Sternberg Enterprises Profit Sharing Plan
Sheldon H. Sternberg, Trustee
5730 N. Echo Canyon Drive
Phoenix, Arizona 85018
Telephone: 602-808-9884
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FILED

OCT 30 2009

UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF ARIZONA

UNITED STATES BANKRUPTCY COURT

DISTRICT OF ARIZONA

In Re: MORTGAGES, LTD., an Arizona corporation Debtor(s).	In Proceedings Under Chapter 11 Case No. 2-08-bk-07465 RJH **DECLARATION OF SHELDON H. STERNBERG**

I Sheldon H Sternberg, state under penalty of perjury under the laws of the United States of America, as follows:

1. I am a resident of Maricopa County, Arizona. I am over the age of eighteen and am competent to testify to the matters set forth herein.

2. I am a Trustee of the Sternberg Enterprises Profit Sharing Plan hereafter (referred to a "Sternberg"), owner of fractional interests in three loans originated by the Debtor.

3. Sternberg an has elected not to transfer its fractional interests to any Loan LLC formed to acquire such interest pursuant to the provisions of Debtor's Reorganization Plan.

4. All of the three loans Sternberg Participated in were land loans. Debtor (hereafter referred to as "ML") provided information concerning each loan which included the total amount of the loan and the amount of the loan funded. It was agreed that amounts required to fund the difference between the total amount of the loan, and the amounts already funded would be obtained from investors participating in the ML loan or others in exchange for additional participating interests in the Loan. It was agreed that no part of the funding would

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come from borrowing.

5. Each of the ML Loans was collateralized with first liens on real property.

6. ML never requested authority to borrow on Sternberg's behalf or to encumber its participation interests. Nor did it disclose that it was doing so on behalf of any other participant until 2008 when Sternberg I no longer made new investments with ML.

7. The "right to sell" participant's interests in a loan provisions within the Agency Agreements was a subject of negotiation. During such negotiations it was represented that there were only two purposes that ML would use its authority to sell under the Agency Agreements. One was to facilitate the readjustment of participant interests in Loans that required additional funding. As additional participations were sold to fund the loan, participants with fixed dollar amount participations percentage interest in the loan would be reduced. The second was to facilitate ML's Performance Plus program. This program as described to me by ML management relates to the purchase the interests of the original investor's in loans that become in default for the principal amount of the note and unpaid interest due the investors. The program was administered to accommodate investors who do not want the risk of retaining interests in a defaulted loan and those investors who would take the risk for a higher interest return.

8. During the many years Sternberg was an investor with ML, it was repeatedly represented that no client ever lost one dollar of principal on any investment with ML in the history of the Company. At the time of execution of the Agency Agreements ML Management did not disclose nor was it contemplated that fractional interest holders would not have funds to pay holding costs on defaulted loans. Nor did it disclose that all participants fractional interests would be sold by ML at a forced sale at a severe loss because some participants could not pay the carrying costs. Neither I nor any Member of ML Management intended that Agency Agreement would give ML authority to do so.

9 At the time of execution of the Agency Agreements, neither Sternberg contemplated nor did any member of ML Management disclose that ML would become a debtor in Bankruptcy and be encumbered with Bankruptcy exit cost, or exit financing. Nor did any member of ML disclose any fact or circumstance that would lead to a belief that would occur.

Payment of Bankruptcy exit or exit financing costs was not intended in the Agency Agreements.

10. At Investor meetings held during the Bankruptcy held by the Plan Proponents Mr. Mc Donough, plan proponent's financial advisor, explained and diagrammed the concept of acting based on initial calculations and making recalculations as circumstances changed. Privately he discussed the principals he intended to use in allocating exit costs to the liquidating trust and each of the loans and that reallocations would be required as circumstances changed.

11. During the my negations with Keith Hendricks, who represented the Plan Proponents, leading to the language of paragraph U of the Order Confirming the Plan, it was abundantly clear that I wanted no connection or responsibility with respect to the exit financing and Mr Hendricks appeared to agree to this. On May 17th 2009 that the language proposed by him to be inserted in Section 4.13 of the Plan was, "Before such distributions are made, Pas-Through Investors who have retained their fractional interests in the ML Loans shall be assessed their proportionate share of costs and expenses of serving and collecting the ML Loans in a fair, equitable and nondiscriminatory manner and shall be reimbursed in the same manner **pursuant to the inter-borrower agreement** as the other investors." I responded on May 18, I responded " I just review your last proposal again. In paragraph 4 we have to delete "pursuant to the inter-borrower agreement." The pass- through investors do not pledge their collateral and have nothing to do with that agreement." Part of his response on May 18th 2009 was, "Sheldon Good Point, but I think that was not the intent," The proposed language was not included in the court order.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. If call to testify, I would testify as I have stated in this declaration.

Sheldon H. Sternberg

Sheldon H. Sternberg

EXHIBIT "A"

PROVISIONS OF

PRIVATE OFFERING

MEMORANDUM

March 10,2004

CONFIDENTIAL No. 282

PRIVATE OFFERING MEMORANDUM

March 10, 2004

11/02/2009

MORTGAGES LTD.

An Arizona Corporation (The "Company")

MORTGAGES LTD., an Arizona corporation (the "Company") was founded in 1963 and has been licensed with the Arizona State Banking Department as a mortgage banker since 1963 (license no. 7577). As an Arizona licensed mortgage banker, the Company assists various entities and individuals ("Borrower(s)") in financing various types of loans (the "Loan(s)") secured by deeds of trust on residential and commercial real estate through out 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 technically the original named beneficiary/lender on each of the Loans although the Company's funds are not used to actually fund such Loans (a method known as "table funding"). Most of the Loans are table funded by limited liability companies formed and managed by the Company (the "Pools", which are described in more detail below).

The Loans are re-sold to various entities and individuals ("Beneficiaries/Investors") in whole or part in the form of a beneficial assignment of all or a portion of the promissory note and the deed of trust (the "Direct Deed of Trust Investments"). In connection with the purchase of the Direct Deed of Trust Investments, Beneficiaries/Investors enter into an Agency Agreement with the Company pursuant to which the Company services the Loan, including collection and disbursement of loan payments. In addition, in connection with the sale of the Direct Deed of Trust Investments, the Company will provide various due diligence/ loan underwriting functions for Investors, including, without limitation, preparation and negotiation of all loan documents, and evaluating and obtaining third party evaluations of the real estate securing each Loan.

As referenced above, the Pools will usually be the source of the funds of the Loans made by the Company in its name (through the device known as "table funding") and the Loans will be immediately assigned to the respective Pool whose funds were used to make the Loan. The Investors/Beneficiaries will most likely purchase a Loan from a Pool (although Investors/Beneficiaries may also purchase a Loan from one or more other Investor/Beneficiaries who originally acquired the Loan from a Pool) in the form of the Direct Deed of Trust Investments described herein. The membership interests in each such Pool are sold pursuant to a separate private offering memorandum and in accordance with Regulation D of the Securities Act of 1933 and applicable state securities rules and regulations.

The information set forth herein is merely general information about the Company and its business. Prior to purchasing a particular Direct Deed of Trust Investment, you should also receive from the Company and review:
(a) summary information about the Direct Deed of Trust Investment Programs;
(b) the Property Information Sheet, which summarizes the material terms of the applicable Loan underlying the particular Direct Deed of Trust Investment.
You are also encouraged and permitted to examine the loan file with respect to the specific Loan underlying the Direct Deed of Trust Investment that you are purchasing. The loan file contains due diligence materials about the Property and the Borrower as well as the documents governing the Loan.

All Direct Deed of Trust Investments will be sold by the Company through its affiliate, Mortgages Ltd. Securities, L.L.C., which is a broker dealer member of the National Association of Securities Dealers (the "NASD") and is also licensed as a broker dealer with the Arizona Corporation Commission Securities Division (the "ACCSD").

