchaser Representative Questionnaire

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

PHYSICS 311

LECTURE 1



For Mortgages Ltd. Securities .L.L.C use only
MLS Account Number _____
Managing Director _____
Other active account numbers established by this investor, and account group: _____

MORTGAGES LTD. SECURITIES, L.L.C. PURCHASER REPRESENTATIVE QUESTIONNAIRE

Welcome to Mortgages Ltd. Securities, L.L.C. Because we are subject to strict regulatory requirements, it is important that all questions are answered thoroughly. Missing information may result in this questionnaire being returned for completion. We suggest that you have the Purchaser's Managing Director assist you when filling out this questionnaire.

1. Purchaser Representative Contact Information (PROVIDE YOUR CONTACT INFORMATION)

Name _____
Address _____
City _____ State _____ Zip Code _____
Home Telephone Number (____) _____
Work Telephone Number (____) _____
Cellular Telephone Number (____) _____
Fax Number (____) _____
Email Address _____
Date of Birth _____

2. Identification of Purchaser and Relationship (IDENTIFY THE INVESTOR YOU ARE ASSISTING)

Purchaser Name _____
Name in which Purchaser's investment(s) will be registered _____

How long have you known Purchaser and in what capacity?

Explain briefly the terms of any agreement whereby you will be compensated by Purchaser.

3. Education, Occupation, and Experience

(a) Please list your business or professional education, including degrees received, if any.

- (b) Please list any professional licenses or registrations, including bar admissions, accounting certificates, real estate licenses, SEC, NASD or state broker/dealer salesman, or investment advisor registrations, CFA or CFP designations, etc.

- (c) Please list your present occupation, including the length of time you have held it.

- (d) Have you had prior experience in advising clients with respect to investments of this type? If yes, please describe your experience below.

Yes No

- (e) Describe generally any business, financial or investment experience that would help you to evaluate the merits and risks of this investment.

4. Material Relationships With Mortgages Ltd. Securities, L.L.C.

Have you or any of your affiliates had any material relationship with Mortgages Ltd. Securities, L.L.C. or any of its affiliates (the "Company") at any time in the past two years, or is any material relationship mutually understood to be contemplated? If yes, indicate the type and amount of compensation received or to be received as a result of such relationship below.

Yes No

5. Reliance on Others

- (a) In advising the Purchaser, are you relying in part on the Purchaser's own expertise in certain areas? If yes, please explain Purchaser's expertise.

Yes No

- (b) In advising the Purchaser, are you relying in part on the expertise of an additional purchaser representative or representatives? If yes, please provide name(s) and address(es).

Yes No

ALL PERSONS IDENTIFIED IN SECTION 5(b) ABOVE MUST ALSO COMPLETE A PURCHASER REPRESENTATIVE QUESTIONNAIRE.

The undersigned hereby certifies that the information supplied herein is true and accurate in all respects and that Mortgages Ltd. and/or Mortgages Ltd. Securities, L.L.C. may rely on it as such. The undersigned understands that Mortgages Ltd. investment products are offered and sold in reliance on specific exemptions from the registration requirements of federal and state laws and that Mortgages Ltd. and Mortgages Limited Securities, L.L.C are relying upon the truth and accuracy of the information provided herein by the undersigned in order to determine the suitability of the Purchaser. The undersigned further represents and warrants to the Company as follows:

- (a) The undersigned is acting as Purchaser Representative in connection with the Purchaser's prospective investment(s) in Mortgages Ltd. investment products.
- (b) The undersigned will notify the Company immediately of any material change in any statement made herein occurring prior to the closing of any purchase by the Purchaser of any Mortgages Ltd. investment products.
- (c) The undersigned is not an affiliate, partner, or other employee, or a beneficial owner of 10% or more of any class of equity securities of the Company or any of its affiliates, except where the purchaser is a relative of the undersigned by blood, marriage or adoption and not more remote than a first cousin.
- (d) The undersigned has disclosed to the Purchaser in writing any material relationship or contemplated material relationship the undersigned may have with the Company.
- (e) The undersigned personally (or together with the Purchaser or one or more additional purchaser representatives) has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of Purchaser's investment(s) in Mortgages Ltd. investment products.

Submitted this _____ day of _____, 200_.

Print Purchaser Representative Name

Purchaser Representative Signature

I have selected the individual identified above as my Purchaser Representative in connection with the evaluation of the merits and risks of my prospective investment.

Print Investor Name

Investor Signature

THE PURCHASER REPRESENTATIVE MUST ATTACH A LEGIBLE COPY OF A DRIVER'S LICENSE OR OTHER FORM OF PICTURE IDENTIFICATION AS REQUIRED BY THE PATRIOT ACT.

(This page intentionally left blank)

**EXHIBIT D
TO
PRIVATE OFFERING MEMORANDUM FOR
PASS-THROUGH LOAN PARTICIPATIONS
IN LOANS
ORIGINATED OR PURCHASED BY MORTGAGES LTD.**

Financial Statements of Mortgages Ltd.

MORTGAGES, LTD.

FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

MORTGAGES, LTD.

FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Income and Retained Earnings	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 10

The logo consists of the letters 'MHM' in a white, bold, sans-serif font, centered within a solid black square.

Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300

Phoenix, Arizona 85012

602-264-6835 ph

602-265-7631 fx

www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of

MORTGAGES, LTD.

We have audited the accompanying balance sheets of *Mortgages, Ltd.* at October 31, 2005 and 2004, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of *Mortgages, Ltd.* Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Mortgages, Ltd.* at October 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Mayer Hoffman McCann P.C.' in a cursive, flowing script.

Phoenix, Arizona
December 9, 2005

MORTGAGES, LTD.