SUMMARY OF COMPENSATION TO THE COMPANY AND ITS MANAGEMENT

DESCRIPTION OF THE COMPANY AND ITS AFFILIATES

MORTGAGES LTD.

The Company is an Arizona corporation which has been in existence since 1963 and is a mortgage banker licensed with the Arizona Department of Banking. When the Company was initially formed it provided loans on residential real estate. Commencing in the mid-1990s, the Company began financing commercial loans. As an Arizona licensed mortgage banker, the Company currently assists borrowers ("Borrower(s)") in financing various types of loans (the "Loans") secured by deeds of trust on residential and commercial real estate through out the state of Arizona (the "Real Property"). 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 ("Beneficiaries/Investors") concurrent with the loan closing, as discussed in more detail herein.

In exchange for providing account servicing and other services to Borrowers in connection with the loans and to Investors in connection with the Direct Deed of Trust Investments, the Company will receive certain fees including, without limitation, Interest Rate Spread, Prepayment Penalties, the Default Interest Spread, Servicing Fees and Late Charges as well as Member Transfer Facilitation Fees and Charges.

The Company will originate most if not all of the Loans underlying each of the Direct Deed of Trust Investments. 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 fee ("points") to such third party broker. In addition to originating the Loan, the Company's loan underwriting committee will underwrite the Loan. The process of loan underwriting involves physically inspecting the Real Property and reviewing third party reports about the Borrower and Real Property (which may include surveys, title reports, environmental reports, appraisals as well as reviewing information about the Borrower (which may include loan applications, financial statements, tax returns, credit reports) in order to determine whether the Company should make 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 is currently equal to one percent (1%) of the loan amount, which in the event that the loan is funded such fee is credited to the amount due on other fees; and (2) at the time of the inspection, an inspection fee, the amount of which varies depending primarily on the location of the Real Estate, which fee is also non-refundable to the Borrower but is not credited toward amounts due for other loan fees. Both of the fees referenced in the preceding sentence are retained by the Company as part of its compensation for underwriting the potential loan and examining the Real Estate, and are not passed on to the Beneficiary/Investor. In addition to these fees, the Company will earn the fees discussed below in the event that the Loan is made.

In addition, the Company will act as the servicer of the Loan pursuant to the Agency Agreement. As described in more detail below and in the Agency Agreement, as the servicer, the Company will: (i) collect the periodic payments from the Borrower on the Loan; and, (ii) disburse those funds pursuant to the terms of the Loan and the Agency Agreement to pay expenses associated with the Loan and to distribute the interest spread to the Beneficiary. As a result, the Company will receive certain fees in connection therewith as further described in this Private Offering Memorandum and in the Agency Agreement.

The Company's sole offices are located at:

55 East Thomas Road,
Phoenix, Arizona 85012
Telephone No. (602) 277-5626
Facsimile No. (602) 264-9374

placement agreement with the Company. MLS will not receive any commission for the sale of the Direct Deed of Trust Investments or membership interests in the Pools; 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 pursuant to which MLS is permitted to use the facilities, technology, equipment, support staff and supplies of the Company in exchange 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.

The Company	Interest Rate Spread	As set forth in the Direction to Purchase for each Direct Deed of Trust Investment, the Investor will receive a specific rate of interest which is usually less than the interest rate to be paid by the Borrower on the underlying Loan. The Company will retain the balance of the interest rate spread, which is the amount that the interest rate on the underlying Loan is greater than the quoted interest rate to be paid on the related Direct Deed of Trust Investment (the "Interest Rate Spread"). The Company will determine, in its sole discretion, the amount of the Interest Rate Spread that it will earn on each Loan. In general, the Agency Agreement will provide for the Company to receive an amount equal to the greater of (1) a specified Interest Rate Spread percentage per annum; or (2) a minimum monthly flat rate amount.
The Company	Prepayment Penalty	If any Loan is prepaid and the terms of the Loan require the Borrower to pay a prepayment penalty, the amount of such prepayment penalty will be paid to the Company and not the Beneficiary/Investor purchasing the related Direct Deed of Trust Investment.
The Company	Default Interest Spread	Except in the case of a Direct Deed of Trust Investment involving the purchase of a defaulted Loan (currently referred to as the Opportunity Plus Program), if any Borrower defaults on a Loan and pursuant to the terms of the Loan pays default interest, the difference between the amount of the default interest and the amount of the quoted interest rate payable under the terms of the Direct Deed of Trust Investment Loan (the "Default Interest Spread") will be retained by the Company.
The Company	Borrower Servicing Fees	Pursuant to the Agency Agreement between the Company and the Investor/Beneficiary, the Company will act as the servicer for the Loan, and therefore, will collect the payments from the Borrower and use such funds to pay the expenses associated with the Loan, including distribution of payments to the Beneficiary. In order to conduct those services, the Company is licensed with the Arizona Banking Department as a Mortgage Banker. As a result, the Company will collect a servicing fee as compensation for acting as collection and/or servicing agent for the underlying Loan. The Borrower will be responsible for paying any servicing fee but it will be deducted from the payments received from the Borrower on the Loan. The Company's typical servicing fee currently ranges from not less than $10.00 up to $50.00 per month. The amount of such fees is subject to change from time to time in the Company's sole discretion.

FINANCIAL INFORMATION ABOUT THE COMPANY

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

Year End	Principal Amount Loan Originations
2003	$189,624,000
2002	$135,586,225
2001	$96,122,550
2000	$85,040,864
1999	$69,320,635

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

Year End	Gross Income
2003	$12,700,000
2002	$12,400,000
2001	$8,100,000
2000	$6,300,000
1999	$4,900,000

ACCOUNTING MATTERS.
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 as of October 31, 2003 and 2002, as prepared by Mayer Hoffman McCann, PC, the Company's independent certified public accounts, are attached hereto as **Exhibit "A"** and incorporated herein by this reference. 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 and the amount of compensation earned by the Company with respect to the Loans and the Direct Deed of Trust Investments. The information is not indicative of the return that you may earn from your Direct Deed of Trust Investment. In addition, you should also be aware that you will not acquire any ownership interest in the Company by purchasing a Direct Deed of Trust Investment. You will only be entitled to receive income relating to the particular Deed of Trust Investment that you purchase.

Direct Deed of Trust Investment, to individual customers of the Company as discussed herein. In addition, the Company or its affiliates could form additional entities with similar business purposes in the future. All of such possibilities give rise to potential conflicts of interest if the Company would be competing with other persons for potential Loans, with the lending party being determined by the Company. Moreover, after the loan has initially funded, the Pool may thereafter sell all or a portion of a Loan, as a Direct Deed of Trust Investment to a Beneficiary.

Competition For Management Services. Certain officers, directors and key employees of the Company are also key employees of MLS, an NASD broker-dealer. As a result, such employees or affiliates may experience conflicts of interest in allocating time and management services between the Company and other persons with which they may be involved. Those officers, directors and key employees of the Company will devote only such time to the Company as they, in their sole discretion, determine to be reasonably necessary to the management thereof.

Competition Regarding Structure Of Loans. As the licensed mortgage banker involved in the structuring of potential Loans, the Company will be in a position to negotiate certain terms and conditions of a Loan. As the Company will realize fee income from either or both an Interest Rate Spread or Points, the Company will be in a position to influence the ultimate rate of return to be realized by both a Beneficiary/Investor and the Company. This circumstance can create a conflict of interest as a quid pro quo for paying a lesser interest rate (to the detriment of the Beneficiary/Investor) may result in increased Points to the Company.

type of Loans being sought by the Company's Borrowers at such time. The various programs are summarized in a chart referred to by the Company as "the Opportunity Portfolio Matrix." In addition, the Company will provide you with a brief description of each Direct Deed of Trust Investment Program established by the Company from time to time. Such summary information should be considered in conjunction with this Memorandum and the documents described herein. ***Subject to the distinguishing characteristics of the Direct Deed of Trust Investments offered and sold under each of the Direct Deed of Trust Investment Programs established from time to time, all of the Direct Deed of Trust Investments and the underlying Loans are as described in this Memorandum, including being subject to (a) the risks described herein; (b) the governing documents described herein; and (c) the disclosure with respect to the particular loan as described in the Property Information Sheet and the documents held in the Company's loan file.***

Nevertheless, variations on the Direct Deed of Trust Investment Programs will be based upon the following criteria:

(a) amount of funds to be invested;
(b) the length of maturity of the Loan being purchased;
(c) whether the Loan is:
    (i) a new origination,
    (ii) a re-sale of an existing, performing loan, or
    (iii) a defaulted loan;
(d) how quickly the Loan is scheduled to close;
(e) the interest rate to be charged to the Borrower on the Loan; and
(f) whether the loan is secured by a first position lien deed of trust or a junior lien on the real estate.

DESCRIPTION OF GOVERNING DOCUMENTS

In General.

The Direct Deed of Trust Investments are not certificated and are only evidenced by the Governing Documents, referenced below, although the Company will keep record of the owners of outstanding Direct Deed of Trust Investments to assist it in its servicing functions under each Agency Agreement.

The Governing Documents for each Direct Deed of Trust Investment will consist of:

(a) A Direction to Purchase all or a portion of a particular Loan underlying a particular Direct Deed of Trust Investment;
(b) An Agency Agreement between the Company and the Investor describing the services to be provided by the Company in connection with a particular Loan;
(c) An assignment of beneficial interest under deed of trust;
(d) An assignment of assignment of rents, leases and profits;
(e) An assignment of rights to any other security given by the Borrower to secure the Loan;
(f) A promissory note endorsement; and
(g) An assignment granting you an interest in any other non-recorded loan documents relating to the Loan underlying your Direct Deed of Trust Investment.

The type and provisions of the Governing Documents for each Direct Deed of Trust Investment will vary depending upon the nature of the Loan thereunder and the nature of the related deed of trust assets. The following summaries describe certain provisions that may appear in the Governing Documents for each Direct Deed of Trust Investment. The summaries in this Private Offering Memorandum do not describe all of the provisions of the Governing Documents for each Direct Deed of Trust Investment. You are urged to read each Governing Document prior to signing it and investing in the related Direct Deed of Trust Investment.

The Property Information Sheet.

Prior to purchasing a Direct Deed of Trust Investment underlying a particular Loan, you will be provided with a Property Information Sheet that generally contains the following information:

1. Description of the terms of the underlying Loan (including the principal amount, origination date, maturity date and Borrower's name);

2. Legal Description for the Real Property and description of the type the real property;

3. List of the Governing Documents for the Direct Deed of Trust Investment;

- Evaluate and process any assumption of the Loan by a new Borrower;
- File and record any documents relating to the Loan (including full or partial deeds of release and reconveyance);
- Take any actions for the benefit of the investor in the event of delinquent payments, including 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); and
- Request any additional payments from the holder of the Direct Deed of Trust Investment for any fees, costs or expense not covered by payments by Borrower on the Loan (including enforcing the Loan in an event of default).

If the Borrower is being loaned funds in stages (commonly referred to as "draws"), you will be required to fund such amounts subsequent to your initial purchase of the Direct Deed of Trust Investment. 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 such portion of your Direct Deed of Trust Investment if you fail to make any such requested payments within three business days.

Each Agency Agreement releases the Company from any and all liability to any person, including the Borrower and the holder of the Direct Deed of Trust Investment, for nonfeasance or malfeasance, misfeasance or nonfeasance. In fact, the holder of the Direct Deed of Trust Investment agrees 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 is required to pay such amounts to the Company within five business days of such request. Moreover, in the event you breach the agreement (including by interfering with the Company's ability to perform), you 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 or consequential).

The Company is also permitted to assign the collection of the Loan payments or resign as servicer at anytime by providing you with written notice; and, 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 Interest In Deed Of Trust.
As discussed elsewhere in this Private Offering Memorandum, each Loan is secured by a deed of trust recorded against Arizona Real Property. A deed of trust is a three-party instrument. The parties to a deed of trust are-

- 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, you are granted an interest in the lien of the Loan securing the Real Property (*i.e.,* the underlying Deed of Trust). The underlying Deed of Trust sets forth the terms pursuant to which the lender can exercise his or her rights to perfect his or her interest in the Real 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 Real Property is located so that your interest in the lien is a matter of public record.

Promissory Note Endorsement.
Pursuant to the terms of the endorsement, you are transferred all right, title and interest in all or your 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.

The Company will offer loans for various purposes, including, without limitation:

(a) non-construction residential;
(b) non-construction commercial;
(c) non-construction industrial;
(d) non-construction unimproved land; or
(e) land and real estate construction loans in each of the four above referenced areas.

Borrowers will consist of individuals, corporations, limited liability companies, partnerships, and other persons.

In originating the Loan, the Company will have the discretion to determine the terms of all Loans, including matters such as release schedules, partial releases, the exact types of security taken and other similar matters. In addition, the Company will conduct certain due diligence relating to each Loan in order to evaluate all factors which it considers material to such determination, including the condition and use of the Real Property that will secure such Loan, its potential for appreciation, the operating history, local market conditions, and capitalization and credit worthiness of a Borrower.

Loan Underwriting Process.
Loan applications are submitted to the Company in two ways: (i) directly by property owners or; (ii) by third-party correspondents. Correspondents are comprised of a network of mortgage professionals that rely on the Company to fund loans for their clients. They include mortgage brokers, mortgage bankers, community banks, regional banks, and national banks. Correspondents may charge an origination fee as compensation for their professional services. Applicants or correspondents may submit loan requests by phone or by written loan packages. Pre-screening of all loan applications is completed by loan officers. Prior to presenting loan applications to the Company's loan underwriting committee, loan officers are responsible for preliminary due diligence. The loan underwriting committee is responsible for all underwriting, which includes preliminary review, inspection review, and final approval (as discussed below). As loan applications are processed, due diligence continues to be performed by loan officers, loan processors, and other specialists. All applicable information must be obtained, analyzed, and approved prior to loan funding. A computerized loan information checklist has been developed to request and track all required information and documentation throughout the loan application process.

The Company's loan officer makes an initial determination about the quality of the subject property and the Borrower during the underwriting process. General guidelines, which describe the scope of the due diligence process, are contained in the Company's underwriting manual, which is updated from time to time as necessary. The ultimate purpose is to evaluate the current condition of the Real Property and Borrower and to determine how the proposed new Loan can be used to improve or maintain their condition. Loan quality is hopefully improved by offering a Loan which is based on a relatively low percentage of an adjusted "wholesale value" (see below re: wholesale value and loan calculation).

The Company's underwriting manual also provides a description of the due diligence required for each new Loan application. A partial list of this due diligence process includes:

- Review of sale comparables and other market research;
- Review of credit reports, credit references character references and bank references of the Borrower;
- Analysis of pro forma, budgets and marketing plans for the Real Property;
- Review and analysis of any leases for the Real Property;
- Verification of zoning and special use permits for the Real Property;
- Verification that the proposed use of the Real Property conforms with local ordinances and building codes
- Verification of all necessary approvals from city or county for site plans, plats and utilities
- Verification of all utilities available to service the Real Property;
- Review of vesting deed, purchase contract, property liens, entity formation documents and other title related documentation for the Real Property;
- Verification of flood insurance status;
- Verification of other assets, sources of cash down payment and third party financing for the Borrower;
- Analysis of other debts, sources of repayment and other real estate owned by the Borrower;

The Company's loan underwriting committee is currently comprised of two senior executives, Scott M. Coles, Chairman/CEO; and Alan Zeigler, Chief Administrative Officer. However, Mr. Coles as the sole director and Chairman/CEO of the Company may add or replace members at any time and from time to time in his sole and absolute discretion. The loan underwriting committee reviews all checklist items, performs independent evaluation of underwriting analysis, establishes final loan terms and loan "deal points", authorizes all Property Inspections and Loan Commitments, and reviews all loan files prior to loan funding.