BALANCE SHEETS

October 31, 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash	\$ 403,299	\$ 310,422
Accounts receivable	91,084	27,415
Due from related party	2,205,000	
Mortgages held for investment	32,340,266	4,031,179
Real estate and improvements held for investment and sale	454,590	45,160
Other current assets	19,445	18,061
TOTAL CURRENT ASSETS	<u>35,513,684</u>	<u>4,432,237</u>
PROPERTY AND EQUIPMENT, net	1,032,831	1,256,796
OTHER ASSETS	<u>465,885</u>	<u>32,682</u>
TOTAL ASSETS	<u>\$ 37,012,400</u>	<u>\$ 5,721,715</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		
Note payable, bank	\$ 2,725,000	\$ 2,000,000
Accounts payable	269,017	89,051
Accrued liabilities	1,223,461	1,171,973
Accrued bonus and payroll liabilities	1,910,460	2,196,192
Notes payable	30,559,948	-
TOTAL CURRENT LIABILITIES	<u>36,687,886</u>	<u>5,457,216</u>
CAPITAL CONTRIBUTED		
Common stock, no par value, authorized 100,000 shares, issued and outstanding 3,000 shares	454,000	454,000
RETAINED EARNINGS (DEFICIT)	<u>(129,486)</u>	<u>(189,501)</u>
TOTAL STOCKHOLDER'S EQUITY	<u>324,514</u>	<u>264,499</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 37,012,400</u>	<u>\$ 5,721,715</u>

See Notes to Financial Statements

MORTGAGES, LTD.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
INCOME		
Origination fees	\$ 12,816,612	\$ 10,436,368
Servicing fees	10,964,045	5,858,931
Processing fees	3,011,735	3,231,853
Interest income	1,183,506	587,868
Other income	1,046,882	774,383
TOTAL INCOME	<u>29,022,780</u>	<u>20,889,403</u>
EXPENSES		
Payroll	9,052,129	10,726,352
General and administrative	4,392,083	3,433,623
Rents and occupancy	3,904,593	3,777,565
Interest	2,209,622	1,032,971
Consulting	1,147,187	407,157
Employee benefits	699,278	618,516
Advertising and promotion	311,631	74,553
Depreciation	158,864	209,073
Other expenses	259,394	302,231
TOTAL EXPENSES	<u>22,134,781</u>	<u>20,582,041</u>
NET INCOME	6,887,999	307,362
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(189,501)	218,637
STOCKHOLDER DISTRIBUTIONS	<u>(6,827,984)</u>	<u>(715,500)</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ (129,486)</u>	<u>\$ (189,501)</u>

See Notes to Financial Statements

MORTGAGES, LTD.

STATEMENTS OF CASH FLOWS

Years Ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,887,999	\$ 307,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	158,863	209,073
Amortization of loan fees	104,167	-
Loss on disposal of property and equipment	101,329	251,879
Loss on sale of investments	-	57,496
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(63,669)	26,883
Other current assets	(1,384)	13,234
Increase (decrease) in:		
Accounts payable	179,966	(148,182)
Accrued liabilities	51,488	182,471
Accrued bonus and payroll liabilities	(285,732)	1,864,983
Net cash provided by operating activities	<u>7,133,027</u>	<u>2,765,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of mortgages held for investment	28,929,549	6,118,101
Purchases of mortgages held for investment	(57,238,636)	(8,028,973)
Due from related party	(2,205,000)	-
Purchases of real estate and improvements held for investment and sale	(409,430)	-
Purchases of property and equipment	(36,227)	(48,507)
Change in other assets	(537,370)	(106)
Net cash used in investing activities	<u>(31,497,114)</u>	<u>(1,959,485)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt borrowings	45,959,948	645,000
Payments on short-term debt	(14,675,000)	(500,000)
Distributions paid to stockholder	(6,827,984)	(715,500)
Net cash provided by (used in) financing activities	<u>24,456,964</u>	<u>(570,500)</u>
NET CHANGE IN CASH	92,877	235,214
CASH, BEGINNING OF YEAR	<u>310,422</u>	<u>75,208</u>
CASH, END OF YEAR	<u>\$ 403,299</u>	<u>\$ 310,422</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,209,622</u>	<u>\$ 1,032,971</u>

See Notes to Financial Statements

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(1) Company operations and summary of significant accounting policies

Company operations – *Mortgages, Ltd.* (the "Company") is organized under the laws of the state of Arizona and began operations in 1964. Company management believes the Company is Arizona's oldest and largest private mortgage banker with a loan-servicing portfolio exceeding \$635 million (in service and commitments). The Company originates commercial and residential mortgages for properties in the Arizona market for permanent investors. The Company retains servicing for the loans originated.

The significant accounting policies followed by the Company are summarized below:

Revenue recognition – The Company has three primary sources of income: loan origination fees, servicing fees and processing fees. Loan origination fees and processing fees are recognized when the loan is processed and funded. Servicing fees are recognized at the time remittances are received for principal and interest on mortgage loans owned by others. The loan balances and related trust accounts of loans serviced for others are not included on the Company's balance sheets. Other income includes income from construction administration fees, rental fees, inspection fees, prepayment fees, credit analysis fees, servicing set-up fees, and miscellaneous fees, and are recognized when the services are provided.

Management's use of estimates – The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash – Cash consists of cash, demand deposits and savings deposits and, at times, may include other cash equivalents which consist of highly liquid debt instruments with original maturities of three months or less. Cash deposits are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Accounts receivable – Accounts receivable are stated at the amount the Company expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through an allowance for doubtful accounts, if an allowance is deemed necessary. On a periodic basis, management evaluates its accounts receivable and determines the requirement for an allowance for doubtful accounts based on its assessment of the current status of individual accounts. A receivable is written off when it is determined that all collection efforts have been exhausted. Management considers accounts receivable at October 31, 2005 and 2004 to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Property and equipment – Property and equipment are stated at cost and are depreciated and amortized using accelerated and straight-line methods over the following estimated useful lives:

	<u>Useful lives</u>
Leasehold improvements	5 - 40
Furnishings and office equipment	5 - 10
Computer hardware and software	3 - 5
Vehicles	5

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(1) **Company operations and summary of significant accounting policies (continued)**

Impairment of long-lived assets – The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present at October 31, 2005 and 2004.

Advertising – The cost of advertising is expensed when incurred or the first time the advertising takes place. Advertising expense was \$311,631 for 2005 and \$74,553 for 2004.

Income taxes – The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company generally does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholder is liable for individual income taxes on the taxable income of the Company.

(2) **Loans serviced for others**

The Company services loans for others. The balance of these loans, which are not included on the Company's balance sheets, totaled approximately \$497,146,000 at October 31, 2005 and \$382,533,000 at October 31, 2004. In connection with the mortgage loans serviced for others, amounts held in trust for mortgage loan reserves, undistributed principal and interest collections, construction funds and tax impounds aggregated approximately \$27,181,000 at October 31, 2005 and \$6,204,000 at October 31, 2004. The cash held in trust and the related liability for mortgage loan reserves do not appear on the Company's balance sheets. The loans serviced for others include commercial and residential real estate loans that were originated by the Company for investors, with servicing retained.

(3) **Due from related party**

The Company holds a note receivable of \$2,205,000 at October 31, 2005 from the Company's sole stockholder. The note is noninterest bearing and is expected to be repaid from the proceeds of Company distributions to the sole stockholder.