Each loan is subject to a minimum of three underwriting reviews:

(a) Preliminary Review - Loan officers are required to present all new Loan requests to the loan underwriting committee to perform an initial evaluation of the proposed loan. Several preliminary reviews may be conducted for a new loan request, based on the complexity of the transaction. The scope of the preliminary review includes a review of market comparable sales, the calculation of wholesale value, the calculation of potential loan amount range, proposed Loan terms, and consulting about proposed transaction and Loan terms. Proposed transaction and loan terms (i.e. use of additional real estate collateral, subordinated debt, project phasing, additional loan guarantors, etc.) are intended to improve the quality of the loan and the collateral. Loans offered by the Company are generally lower as a percentage of property value, than loans available from conventional mortgage lenders (banks, thrifts, mortgage brokers, life insurance companies, wall street conduits, etc.). Using the term commonly used in the industry, conventional lenders base the "loan-to-value" ratio on retail value. The Company bases the "loan-to-value" ratio on the "wholesale value" as determined by the analysis of the Company's in house staff. A lower loan-to-value generally provides more security to a lender, by requiring the borrower to invest more equity in the Real Property.

The process of calculating wholesale value begins with the commonly used method of determining retail value: by reviewing and analyzing recent sales of comparable property in the immediate area of the subject property. Sources for this sales data include MLS sales, county assessor data, local real estate sales offices, and proprietary databases available on the internet. Wholesale value is determined by making adjustments to the retail value based on criteria which includes property type, size of the property, location, lease income, etc. Data is maintained to track historical changes in property values for each property type. Wholesale value, or "quick sale value", is based on an adjusted retail value. The percentage adjustment varies with the property type, location, condition of the property, and local market condition.

(b) Inspection Approval - The loan underwriting committee authorizes a property inspection after a review and analysis of the loan checklist items and other loan underwriting criteria.

(c) Final Approval - The loan underwriting committee issues the final approval prior to funding the Loan.

The Terms Of The Interest Rates On The Loans Will Be Determined At Funding.
Each Loan will bear interest at a rate that will be determined at the making or purchase of the Loan by the Company. The interest rate on a Loan may "float" and be tied to a rate (such as a bank's "prime" rate) charged by a financial institution. Interest will be payable at such time or times as the Company shall determine in its sole discretion but in no event less often than on an annual basis. The rate of interest on the Loan underlying your Direct Deed of Trust Investment will be a function of, although not necessarily equal to, the interest rate you will be paid on your Direct Deed of Trust Investment, as the Company will retain a portion of the interest rate on the Loan *(i.e.,* the interest rate spread) as a portion of its fee.

Loan Advances.
Except in the case of revolving lines, each Loan will be in a principal amount equal to the funds advanced by one or more investors purchasing the related Direct Deed of Trust Investment at the time of the Loan, including any interest reserve, amounts advanced for costs, if any, incurred in connection with the acquisition, financing or refinancing of the Real Property, as well as title insurance fees, escrow fees,

the underlying Loan was acquired at a discount, you may realize additional revenues from a Direct Deed of Trust Investment at the time such Loan is repaid. The additional revenue would be equal to the difference between the amount paid for the Direct Deed of Trust Investment and the amount received by you on the repayment of the principal amount of the underlying Loan. This revenue, when added to revenue from interest payable on the Loan, could increase the effective yield on your investment in such Loan.

You May Acquire A Direct Deed of Trust Investment Relating To A Loan That Is In Default At The Time Of Your Purchase.
The defaulted Loans usually carry an accelerated interest rate in excess of the ordinary note rate(or "Default Rate"). However, there is also an increased risk that you will lose a portion of your investment and/or be required to incur additional costs in connection with collection. Therefore, be sure to carefully read and consider the additional risks referenced herein and your Loan Purchase Agreement so that you understand the default interest rate and other terms in the event the Loan underlying a particular Direct Deed of Trust Investment is or goes into default. This is especially important when purchasing a Direct Deed of Trust Investment where the underlying Loan is already in default at the time of your initial investment. Once a Loan is defaulted, this default rate is calculated from the date the Borrower last paid interest through the date that the payments due and owing on the Loan are brought current (e.g., a Borrower pays its Loan payment which was due May 30th. It then fails to make its June 30th payment. On July 16th, the Company, as servicer, places the Loan into default. The default interest rate accrues from June 1st until the date the Borrower makes the June payment.) The purchase price for a Deed of Trust backed by a defaulted Loan would only be a function of the ordinary rate of interest on the face of the Loan. Once collected (if at all), the spread between the ordinary interest rate and the default rate would constitute an immediate gain. Once current, the Direct Deed of Trust Investment would then provide for payments at the ordinary rate of interest on the underlying Loan (subject to the interest rate spread paid to the Company).

However, because such Loans would be in default at the time of your acquisition of the related Direct Deed of Trust Investment, the Company can provide no assurance that any further payments will be made and that you won't have to foreclose on the Real Property securing the Loan. If you acquire the Real Property through foreclosure, it is possible, although no assurance can be given, that you could earn a profit from the sale of the Real Property that would exceed the usual rate of return that you would have earned if the underlying Loan was performing. To the contrary, it is also possible that you could suffer a loss on the sale of the Real Property.

In determining whether to purchase a Direct Deed of Trust Investment backed by a particular defaulted Loan, you should also attempt to determine, as best you can, the likelihood of the Borrower bringing the account current prior to beginning foreclosure proceedings or the Trustee's sale, as well as the possibility of the Borrower declaring bankruptcy and the costs and time involved therewith. You also need to consider who will manage the Real Property in the event you acquire it and the costs associated therewith. Therefore you should attempt to eliminate from consideration the acquisition of a Direct Deed of Trust Investment relating to any defaulted Loans that are likely to involve a long drawn-out process or excessive management requirements.

All Loans Underlying A Direct Deed of Trust Investment Will Be Collateralized By Arizona Real Property.
The Loans will be secured by a lien on the fee title of, or a beneficial interest in, the real property 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. All Real Estate securing the Loans will be located in the State of Arizona.

The types of Real Property will vary, including, without limitation:

- mixed use property
- multiple properties (where the loans may be cross-collateralized)
- multi-acre residential property in rural areas;
- various types of residential property, including:

The debt service coverage ratio of a multifamily or commercial mortgage Loan is a measure of the likelihood of default on the loan. In general, the "debt service coverage ratio" of a multifamily or commercial Loan at any given time is the ratio of:

- the amount of income derived or expected to be derived from the related real property for a 12-month period that is available to pay debt service, to
- the annualized scheduled payments of principal and/or interest on the mortgage loan and any other senior loans that are secured by the related real property.

The amount described in the first clause of the preceding sentence is often a highly subjective number based on several assumptions and adjustments to revenues and expenses for the Real Property.

Lenders also look to the loan-to-value ratio of a mortgage loan as a factor in evaluating the likelihood of loss if the Real Property is liquidated following a default. In general, the "loan-to-value ratio" of a multifamily or commercial mortgage loan at any given time is the ratio, expressed as a percentage, of:

- the then outstanding principal balance of the mortgage loan and any other senior loans that are secured by the related Real Property, to
- the estimated value of the Real Property based on an appraisal, a cash flow analysis, a recent sales price or another method.