(4) **Mortgages held for investment**

Mortgages held for investment represent mortgages originated by the Company with interest rates ranging from 8.0% to 15.0%, that the Company anticipates holding for less than 12 months, and are held by the Company temporarily for investment purposes. The mortgages are collateralized by real property and carried at book value, which management considers to approximate market value. The estimated fair market values are typically in excess of the loan balances on the mortgages held for investment. Mortgages held for investment are generally sold to other investors at book value.

(5) **Real estate and improvements held for investment and sale**

Real estate held for investment represents \$45,160 of real property purchased by the Company and held temporarily for investment purposes. The property is carried at cost and gains or losses related to the real estate sold are recorded as other income (expense). The balance recorded for this property at October 31, 2005 and 2004 approximates the fair market value of the property less the expected cost to sell the property.

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(5) Real estate and improvements held for investment and sale (continued)

As of October 31, 2005, real estate and improvements held for investment and sale included costs of \$409,430. Costs incurred related to the development of River Run Golf Course and commercial and residential lots located in Eager, Arizona. The Company management estimates that these costs are fully recoverable out of future sales proceeds.

(6) Property and equipment

Property and equipment consist of:

	<u>2005</u>	<u>2004</u>
Cost:		
Leasehold improvements	\$ 1,155,205	\$ 1,212,331
Furnishings and office equipment	636,401	708,748
Computer hardware and software	256,770	236,314
Vehicles	<u>36,000</u>	<u>36,000</u>
Total cost	2,084,376	2,193,393
Accumulated depreciation and amortization	<u>(1,051,545)</u>	<u>(936,597)</u>
Net property and equipment	<u>\$ 1,032,831</u>	<u>\$ 1,256,796</u>

Depreciation and amortization expense was \$158,863 for 2005 and \$209,073 for 2004.

(7) Note payable, bank

Note payable, bank consists of an unsecured line of credit of \$3,425,000, personally guaranteed by the sole stockholder of the Company, with interest payable monthly at the Wall Street Journal prime rate (6.75% at October 31, 2005), maturing on February 7, 2007. The original loan agreement had a term date of October 31, 2004, but was amended on November 2, 2004 to extend to February 7, 2005 and then subsequently amended on February 23, 2005 to extend to February 7, 2007. No amount has been recorded in the financial statements for the value of the personal guarantee as management has determined that such an amount, if any, is not material to the financial statements taken as a whole.

(8) Notes payable

The Company issued notes payable to five new investors during 2005. The notes are collateralized by mortgage investments held by the Company, payable in monthly installments of interest only with rates ranging from 9.5% to 15.0% and maturing at various times during 2006. The monthly installment approximated \$355,000 at October 31, 2005. Loan fees of \$500,000 were incurred by the Company and are paid in monthly installments of \$41,667 over the life of the related note. Loan fees of \$332,833 and prepaid loan fees of \$20,833 are included in other assets in the accompanying balance sheet at October 31, 2005. Amortization expense and accumulated amortization on loan fees totaled \$104,167 as of October 31, 2005. No loan fees were capitalized during 2004.

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(9) **Other Income**

Other income consists of:

	<u>2005</u>	<u>2004</u>
Construction administration fees	\$ 559,832	\$ 226,928
Inspection fees	127,025	101,900
Rental fees	55,421	97,794
Prepayment fees	35,464	55,634
Servicing set-up fees	58,619	54,525
Credit analysis income	54,560	18,736
Other fees and miscellaneous income	155,961	218,866
Total other income	<u>\$ 1,046,882</u>	<u>\$ 774,383</u>

(10) **Related party transactions**

The Company has entered into a software and trademark licensing agreement with an entity controlled by the Company's sole stockholder. During 2005 and 2004, the agreement specified that payments may be required on demand by the related party licensor. A demand payment to the licensor of \$2,084,225 was paid during 2005 and a demand payment of \$1,941,225 was paid in 2004. These fees are included in general and administrative expenses in the accompanying statements of income and retained earnings.

As described in Note 13, the Company leases various real properties from entities controlled by the Company's sole stockholder. During 2005, the related entities sold certain of the properties leased by the Company. The Company abandoned leasehold improvements on those properties and recognized a loss of \$101,329, which is included in rent and occupancy in the accompanying statements of income and retained earnings.

The Company also paid insurance on behalf of an entity controlled by the Company's sole stockholder in the amount of \$151,233 in 2005 and \$78,320 in 2004.

(11) **Employee benefit plans**

The Company has an employee savings and profit sharing plan under section 401(k) of the Internal Revenue Code. The plan covers all employees fulfilling minimum age and service requirements. The Company has the option to match contributions. The Company's matching contributions were \$49,225 for 2005 and \$30,066 for 2004. The Company also made discretionary contributions to the 401(k) plan in the approximate amount of \$57,000 for 2005 and \$73,000 for 2004.

The Company also has a defined benefit pension plan (the Plan) covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last year coinciding with the employee's normal retirement age of taxable compensation from the Company. The Company's funding policy is to make at least the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed for service to date, but also for those expected to be earned in the future.

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(11) Employee benefit plans (continued)

The following table sets forth the Plan's funded status at December 31, 2004 and 2003, the latest available information for the Plan:

	2004	2003
Components of net periodic cost:		
Service cost	\$ 239,485	\$ 166,434
Interest cost	44,934	26,595
Expected return on plan assets	(31,431)	(11,707)
Recognized net gains	(7,505)	(645)
Recognized prior service cost	10,421	4,518
Net periodic pension cost	\$ 255,904	\$ 185,195
The foregoing measurement of net periodic pension cost is based on the following assumptions:		
Weighted-average discount rate	6.00%	6.00%
Weighted-average rate of compensation	3.00%	3.00%
Weighted-average expected long-term of return on plan assets	6.00%	6.00%
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 636,283	\$ 390,006
Service cost	239,485	166,434
Interest cost	44,934	26,595
Actuarial gain	(29,363)	-
Plan amendments	112,614	53,248
Benefit obligation, end of year	\$ 1,003,953	\$ 636,283
Change in plan assets:		
Fair value of assets, at date of fiscal year end - prior year	\$ 523,858	\$ 195,121
Actual return on plan assets	236,146	86,760
Employer contributions	251,807	241,977
Fair value of assets, at date of fiscal year end - current year	\$ 1,011,811	\$ 523,858
Reconciliation of the funded status of the Plan, amounts not recognized and amounts recognized in the balance sheets:		
Benefit obligation	\$ (1,003,953)	\$ (636,283)
Fair value of assets	1,011,811	523,858
Unamortized prior service cost	217,108	114,915
Unrecognized net actuarial (gain) loss	(278,067)	(80,857)
Net amount recognized	\$ (53,101)	\$ (78,367)
Amounts recognized in the balance sheets:		
Prepaid benefit cost	\$ (60,959)	\$ 34,053
Accrued benefit liability	7,858	(112,425)
Net amount recognized	\$ (53,101)	\$ (78,367)
Other information:		
Reconciliations:		
Unrecognized prior service cost at beginning of year	\$ 227,529	\$ 119,433
Less current year amortization	(10,421)	(4,518)
Unrecognized prior service cost at end of year	\$ 217,108	\$ 114,915

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2005 and 2004

(11) Employee benefit plans (continued)

Unrecognized net gain at beginning of year	\$	(80,857)	\$	(6,449)
Less current year amortization		7,505		645
Plus current year gain		<u>(204,715)</u>		<u>(75,053)</u>
Unrecognized net gain at end of year	\$	<u>(278,067)</u>	\$	<u>(80,857)</u>
Unrecognized transition (obligation) asset at beginning of year	\$	-	\$	-
Less current year amortization		-		-
Unrecognized transition (obligation) asset at end of year	\$	<u>-</u>	\$	<u>-</u>

(12) Contingencies

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

(13) Operating lease commitments

The Company leases various properties from entities controlled by the Company's sole stockholder under operating lease agreements expiring October 31, 2006. Total lease expense for these properties was \$2,167,838 for 2005 and \$1,707,750 for 2004. These leases do not have renewal options but are anticipated by management to be renewed annually on a long-term basis.

The Company leased vehicles from the sole stockholder under operating lease agreements that expired in September 2005. Rental expense under these leases was \$77,550 for 2005 and \$84,600 for 2004.

The Company leases copiers and a postage machine from unrelated third parties under operating leases expiring in 2010. Rental expenses under these leases were \$36,974 for 2005 and \$41,111 for 2004.

Minimum future rental commitments under noncancelable leases having remaining terms in excess of one year at October 31, 2005 are as follows:

<u>Years Ending October 31.</u>	<u>Related Party</u>	<u>Non-related Party</u>	<u>Total</u>
2006	\$ 2,771,005	\$ 45,782	\$ 2,816,787
2007	-	45,782	45,782
2008	-	45,782	45,782
2009	-	45,782	45,782
2010	-	45,782	45,782
Thereafter	-	-	-
Total minimum future rental payments	<u>\$ 2,771,005</u>	<u>\$ 228,910</u>	<u>\$ 2,999,915</u>

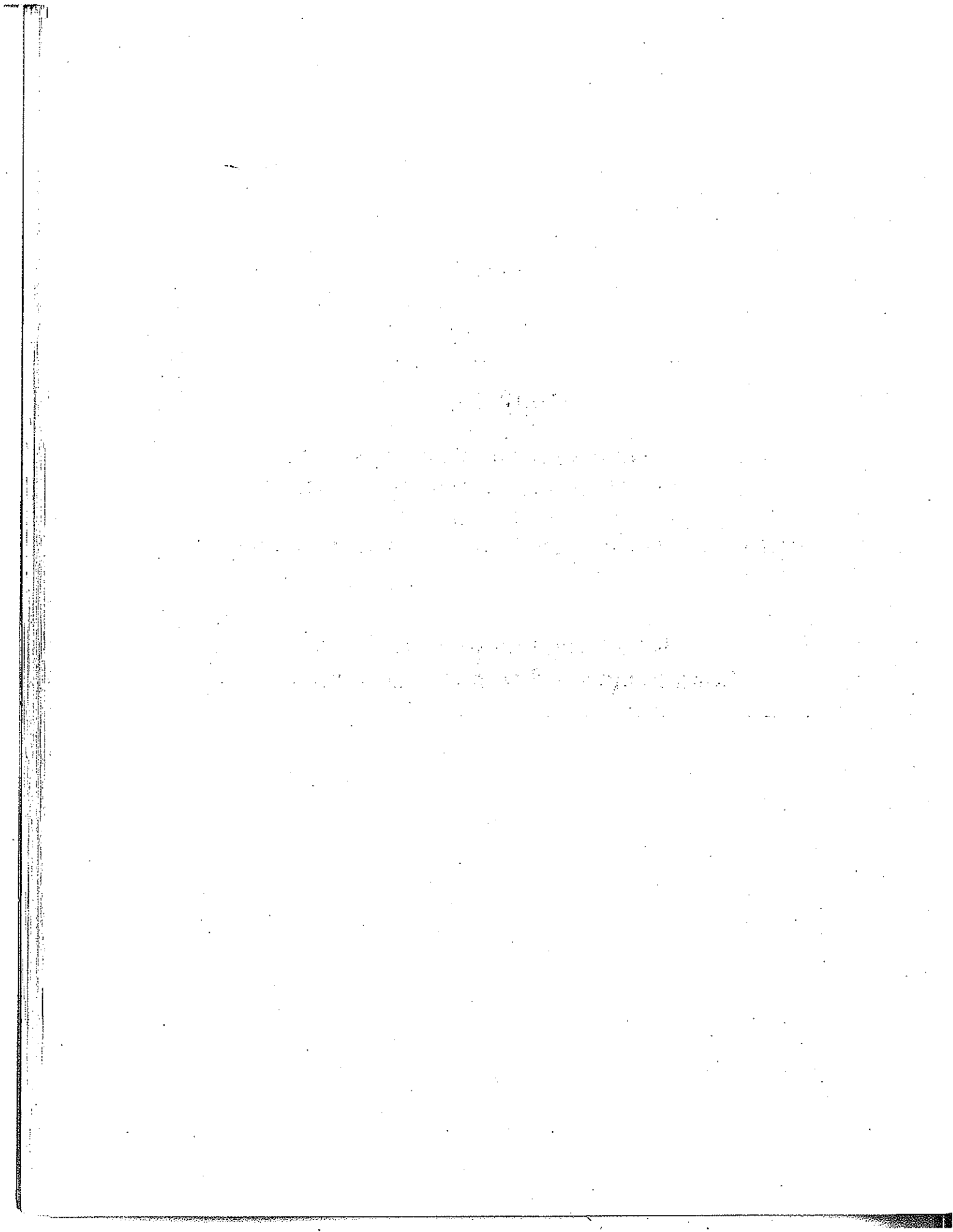
(14) Subsequent event

Subsequent to year end, the Company issued seven notes payable to new investors totaling \$20,610,204. The new notes have interest rates ranging from 12% to 13% with maturity dates in November and December of 2006. The proceeds were used to purchase additional mortgages held for investment by the Company.