A low loan-to-value ratio means the Borrower has a large amount of its own equity in the property that secures its Loan. In these circumstances:

- the Borrower has a greater financial incentive to perform under Loan in order to protect its equity, and
- the lender has greater protection against loss on liquidation following a default.

Loan-to-value ratios are not necessarily an accurate measure of the likelihood of loss relating to a particular Direct Deed of Trust Investment. For example, estimated property value at the time the Loan was originated may exceed the value of the Real Property when the Direct Deed of Trust Investment was purchased. Property values fluctuate. Even current appraisals are not necessarily reliable estimates of value. Appraised values of income-producing properties are generally based on:

- the market comparison method, which takes into account the recent resale value of comparable properties at the date of the appraisal;
- the cost replacement method, which takes into account the cost of replacing the property at such date;
- the income capitalization method, which takes into account the property's projected net cash flow; or
- some combination of these methods.

Each of these appraisal methods presents analytical difficulties:

- it is often difficult to find truly comparable properties that have recently been sold;
- the replacement cost of a property may have little to do with its current market value; and
- income capitalization is inherently based on inexact projections of income and expense and selection of a capitalization rate and discount rate.

If different appraisal methods yield significantly different results, an accurate determination of value and, correspondingly, a reliable analysis of the likelihood of default and loss, is even more difficult.

Moreover, Real Property's performance will affect its value. As a result, if a multifamily or commercial Loan defaults because the income generated by the related Real Property is insufficient to pay operating costs and expenses as well as debt service, then the value of the Real Property will decline and a liquidation loss may occur.

The Company believes that the foregoing considerations are important factors that generally distinguish Loans secured by liens on income-producing real estate from single-family Loans.

at ordinary income rates. Furthermore, it is possible that you may foreclose on any Real Property securing the Loan underlying a particular Direct Deed of Trust Investment and that you may then sell that Real Property. Any gain or loss recognized on such a sale would be subject to tax under the above rules, except that the amount of any depreciation recapture would be taxable at ordinary income tax rates and any so-called "unrecaptured section 1250 gain" (which, generally speaking, is the total depreciation deducted by the taxpayer minus the amount of accelerated depreciation that must be recaptured and taxed at ordinary income tax rates) would be taxable at a 25% rate.

The Company Does Not Anticipate Obtaining Independent Third Party Appraisals Of Real Property Securing The Loans.
Prior to fund the Loan underlying a Direct Deed of Trust Investment, the Company will conduct its own due diligence review of the underlying Loan, including it own in-house evaluation of the underlying Real Property as determined by employees of the Company. However, the Company will not retain an independent, third party to conduct a formal appraisal of the collateral for the Loan. The absence of a third party appraisal means that you, as the lender, will be relying upon the determination and expertise of the employees of the Company in valuing the security for the Loan as well as the financial capabilities of the Borrower and such other due diligence investigation as the Company deems appropriate.

Although appraisals are only estimates of value and should not be relied upon as a precise measurement of true worth or realizable value, an independent appraisal does provide a third party judgment on value. In addition, most third party appraisers have certain certifications and in certain circumstances, more experience than the employees of the Company. Because the Company and its affiliates will realize income from the making of a Loan and selling the related Direct Deed of Trust Investment, there is an inherent conflict of interest, the impact, if any, of which cannot be gauged by the standard of an independent appraisal.

If You Invest In Only A Limited Number Of Loans, Your Loan Portfolio May Lack Diversity.
As a result, such lack of diversity in the type or number of Loans may increase the risk of loss to you. The performance of your Direct Deed of Trust Investment portfolio will fluctuate based solely on the payment and performance of that limited number of Loans. Therefore, an event of default under one or more Loans will have a more significant effect on your investment portfolio than if you had invested in other Loans the performance of which may offset any such loss.

As Servicer Under The Agency Agreement, The Company Will Have Significant Decision Making Authority Over The Loan Underlying Your Investment Deed Of Trust, Including, Without limitation, The Decision Of If And How To Enforce A Default On Such Loan.
You will not be permitted to participate in any of the decisions that you have delegated to the Company under the Agency Agreement. Therefore, you must read that agreement carefully and completely before signing it. In addition, you must be willing to defer to the authority of the Company in making those decisions. In signing the Agency Agreement you specifically agree that the Company will incur no responsibility or liability to any person, including you, for malfeasance, misfeasance, or nonfeasance, and you agree to indemnify and hold the Company harmless against any liability it incurs directly or indirectly under the agreement or as a result of the underlying Loan. In doing so, you agree to pay all attorneys' fees, insurance premiums, expenses costs, damages incurred by the Company in connection with any such liability. Moreover, you agree that the Company may recover damages, including actual, incidental or consequential damages from you if you fail to perform any of your obligations under the Agency Agreement.

Your Ability To Make A Profit On A Direct Deed of Trust Investment Is Dependent On The Ability Of The Company To Negotiate Favorable Terms And Collect On The Underlying Loan.
You must be willing to defer to their expertise and decision making with respect to the terms and the enforcement of the underlying Loan. The officers and employees of the Company have had experience in various phases of real estate acquisition, financing, disposition and property management. Although Scott Coles, and Alan Zeigler, as two of the members of the loan underwriting committee are currently the officers or employees of the Company who will generally make the investment decisions for the

economic incentive to do so, such as obtaining a larger loan on the same underlying real property or a lower or otherwise more advantageous interest rate through refinancing. If a Loan includes some form of prepayment restriction, the likelihood of prepayment should be less. These restrictions may include:

- an absolute or partial prohibition against voluntary prepayments during some or all of the loan term; or
- a requirement that voluntary prepayments be accompanied by some form of prepayment premium, fee or charge during some or all of the loan term.

In many cases, a Loan will have no restrictions on the application of insurance proceeds or condemnation proceeds as a prepayment of principal.

The interest rate amount and timing of payments and other collections on the Loans will, to some degree, be unpredictable because of Borrower defaults and because of casualties and condemnations with respect to the underlying real properties.

The investment performance of your Direct Deed of Trust Investment may vary materially and adversely from your expectations due to:

- the rate of prepayments and other unscheduled collections of principal on the underlying Loan being faster or slower than you anticipated, or
- the rate of defaults on the underlying Loan being faster, or the severity of losses on the underlying Loan being greater, than you anticipated.

The actual yield to you, as a holder of a Direct Deed of Trust Investment, may not equal the yield you anticipated at the time of your purchase, and the total return on investment that you expected may not be realized. In deciding whether to purchase any Direct Deed of Trust Investment, you should make an independent decision as to the appropriate prepayment, default and loss assumptions to be used.

Payments On Your Direct Deed of Trust Investment Will Be Made Solely From The Underlying Loan.

Your Direct Deed of Trust Investment does not represent obligations of any person or entity and does not represent a claim against any assets (including without limitation the Company) other than the specific underlying Loan referenced in the Property Information Summary. Neither the Company, nor any of its affiliates, nor any governmental agency, instrumentality or other person will guarantee or insure payment on your Direct Deed of Trust Investment. If the underlying Loan defaults and any collateral, including the Real Property is insufficient to make payments on your Direct Deed of Trust Investment, you will bear the resulting loss.

Due To The Length Of The Maturity Date Of The Loan Underlying A Particular Direct Deed of Trust Investment, You May Not Receive A Return Of Your Capital For As Long As 30 Or More Years After Investing.
A Loan underlying a particular Direct Deed of Trust Investment may not mature for 30 years after funding (or even later in the event of a subsequent modification of the Note). As a result, you may not receive a return of your capital (subject to all the other risks described herein) for an extended period of time that may be 30 years or longer. Unless you are able to assume the consequences of limited liquidity resulting from a long-term investment in the Direct Deed of Trust Investments, you should not invest in a Direct Deed of Trust Investment with an underlying Loan having a significant term. Therefore, be sure to review the Property Information Sheet on each Deed of Trust carefully in order to understand the terms of the underlying Loan. In addition, you are free to review the loan file and ask questions and request additional information from the Company with respect to any Direct Deed of Trust Investment.