(This page intentionally left blank)

**EXHIBIT E
TO
PRIVATE OFFERING MEMORANDUM FOR
PASS-THROUGH LOAN PARTICIPATIONS
IN LOANS
ORIGINATED OR PURCHASED BY MORTGAGES LTD.**

**Revolving Opportunity™
Loan Program Purchase Agreement**



**REVOLVING OPPORTUNITY™
LOAN PROGRAM PURCHASE AGREEMENT**

THIS REVOLVING OPPORTUNITY LOAN PROGRAM PURCHASE AGREEMENT is entered into as of the "Effective Date" set forth below, by and between MORTGAGES LTD., an Arizona corporation, whose address is 55 East Thomas Road, Phoenix, Arizona 85012 ("Company") and the INVESTOR ("Investor") whose name and address are as set forth at the end of this Agreement.

Section 1. Recitals.

1.1 **The Company.** Company is a mortgage banker licensed by the State of Arizona Banking Department.

1.2 **Business of the Company.** Company originates, makes, and funds loans ("Loans") to various persons, corporations, limited liability companies, partnerships, and other entities ("Borrowers") secured by deeds of trusts or mortgages on residential, commercial, and industrial real estate, the terms of which are defined in a set of documents appropriate to each individual Loan and which provide various rights and protections to both the owners of the Loans and the Borrowers (the "Loan Documents").

1.3 **Revolving Opportunity Loan Program** Company has established its Revolving Opportunity Program (sometimes the "Program") to provide investors with a favorable rate of return through the purchase of interests in Loans and, to a lesser extent, Loans selected by Company.

1.4 **The Investment** Company desires to sell and Investor desires to purchase an interest or interests in Loans or entire loans (together "Participations") up to an aggregate investment amount (the "Investor Commitment") as specifically set forth at the end of this Agreement, which shall be no less than \$500,000 (the "RevOp Minimum"), subject to the terms and conditions contained herein.

Section 2. Selection of Participations.

From time-to-time during the 12-month period immediately following the Effective Date (the "Program Term"), Company, in its sole and absolute discretion, may select Participations for purchase by Investor (the "Initial Investment") and additional Participations in the event of repayment ("Successor Investments"). In the event that more than one Initial Investment or Successor Investment (together "Investments") are outstanding at any one time, the aggregate amount of all such Investments shall not exceed the Investor Commitment.

Section 3. Loan Purchases and Terms.

3.1 **Investment Commitment Period.** Subject to the conditions herein set forth, Investor shall purchase, during the Program Term, Investments up to the amount of the Investor Commitment from time to time as requested by Company.

3.2 **Repayment of Investment.** Each Investment purchased by Investor shall be repaid to Investor through payments on the related Loan or Loans on or prior to the expiration of the RevOp Investment Term (as defined herein), subject to Company's obligation under Section 6.2.

3.3 **Reinvestment of Principal Payments.** Notwithstanding the provisions of Section 3.2, during the Program Term, Investor agrees that any principal payments on an Investment prior

to the Repayment Date (as defined herein), including those resulting from scheduled amortization and whole or partial repayments of the unpaid outstanding principal balance of the related Loan or Loans, shall remain available for reinvestment in Successor Investments until the Repayment Date. Company, in its sole discretion, may elect to reinvest such principal payments, or any portion thereof, in Successor Investments on behalf of Investor, but only for a term equal to the number of days remaining until the Repayment Date.

Section 4. Payment of Purchase Money.

4.1 Notice to Fund Investment Commitment. Company shall give notice (the "Payment Notice") to Investor requesting funds pursuant to the Investor Commitment at the address or to the telephone number, facsimile number, or e-mail address of Investor set forth below. The Payment Notice shall identify the amount of money (the "Purchase Money") Investor is to invest. In no event shall Company issue a Payment Notice to Investor for an amount more than the Investor Commitment. Within 10 business days of the Payment Notice, Investor shall deliver to Company the Purchase Money specified in the Payment Notice by cashier's check, certified check, or wire transfer. If the Investor Commitment exceeds the aggregate amount of all outstanding Investments at any time during the Program Term, Company shall have the right to issue one or more additional Payment Notices to Investor. Each Payment Notice and Investment purchased from the Purchase Money shall be subject to a separate Repayment Date, as defined in Section 4.3.

4.2 Action following Receipt of Purchase Money from Investor. Upon receipt ("Receipt") by Company of the Purchase Money, Company shall (a) pay or cause the payment of the RevOp Prepaid Interests (as defined below) to Investor; (b) prepare an assignment of beneficial interest of deed(s) of trust securing the related Loan or Loans, an endorsement of the promissory note(s), and, if applicable, assignments of other loan or security instruments for the related Loan or Loans (collectively, the "Loan Assignment Documents"); (c) cause to be recorded, at no expense to Investor, in the official records of the county in which the property securing the related Loan or Loans may be situated any of the Loan Assignment Documents required to be recorded, such as an assignment of the beneficial interest of the deed(s) of trust; and (d) prepare such "blank" assignment documents, directions for release and reconveyance, termination of UCC interests, and other assignment or release instruments as Company determines to be appropriate with respect to the related Loan or Loans (collectively, the "Reassignment and Release Documents").

4.3 Repayment Date of Individual Investments. The Repayment Date shall be 120 days from the Receipt, but such funds may be applied to Successor Investments subject to the payment of RevOp Prepaid Interest.

4.4 RevOp Prepaid Interest. Based on the amount of capital invested in the Revolving Opportunity Loan Program, the RevOp Prepaid Interest shall equal a specified percentage of the outstanding principal of the Investments according to the following table:

Capital Invested	RevOp Prepaid Interest
\$500,000 - \$2,499,000	0.333%
\$3,000,000 - \$4,999,000	0.500%
\$5,000,000 - \$7,499,000	0.666%
\$7,500,000 +	0.917%

Section 5. Administration of Purchase Loans.

5.1 RevOp Investment Term. The "RevOp Investment Term" shall be the time during which Investor's capital is invested in an Initial Investment or Successor Investment, which will be the shorter of (a) the number of days from the Receipt to the Repayment Date (the "Maximum RevOp Investment Term"), or (b) the number of days from the Receipt to earlier of the date on which (i) the Company redeems the Initial Investment, or (ii) the Initial Investment or Successor Investment has been paid in full, in each case including unpaid principal and RevOp Interest. Partial repayments or redemptions of an Initial Investments and/or Successor Investment shall result in multiple RevOp Investment Terms being applicable to portions of the Purchase Money.