Depending Upon The Terms Of Your Agency Agreement And/Or The Underlying Loan, You May Be Required To Make Advances After And In addition To The Original Purchase Price Of The Deed Of Trust.
The amount, terms and circumstances under which you must make such advances may or may not be known with specificity at the time that you initially acquire your Direct Deed of Trust Investment. If they are known, they will be described in the Property Information Summary and set forth in the underlying Loan Documents and Agency Agreement. Your failure to make any such required advance will be a breach

The Borrower's ability to make payments due under a Loan and the amount you may realize after a foreclosure will be dependent upon the risks generally associated with real estate investments. Investments secured by real estate, such as the Direct Deed of Trust Investments, are speculative in nature, involve a high degree of risk and are subject to the risks generally incident to the ownership of real property, including, without limitation, the illiquid nature of the investment. Many of the factors that may affect a Borrower and the Real Property are subject to change and are not within the control of the Company, and the extent to which such factors could restrict the activities or adversely affect the viability of a Borrower or the value of the Real Property is not currently ascertainable. Those factors include changes in the investment climate for real estate investments, changes in local market conditions, availability of water, adverse changes in governmental rules and fiscal policies, acts of God (which may result in uninsured losses), environmental controls, zoning and land use regulation, occupancy rates, rent control laws, operating expenses, adverse use of adjacent or neighboring real estate, changes in neighborhood values, changes in the demand for or supply of competing properties, changes in federal, state or local laws, changes in general or local economic conditions, and the availability, interest costs and terms of mortgage funds. These factors may render the sale or refinancing of the Real Property difficult or unattractive.

The Fact That Some Of The Loans May Require Balloon Payments May Increase The Risk That The Borrower May Default.
Most of the Loans do not amortize over time, but rather require payment of all or a portion of the principal amount at maturity. This may create an additional risk that volatile interest rates and/or erratic credit conditions and the supply of mortgage funds may cause a sale or refinancing of the Real Property by the Borrowers to be difficult or impossible, regardless of the market value of the collateral at the time such so-called "balloon" payments are due. This in turn could result in the Borrower defaulting on the Loan at maturity, which in turn could result in a loss to you as the holder of the related Direct Deed of Trust Investment. The ability of a Borrower to make a balloon payment generally depends upon the Borrower's ability to refinance or sell the Real Property securing the loan. The ability of the Borrower to refinance or sell the Real Property will be affected by a number of factors, including:

- the fair market value and condition of the underlying Real Property;
- the prevailing level of interest rates;
- the Borrower's equity in the underlying Real Property;
- the Borrower's financial condition;
- the operating history of the underlying Real Property;
- changes in zoning and tax laws;
- changes in competition in the relevant area;
- changes in rental rates in the relevant area;
- changes in governmental regulation and fiscal policy;
- prevailing general and regional economic conditions;
- the state of the fixed income and mortgage markets; and
- the availability of credit for multifamily rental or commercial properties.

On Some Loans, A Portion Of The Security In The Real Property May Be Junior To Other Liens And Therefore Be Subject To The Risk Of Borrower's Default On Such Senior Debt.
A Loan will generally be secured by a senior mortgage lien which may or may not be sufficient to collateralize the Loan, and as additional security, one or more junior liens each subordinate to at least one and in some cases two or more senior liens or the beneficial interest in senior or subordinate notes and deeds of trust owned by a Borrower. If an additional piece of collateral is a junior lien interest, the senior lien may go into default requiring payments to the senior lender or to preserve the property or to cure other non-monetary defaults to prevent a foreclosure or the complete satisfaction and discharge of the senior lien but only in the event the Company desires to preserve the junior liens as additional security.

Alternatively a Loan may either: (a) prohibit the Borrower from encumbering the Real Property with additional secured debt; or (b) require the consent of the holder of the Loan prior to so encumbering the property. However, a lender may be unaware of a violation of this prohibition until the Borrower otherwise defaults on the Loan. You should be aware that a lender, such which the principal amount of the Loan bears to the fair market value of the Real Property. The fair market value of the Real Property securing a Loan will, for purposes of calculating the loan-to-value ratio, be equal to its value as estimated by the Company in its due diligence review. It should be noted, however, that estimates of value are only opinions and there can be no assurance that, in the event of a default, you would actually realize an amount equal to the estimated value. Moreover, the amount that an arm's-length party is willing to pay for the Real Property may not, for similar reasons, reflect the amount for which it could be sold in a liquidation of collateral.

The Loans Will Be Subject To The Nature Of The Lending Market During The Term Of The Loans.

The Loans may be affected by changes in interest rates, the availability of funds and general economic conditions. During the past 10 years, there have been wide fluctuations in interest rates charged for real estate loans. The returns available on Loans will be lower during periods when funds are more readily available for financing, which is currently the state of the lending market. As funds become more available for financing, it may be more difficult to make Loans on terms favorable to the lender because Borrowers will have more parties from whom to obtain such Loans. The value of the Real Property securing the Loans will also be affected by prevailing economic conditions, which may also affect the Borrower's ability to repay its Loan.

Although The Terms Of The Loans Will Require The Real Property To Be Insured, Certain Losses Are Uninsurable Or Not Economically Insurable.

The Company will require there to be comprehensive insurance, including liability, fire and extended coverage, in amounts at least equal to the principal amount of a Loan, on the Real Property. Such insurance is customarily obtained for or by a lender on improved properties securing a loan (generally, the Borrower will obtain such insurance). However, there are certain types of losses (generally of a catastrophic nature, such as earthquakes, floods and wars) which are either uninsurable or not economically insurable. If such a disaster occurs, or causes the destruction of, any of Real Property, you could lose both the amount you invested in the related Direct Deed of Trust Investment as well as the anticipated profits from such investment.

The Company Can Provide You No Assurance That You Will Receive Any Return Of Or On Your Investment.

The Company can give you no assurance that you will receive a positive return on or will receive back all or any portion of your investment. For this reason, you should read this Private Offering Memorandum and all other documents given to you in connection with your investment carefully and should consult your own attorney, accountant and/or business adviser prior to making any investment decision.

A Borrower's Bankruptcy May Adversely Affect Payment On Your Direct Deed of Trust Investment.

The United States Bankruptcy Code ("Bankruptcy Code") and state insolvency laws may interfere with or affect a lender's ability to realize upon collateral and/or to enforce a deficiency judgement. For example, under the Bankruptcy Code, the filing of a petition in bankruptcy by or against a Borrower will stay the sale of the Real Property, as well as the commencement or continuation of a foreclosure action. In addition, if a court determines that the value of the Real Property 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 Real Property. Such an action would make you, as the lender, a general unsecured creditor for the difference between the then-value of the Real Property and the amount of its outstanding mortgage indebtedness. A bankruptcy court also may:

- 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 mortgage 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.

Additionally, the Borrower, as debtor-in-possession, or its bankruptcy trustee has certain

This means that, in the event of a default, recourse will be limited to the related Real Property securing the defaulted Loan. In those cases in which recourse to a Borrower or guarantor is not permitted by the loan documents, the Company may not undertake any evaluation of the financial condition of the Borrower or guarantor. Unlike individuals, entities formed to acquire real property generally do not have personal assets and creditworthiness at stake. A Borrower's sophistication can lead to protracted litigation or bankruptcy in default situations.