5.2 RevOp Interest Rate. The RevOp Interest Rate shall be based on the amount of capital invested in the Revolving Opportunity Loan Program according to the following table:

Capital Invested	RevOp Interest Rate Per Annum
\$500,000 - \$2,499,000	10.00%
\$3,000,000 - \$4,999,000	10.50%
\$5,000,000 - \$7,499,000	11.00%
\$7,500,000 +	11.25%

5.3 Payment of RevOp Interest. From the Receipt until the expiration of each applicable RevOp Investment Term, Investor shall be entitled to receive monthly interest calculated at the RevOp Interest Rate upon the unpaid principal balance of the Investment (the "RevOp Interest") associated with such RevOp Investment Term. Any interest payable or paid upon the related Loan or Loans in excess of the RevOp Interest shall be retained by Company.

5.4 Repayment of Investments. Upon expiration of the Maximum RevOp Investment Term, Investor shall be entitled to receive any unpaid amount of any outstanding Investments plus accrued RevOp Interest pursuant to Section 3.2 or Section 6.2.

Section 6. Repurchase of Investments.

6.1 Repayment of Investments. In the event any Investment (including RevOp Interest) has been fully paid upon the expiration of the maximum RevOp Investment Term (as a result of payments on the related Loan or Loans), then no further payments to Investor shall be due and Company shall be entitled to file the Reassignment and Release Documents as provided below.

6.2 Mandatory Repurchase of Investments. In the event any Investment (including RevOp Interest) has not been fully repaid to Investor upon expiration of the Maximum RevOp Investment Term, Company shall (a) cause the repurchase of or repurchase the Investment from Investor at a price equal to its unpaid principal balance (after crediting all principal payments previously received by Investor thereon) and (b) cause to be paid or pay any accrued and unpaid RevOp Interest at the time the next regularly scheduled payment on the related Loan or Loans.

6.3 Optional Redemption of Investments. Notwithstanding the foregoing, Company may, in its sole discretion, redeem an Investment from Investor at any time prior to expiration of the RevOp Investment Term without payment of premium or penalty by tendering to Investor (a) a repurchase price equal to the unpaid principal balance of the Investment (after crediting all principal payments previously received thereon by Investor) and (b) any accrued and unpaid RevOp Interest at the time the next regularly scheduled payment on the related Loan or Loans.

Section 7. Company to Service Loans.

7.1 Company to Originate and Service Loans. Company shall underwrite, originate or acquire, and service the Loan or Loans related to the Investments and collect and disburse Loan payments.

7.2 Filing of Reassignment and Release Documents. Company shall hold the Reassignment and Release Documents with respect to an Investment until the expiration of each applicable RevOp Investment Term. Upon expiration of the RevOp Investment Term, (a) if an Investment and RevOp Interest has been repaid as a result of payment or the related Loan or Loans, or repurchased from Investor by or on behalf of the Company as set forth herein, then Company is authorized to complete and record (with respect to such documents as should be recorded) the Reassignment and Release Documents; and (b) if an Investment and RevOp Interest thereon has not been repaid to Investor nor repurchased from Investor by or on behalf of Company as provided in this Agreement, then Company shall deliver to Investor the Reassignment and Release Documents.

7.3 Disbursement of Payments. During the RevOp Investment Term, Company shall be authorized to receive all payments of principal and interest with respect to any Loan or Loans related to Investments, to reinvest the principal pursuant to Section 3.3 or disburse the principal to Investor, to disburse the RevOp Interest to Investor, and to disburse the balance of any interest in excess of the RevOp Interest to Company.

Section 8. Representations and Warranties.

8.1 Representations and Warranties of Company. Company represents and warrants to Investor as follows:

(a) All recitals and representations set forth in this Agreement are true and correct.

(b) Company is a corporation formed under the laws of the state of Arizona and is duly organized, validly existing, and in good standing under the laws of such state.

(c) Company has the corporate power and authority to conduct its business as now being conducted.

(d) The liens, security interests, and assignments created by the Loan Assignment Documents will result in valid, effective, and enforceable liens, security interests, and assignments.

(e) Until all Investments have been paid in full and all of Company's obligations hereunder have been fully discharged, Company shall maintain in full force and effect all agreements, rights, and licenses necessary to conduct its business.

8.2 Representations and Warranties of Investor. Investor represents and warrants to Company as follows:

(a) All recitals and representations set forth in this Agreement are true and correct.

(b) In the event Investor is a corporation, partnership, limited liability company, plan, trust, or other entity, Investor is duly organized, validly existing, and in good standing under the laws of the state of its organization and has full power and authority to carry on its business as now being conducted. In the event Investor is an individual, Investor is either unmarried, or if married, Investor is acting on behalf of Investor's marital community unless Investor is dealing in Investor's sole and separate property and such status is specifically identified on the signature page hereto.

(c) Acknowledges that Investor has received the Private Offering Memorandum dated June 20, 2006 (the "Memorandum") and is familiar with and understands it, including the section captioned "Risk Factors."

(d) Acknowledges that Investor is fully familiar with the Program and with Company and its business, affairs, operating policies, and prospects and has had access to any and all material information, including all documents, records, and books pertaining to Company, that Investor deems necessary or appropriate to enable Investor to make an investment decision to participate in the Program and purchase Participations.

(e) Acknowledges that the Investor has been encouraged to rely upon the advice of Investor's legal counsel, accountants, and other financial advisors with respect to the participation in the Program and the purchase of Participations.

(f) Represents and warrants that Investor, in determining to participate in the Program and purchase Participations, has relied solely upon this Agreement, the Memorandum, and the advice of Investor's legal counsel, accountants, and other financial advisors and has been offered the opportunity to ask such questions and inspect such documents concerning the Company and its business and affairs and the Program as Investor has requested so as to understand more fully the Program and the nature of the investment and to verify the accuracy of the information supplied.

(g) Represents and warrants that Investor has full power to execute, deliver, and perform this Agreement and that this Agreement is a legal and binding obligation of, and is enforceable against, Investor in accordance with its terms.

(h) Represents and warrants that Investor is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act") and satisfies one of the standards set forth in the Memorandum under the section captioned under "Who May Invest."

(i) Represents and warrants that the Participations being acquired will be acquired for Investor's own account without a view to public distribution or resale and that Investor has no contract, undertaking, agreement, or arrangement to sell or otherwise transfer or dispose of any Participations or any portion thereof to any other person.

(j) Represents and warrants that Investor (i) can bear the economic risk of the purchase of Participations, including the loss of Investor's investment and (ii) has such knowledge and experience in business and financial matters, including the analysis of or participation in private offerings and real estate investments, as to be capable of evaluating the merits and risks of the participation in the Program and an investment in Participations.