Consequently, full and timely payment on each Loan underlying your Direct Deed of Trust Investment may depend on one or more of the following:

- the sufficiency of the net operating income of the applicable Real Property;
- the market value of the applicable Real Property at or prior to maturity; and
- the ability of the Borrower to refinance or sell the applicable Real Property.

In general, the value of a multifamily or commercial property will depend on its ability to generate net operating income. The ability of an owner to finance a multifamily or commercial property will depend, in large part, on the property's value and ability to generate net operating income.

The Loans underlying each Direct Deed of Trust Investment will generally not be insured or guaranteed by the Company, any of the Company's affiliates or any governmental entity or private mortgage insurer.

The risks associated with lending on multifamily and commercial properties are inherently different from those associated with lending on the security of single-family residential properties. This is because multifamily rental and commercial real estate lending involves larger loans and, as described above, repayment is dependent upon the successful operation and value of the related real estate project.

Multifamily And Commercial Real Properties May Secure A Loan, Which Is Subject To Certain Risks.

The following factors, among others, will affect the ability of a multifamily or commercial Real Property to generate net operating income and, accordingly, its value:

- the age, design and construction quality of the property;
- perceptions regarding the safety, convenience and attractiveness of the property;
- the characteristics of the neighborhood where the property is located;
- the proximity and attractiveness of competing properties;
- the existence and construction of competing properties;
- the adequacy of the property's management and maintenance;
- national, regional or local economic conditions, including plant closings, industry slowdowns and unemployment rates;
- local real estate conditions, including an increase in or oversupply of comparable commercial or residential space;
- demographic factors;
- customer tastes and preferences;
- retroactive changes in building codes; and
- changes in governmental rules, regulations and fiscal policies, including environmental legislation.

Particular factors that may adversely affect the ability of a multifamily or commercial Real Property to generate net operating income include:

- an increase in interest rates, real estate taxes and other operating expenses;
- an increase in the capital expenditures needed to maintain the property or make improvements;
- a decline in the financial condition of a major tenant and, in particular, a sole tenant or anchor tenant;
- an increase in vacancy rates;
- a decline in rental rates as leases are renewed or replaced; and
- natural disasters and civil disturbances such as earthquakes, hurricanes, floods, eruptions or riots.

The volatility of net operating income generated by a multifamily or commercial Real Property

property may adversely affect the income produced by the Real Property. 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 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.

This would impact payments on the Loan as well as any decision to foreclose on the Real Property.

The Success Of An Income-Producing Real Property Depends On Reletting Vacant Spaces.
The operations at an income-producing Real Property securing a Loan will be adversely affected if the owner or property manager is unable to renew leases or relet space on comparable terms when existing leases expire or become defaulted. Even if vacated space is successfully relet, the costs associated with reletting can be substantial and could reduce cash flow from the property. Moreover, if a tenant defaults in its lease obligations, the landlord may incur substantial costs and experience significant delays associated with enforcing its rights and protecting its investment, including costs incurred in renovating and reletting the Real Property. This may in turn impact the availability of funds to make payments on the Loan relating to such Real Property.

If the Real Property has multiple tenants, re-leasing expenditures may be more frequent than in the case of Real Property with fewer tenants, which would reduce the cash flow generated by the multi-tenanted Real Property. Multi-tenanted Real Property may also experience higher continuing vacancy rates and greater volatility in rental income and expenses.

Property Value May Be Adversely Affected Even When Current Operating Income Is Not.
Various factors may affect the value of multifamily and commercial Real Property without affecting their current net operating income, including:

- changes in interest rates;
- the availability of refinancing sources;
- changes in governmental regulations, licensing or fiscal policy;
- changes in zoning or tax laws; and
- potential environmental or other legal liabilities.

Property Management May Affect Real Property Operations And Value.
The operation of an income-producing Real Property will depend upon the performance and viability of the property manager, if there is one. The property manager generally is responsible for:

- responding to changes in the local market;
- planning and implementing the rental structure, including staggering durations of leases and establishing levels of rent payments;
- operating the property and providing building services;
- managing operating expenses; and
- ensuring that maintenance and capital improvements are carried out in a timely fashion.

Income-producing Real Property that derives revenues primarily from short-term rental commitments, such as hospitality or self-storage properties, generally require more intensive management than properties leased to tenants under long-term leases.

By controlling costs, providing appropriate and efficient services to tenants and maintaining improvements in good condition, a property manager can maintain or improve occupancy rates, business and cash flow, reduce operating and repair costs and preserve building value. However, management errors can, in some cases, impair the long-term viability of an income-producing Real Property.

and the cost of required capital expenditures, may increase; and
- the extent to which increases in operating costs may be passed through to tenants.

Because units in multifamily rental Real Property are leased to individuals, usually for no more than a year, the property is likely to respond relatively quickly to a downturn in the local economy or to the closing of a major employer in the area.

Statutes regulate the relationship of an owner and its tenants at a multifamily rental Real Property. Among other things, these states may:

- require written leases;
- require good cause for eviction;
- require disclosure of fees;
- prohibit unreasonable rules;
- prohibit retaliatory evictions;
- prohibit restrictions on a resident's choice of unit vendors;
- limit the basis on which a landlord may increase rent; or
- prohibit a landlord from terminating a tenancy solely by reason of the sale of the owner's building.

Apartment building owners have been the subjects of suits under state "Unfair and Deceptive Practices Acts" and other general consumer protection statutes for coercive, abusive or unconscionable leasing and sales practices.

Some counties and municipalities also impose rent control regulations on apartment buildings. These regulations may limit rent increases to:

- fixed percentages;
- percentages of increases in the consumer price index;
- increases set or approved by a governmental agency; or
- increases determined through mediation or binding arbitration.

In many cases, the rent control laws do not provide for decontrol of rental rates upon vacancy of individual units. Any limitations on a landlord's ability to raise rents at a multifamily rental property may impair the landlord's ability to repay a mortgage loan secured by the property or to meet operating costs.

Some multifamily rental properties are subject to land use restrictive covenants or contractual covenants in favor of federal or state housing agencies. These covenants generally require that a minimum number or percentage of units be rented to tenants who have incomes that are substantially lower than median incomes in the area or region. These covenants may limit the potential rental rates that an owner can charge at multifamily rental Real Property, the potential tenant base for the property or both. An owner may subject multifamily rental Real Property to these covenants in exchange for tax credits or rent subsidies. When the credits or subsidies cease, net operating income will decline.

Some Loans underlying the Direct Deed of Trust Investments may be secured by the Borrower's interest in multiple units in a residential condominium project and the related voting rights in the owners' association for the project. Due to the nature of condominiums, a default on any of those Loans will not allow the holder of the Loan the same flexibility in realizing on its Real Property collateral as is generally available with respect to multifamily rental Real Property that are not condominiums. The rights of other unit owners, the governing documents of the owners' association and the state and local laws applicable to condominiums must be considered and respected. Consequently, servicing and realizing upon the collateral for those Loans could subject the lender to greater delay, expense and risk than a loan secured by a multifamily rental Real Property that is not a condominium.

Cooperatively-Owned Apartment Buildings. Some multifamily Real Property is owned or leased by cooperative corporations. In general, each shareholder in the corporation is entitled to occupy a particular apartment unit pursuant to a long-term proprietary lease or occupancy agreement.

A cooperative corporation is directly responsible for building maintenance and payment of real estate taxes and hazard and liability insurance premiums. 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 Real Property depends primarily upon the receipt of:

- perceptions regarding the safety, convenience and attractiveness of the Real Property;
- perceptions regarding the safety of 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 Real Property;
- availability of parking;
- the particular mixture of the goods and services offered at the Real Property;
- customer tastes, preferences and spending patterns; and
- the drawing power of other tenants.