(k) Represents and warrants, if subject to the Employee Retirement Income Security Act ("ERISA"), that Investor is aware of and has taken into consideration the diversification requirements of Section 404(a)(3) of ERISA in determining to purchase Participations and that Investor has concluded that the purchase of Participations is prudent.

(l) Understands that Investor may be required to provide current financial and other information to the Company to enable it to determine whether Investor is qualified to purchase Participations.

(m) Understands that the Participations will not be registered under the Securities Act or the securities laws of any state or other jurisdiction and therefore will be subject to substantial restrictions on transfer.

(n) Agrees that Investor will not sell or otherwise transfer or dispose of any Participations or any portion thereof unless such Participations are registered under the Securities Act and any applicable state securities laws or Investor obtains an opinion of counsel that it is satisfactory to Company that such Participations may be sold in reliance on an exemption from such registration requirements.

(o) Understands that (i) Company has no obligation or intention to register any Participations for resale or transfer under the Securities Act or any state securities laws or to take any action (including the filing of reports or the publication of information as required by Rule 144 under the Securities Act) that would make available any exemption from the registration requirements of any such laws, and (ii) Investor therefore may be precluded from selling or otherwise transferring or disposing of any Participations or any portion thereof for an indefinite period of time or at any particular time.

(p) Represents and warrants that neither Company, Mortgages Ltd. Securities, L.L.C. ("MLS"), an affiliate of Company, nor anyone purportedly acting on behalf of either of them has made any representations or warranties respecting the Program or the business, affairs, financial condition, plans, or prospects of the Company except those contained in the Memorandum nor has Investor relied on any representations or warranties in the belief that they were made on behalf of any of the foregoing, nor has Investor relied on the absence of any such representations or warranties in reaching the decision to participate in the Program or purchase Participations.

(q) Represents and warrants that (i) if an individual, Investor is at least 21 years of age; (ii) Investor satisfies the suitability standards set forth in the Memorandum; (iii) Investor has adequate means of providing for Investor's current needs and contingencies; (iv) Investor has no need for liquidity in Investor's investments; (v) Investor maintains the Investor's business or residence at the address shown below; (vi) all investments in and commitments to non-liquid investments are, and after the purchase of Participations will be, reasonable in relation to Investor's net worth and current needs; and (vii) any financial information that is provided by Investor at the request of the Company, does or will accurately reflect Investor's financial sophistication and condition with respect to which Investor does not anticipate any material adverse change.

(r) Understands that no federal or state agency, including the Securities and Exchange Commission or the securities commission or authorities of any state, has approved or disapproved the Participations, passed upon or endorsed the merits of the offering of participation, or made any finding or determination as to the fairness of the Participations for public investment.

(s) Understands that the Participations are being offered and sold in reliance on specific exemptions from the registration requirements of federal and state laws and that Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgements, and understandings set forth herein in order to determine the suitability of Investor to acquire Participations.

(t) Represents, warrants, and agrees that, if Investor is acquiring Participations in a fiduciary capacity (i) the above representations, warranties, agreements, acknowledgements, and understandings shall be deemed to have been made on behalf of the person or persons for whose benefit such Participations are being acquired, (ii) the name of such person or persons is indicated below under the subscriber's name, and (iii) such further information as Company deems appropriate shall be furnished regarding such person or persons.

(u) Represents and warrants that the information set forth herein regarding Investor is true and complete and agrees that the Company may rely on the truth and accuracy of the information for purposes of assuring that Company may rely on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2) of the Securities Act and Regulation D under the Securities Act and of any applicable state statutes or regulations, and further agrees that the Company may present such information to such persons as it deems appropriate if called upon to verify the information provided or to establish the availability of an exemption from registration under Section 4(2) of the Securities Act, Regulation D, or any state securities statutes or regulations or if the contents are relevant to any issue in any action, suit, or proceeding to which Company, MLS, or any agent of any of them is a party or by which any of them may be bound.

(v) Understands and acknowledges that the Participations and the Loans are subject to a number of important risks and uncertainties as set forth under the section captioned "Risk Factors" in the Memorandum, including significant competition; the risks generally incident to the development, ownership operation, and rental of real property; changes in national and local economic and market conditions; changes in the investment climate for real estate investments; the availability and cost of mortgage funds; the obligations to meet fixed and maturing obligations, if any; the availability and cost of necessary utilities and services; changes in real estate tax rates and other operating expenses; changes in governmental rules, fiscal policies, zoning, environmental controls, and other land use regulations; and acts of God, which may result in uninsured losses; conditions in the real estate market; the availability and cost of real estate loans; and other factors beyond the control of Company. Investor further understands and acknowledges that Participations will also be subject to the risks associated with the development of real estate, including the cost of construction, the time it takes to complete such construction, worker strikes and other labor difficulties, energy shortages, material and labor shortages, inflation, adverse weather conditions, subcontractor defaults and delays, changes in federal, state, or local laws, ordinances, or regulations, and other unknown contingencies.

(w) Understands and acknowledges that the future operating results of Company are impossible to predict and that no representations or warranties of any kind are made by Company, or MLS or any of their affiliates with respect to the prospects of Company or the rate of return on the Participations.

Section 9. Default.

9.1 Default by Company. The occurrence of any of the following events or conditions shall constitute an "Event of Default" by Company under this Agreement:

(a) The failure by Company to fulfill its obligations under Section 6.2 within 10 days after written notice from Investor;

(b) Any representation, warranty, or statement by Company contained in this agreement shall have been materially false when made or furnished;

(c) The filing by Company of any proceeding under the federal bankruptcy laws or any other similar statute now or hereafter in effect; the entry of an order for relief under such laws with respect to Company; or the appointment of a receiver, trustee, custodian, or conservator of all or any part of the assets of Company;

(d) The insolvency of Company; the execution by Company of an assignment for the benefit of creditors; or a material adverse change in the financial condition of Company;

(e) The admission in writing by Company that it is unable to pay its debts as they mature or that it is generally not paying its debts as they mature; or

(f) The liquidation, termination, or dissolution of Company if Investor is not reasonably reassured of timely performance hereunder.

9.2 Default by Investor. The occurrence of any of the following events or conditions shall constitute an "Event of Default" by the Investor under this Agreement:

(a) The failure by Investor to timely pay the Purchase Money;

(b) The failure by Investor to timely execute and return to Company the Loan Assignment Documents, the Reassignment and Release Documents, or such other instruments or documents as reasonably requested by Company, in accordance with the terms of this Agreement within 10 business days after written notice thereof by Company to Investor;

(c) Any representation, warranty, or statement by Investor contained in this agreement shall have been materially false when made or furnished;

(d) The filing by Investor of any proceeding under the federal bankruptcy laws or any other similar statute now or hereafter in effect; the entry of an order for relief under such laws with respect to Investor; or the appointment of a receiver, trustee, custodian, or conservator of all or any part of the assets of Investor;

(e) The insolvency of Investor; the execution by Investor of an assignment for the benefit of creditors; or a material adverse change in the financial condition of Investor;

(f) The admission in writing by Investor that it is unable to pay its debts as they mature or that it is generally not paying its debts as they mature; or

(g) The liquidation, termination, or dissolution of Investor if Company is not reasonably reassured of timely performance hereunder.

9.3 Remedies of Investor. Upon the occurrence of any Event of Default caused by Company (and at any time thereafter while such Event of Default is continuing), Investor may do one or more of the following:

(a) Proceed to protect and enforce its rights and remedies under this Agreement, the Loan Documents and the Reassignment and Release Documents; and

(b) Avail itself of any other right, remedy, or relief to which Investor may be legally or equitably entitled, all of which remedies shall be non-exclusive and cumulative and the exercise

by Investor of any one such remedy shall not preclude the exercise by Investor of further or additional remedies.

9.4 Remedies of Company. Upon the occurrence of any Event of Default caused by Investor (and at any time thereafter while such Event of Default is continuing), Company may do one or more of the following:

(a) Proceed to protect and enforce its rights and remedies under this Agreement, the Loan Assignment Documents, and the Reassignment and Release Documents;

(b) Demand and receive repayment from Investor of the Placement Fee;

(c) Refuse to allow Investor any further participation in the Revolving Opportunity Program and/or any other investment program offered by Company; and

(d) Avail itself of any other right, remedy, or relief to which Company may be legally or equitably entitled, including without limitation damages or injunctive relief, all of which remedies shall be non-exclusive and cumulative and the exercise by Company of any one such remedy shall not preclude the exercise by Company of further or additional remedies.

Section 10. Action Upon Agreement.

10.1 Beneficiaries of Agreement. This Agreement is made for the sole protection and benefit of the parties hereto, and no other person or organization shall have any rights hereunder.

10.2 Entire Agreement. This Agreement, together with the Loan Assignment Documents and the Reassignment and Release Documents, contain the entire agreement between the parties with regard to the subject matter hereof. There are no representations, promises, warranties, understandings, or agreements, expressed or implied, oral or otherwise, in relation thereto, except those expressly referred to or set forth herein. Each party acknowledges that the execution and delivery of this Agreement is its free and voluntary act and deed, and that said execution and delivery have not been induced by, nor done in reliance upon, any representations, promises, warranties, understandings, or agreements made by the other party, its agents, officers, employees, or representatives.

10.3 Agreements in Writing. No promise, representation, warranty, or agreement made subsequent to the execution and delivery of this Agreement by either party hereto, and no revocation, partial or otherwise, or change, amendment, or addition to or alteration or modification of this Agreement shall be valid unless the same shall be in writing signed by all parties hereto.

10.4 Independent Parties. Investor and Company each have separate and independent rights and obligations under this Agreement. Nothing contained herein shall be construed as creating, forming, or constituting any partnership, joint venture, merger, or similar relationship between Company and Investor for any purpose or in any respect.

Section 11. Adoption of the Agreements.

11.1 Power of Attorney. By executing this Agreement, Investor accepts and agrees to be bound by the Agency Agreement, the Loan Assignment Documents, and the Reassignment and Release Documents. Investor further hereby irrevocably constitutes and appoints the Company, with full power of substitution, as Investor's true and lawful attorney and agent, with full power and authority in

the Investor's name, place, and stead, to make, execute, swear to, acknowledge, deliver, file, and record the following:

(a) The Agency Agreement, the Loan Assignment Documents, and the Reassignment and Documents, and any amendments thereto;

(b) All certificates, instruments, documents, and other papers and amendments thereto that may from time to time be required under the laws of the United States of America, the state of Arizona, any other state or jurisdiction, or required by any political subdivision or agency of any of the foregoing or otherwise, or which Company deems appropriate or necessary to carry on the objects and intent of this Agreement and to administer the Revolving Opportunity Loan Program as contemplated by this Agreement;

This power of attorney granted hereby shall be deemed to be a power coupled with an interest, shall survive the death, legal incapacity bankruptcy, merger, sale, dissolution, termination, or other fundamental change of Investor, and shall survive the delivery of an assignment by Investor of all or any portion of Investor's Investments.

11.2 Execution of Documents by Investor. Notwithstanding Section 11.1, to the extent requested by Company upon 10 business days notice, Investor shall execute (and cause signature to be acknowledged before a notary, when appropriate) and deliver to Company any Loan Assignment Documents, Reassignment and Release Documents (but only upon the repayment in full of the related Investment), and such other documents, certificates, and other papers as Company reasonably deems necessary or appropriate to administer the Revolving Opportunity Loan Program as contemplated by this Agreement.

Section 12. General.

12.1 Cooperation. Each party shall reasonably cooperate with the other party, including without limitation the execution or delivery upon request of such other or additional instruments or documents as reasonably necessary or appropriate to accomplish the purposes of this Agreement.

12.2 Notices. All notices required or permitted to be given hereunder shall be in writing, and shall become effective 72 hours after such are deposited in the United States mail, certified or registered, postage prepaid, addressed as shown above or to such other address as such party may from time-to-time designate in writing.

12.3 Governing Law and Venue. This Agreement shall be governed by and construed according to the laws of the state of Arizona. Investor agrees that any controversies relating to this Agreement will be determined in federal or state court sitting in the city of Phoenix, waives the defense of inconvenient forum, and waives any right to jury trial.

12.4 Binding Agreement. This Agreement shall be binding upon the parties hereto and may not be assigned by either party.

12.5 Headings. The headings or captions of sections in this Agreement are for convenience and reference only and in no way define, limit, or describe the scope or intent of this Agreement or the provisions of such sections.

IN WITNESS WHEREOF, the parties have executed this Agreement with respect to the Investor Commitment amount of \$ _____ as of the Effective Date of _____, 2006.

MORTGAGES LTD., an Arizona corporation **INVESTOR**

Name(s) of Individual Investors:

By: _____

Scott M. Coles

Its: Chairman and Chief Executive officer

Address: 55 East Thomas Road
Phoenix, Arizona 85012

Signature(s) of Individual Investors:

Name of corporate, partnership, limited liability company, trust or plan Investor:

By: _____

Its: _____

Address: _____

Phone: _____

Fax: _____

E-mail: _____

(This page intentionally left blank)

(This page intentionally left blank)

(This page intentionally left blank)