The success of retail Real Property is often dependent on the success of its tenants' businesses. A significant component of the total rent paid by tenants of retail Real Properties is often tied to a percentage of gross sales or revenues. Declines in sales or revenues of the tenants will likely cause a corresponding decline in percentage rents and/or impair the tenants' ability to pay their rent or other occupancy costs. A default by a tenant under its lease could result in delays and costs in enforcing the landlord's rights. A decline in the local economy and reduced consumer spending would directly and adversely affect retail Real Property.

The expiration of space leases at the Real Property and the ability of the Borrower to renew or relet the space on comparable terms will affect repayment of a Loan secured by retail Real Property. Even if vacant space is successfully relet, the costs associated with reletting, including tenant improvements, leasing commissions and free rent, may be substantial and could reduce cash flow from retail Real Property.

The presence or absence of an anchor tenant in multi-tenanted retail Real Property can be important. Anchor tenants play a key role in generating customer traffic and making the center desirable for other tenants. An "anchor tenant" is, in general, a retail tenant whose space is substantially larger in size than that of other tenants at the same retail property and whose operation is vital in attracting customers to the Real Property. At some retail properties, the anchor tenant owns the space it occupies. In those cases where the property owner does not control the space occupied by the anchor tenant, the property owner may not be able to take actions with respect to the space that it otherwise typically would take, such as granting concessions to retain an anchor tenant or removing an ineffective anchor tenant. In some cases, an anchor tenant may cease to operate at the property, even though it continues to own or pay rent on the vacant space. If an anchor tenant ceases operations at retail Real Property, other tenants at the property may be entitled to terminate their leases prior to the scheduled termination date or to pay rent at a reduced rate for the remaining term of the lease.

Various factors will adversely affect the economic performance of an "anchored" retail Real Property, including:

- an anchor tenant's failure to renew its lease;
- termination of an anchor tenant's lease;
- the bankruptcy or economic decline of an anchor tenant or a self-owned anchor;
- the cessation of the business of a self-owned anchor or of an anchor tenant, even if it continues to own the Real Property or pay rent; or
- a loss of an anchor tenant's ability to attract shoppers.

Retail Real Property may also face competition from sources outside a given real estate market or with lower operating costs. For example, all of the following compete with more traditional department stores and specialty shops for consumer dollars:

- factory outlet centers;
- discount shopping centers and clubs;
- catalogue retailers;
- television shopping networks and programs;
- internet web sites; and
- telemarketing.

Similarly, home movie rentals and pay-per-view movies provide alternate sources of entertainment to movie theaters. Continued growth of these alternative retail outlets, which are often characterized by lower operating costs, and entertainment sources could adversely affect the rents collectible at retail Real Property.

08-7465 A

EXHIBIT "B"

PROVISIONS OF

PRIVATE OFFERING

MEMORANDUM

July 10, 2006

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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.

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 or 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 a 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.

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.

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:

Capital	Prepaid Interest	Annual Interest Rate
$ 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

that can be charged for a room and may result in a reduction in occupancy levels;

- the existence or construction of competing hospitality properties;
- nature and quality of the services and facilities;
- 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; and
- changes in travel patterns caused by changes in access, energy prices, labor strikes, relocation of highways, the reconstruction of additional highways or other factors.

Because limited service hotels and motels are relatively quick and inexpensive to construct and may quickly reflect a positive value, an over-building of these hotels and motels could occur in any given region, which would likely adversely affect occupancy and daily room rates. Furthermore, because rooms at hospitality Real Property are generally rented for short periods of time, hospitality properties tend to be more sensitive to adverse economic conditions and competition than many other types of commercial properties. Additionally, the revenues of certain hospitality properties, particularly those located in regions whose economies depend upon tourism, may be highly seasonal in nature.

Hospitality Real Property may be operated pursuant to franchise agreements. The continuation of a franchise is typically subject to specified operating standards and other terms and conditions. The franchisor periodically inspects its licensed properties to confirm adherence to its operating standards. The failure of the hospitality Real Property to maintain those standards or adhere to those other terms and conditions could result in the loss or cancellation of the franchise license. It is possible that the franchisor could condition the continuation of a franchise license on the completion of capital improvements or the making of certain capital expenditures that the owner of the hospitality Real Property determines are too expensive or are otherwise unwarranted in light of the operating results or prospects of the property. In that event, the owner of the hospitality Real Property may elect to allow the franchise license to lapse. In any case, if the franchise is terminated, the owner of the hospitality Real Property may seek to obtain a suitable replacement franchise or to operate the property independently of a franchise license. The loss of a franchise license could have a material adverse effect upon the operations or value of the hospitality Real Property, because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

The viability of any hospitality Real Property that is a franchise of a national or a regional hotel or motel chain is dependent upon:

- the continued existence and financial strength of the franchisor;
- the public perception of the franchise service mark; and
- the duration of the franchise licensing agreement.

A franchisor may restrict the transferability of its franchise license agreements. In this case, the lender must obtain the consent of the franchisor for the continued use of the franchise license by the hospitality Real Property following a foreclosure. Conversely, a lender may be unable to remove a franchisor that it desires to replace following a foreclosure. Furthermore, in the event of a foreclosure on hospitality Real Property, the lender or other purchaser of the hospitality Real Property may not be entitled to the rights under any associated liquor license. That party would be required to apply for its own liquor license. There can be no assurance that a new license could be obtained or that it could be obtained promptly.

Casino Real Property.
Factors affecting the economic performance of a casino Real Property include:

- location, including proximity to or easy access from major population centers;
- appearance;
- economic conditions, either local, regional or national, which may limit the amount of disposable income that potential patrons may have for gambling;

would be entitled to the rights under any required licenses and regulatory approvals. The lender or other purchaser may have to apply for its own licenses and approvals. There can be no assurance that a new license could be obtained or that a new approval would be granted.

Health care-related facilities are generally "special purpose" properties that could not be readily converted to general residential, retail or office use. This will adversely affect their liquidation value. Furthermore, transfers of health care-related facilities are subject to regulatory approvals under state, and in some cases federal, law that are not required for transfers of most other types of commercial Real Properties.

Industrial Real Property.
Industrial Real Property may be adversely affected by reduced demand for industrial space occasioned by a decline in a particular industry segment and/or by a general slowdown in the economy. In addition, industrial Real Property that suited the particular needs of its original tenant may be difficult to relet to another tenant or may become functionally obsolete relative to newer properties.

The value and operation of industrial Real Property depends on:

- location of the Real Property, the desirability of which in a particular instance may depend on:

  (1) availability of labor services;
  (2) proximity to supply sources and customers; and
  (3) accessibility to various modes of transportation and shipping, including railways, roadways, airline terminals and ports;

- building design of the Real Property, the desirability of which in a particular instance may depend on:

  (1) ceiling heights;
  (2) column spacing;
  (3) number and depth of loading bays;
  (4) divisibility;
  (5) floor loading capacities;
  (6) truck turning radius;
  (7) overall functionality; and
  (8) adaptability of the property, because industrial tenants often need space that is acceptable for highly specialized activities; and

- the quality and creditworthiness of individual tenants, because industrial properties frequently have higher tenant concentrations.

Industrial Real Property is generally "special purpose" properties that an owner could not readily convert to general residential, retail or office use. This will adversely affect their liquidation value.

Industrial Real Property may also pose unique environmental risks depending upon the nature of the business conducted at the property.

Warehouse, Mini- Warehouse and Self-Storage Facilities.
Warehouse, mini-warehouse and self-storage Real Property is considered vulnerable to competition because both acquisition costs and break-even occupancy are relatively low. In addition, an owner would incur substantial capital expenditures to convert a warehouse, mini-warehouse or self-storage property to an alternative use. These factors will materially impair the liquidation value of the Real Property if its operation for storage purposes becomes unprofitable due to decreased demand, competition, age of improvements or other factors.

Successful operation of a warehouse, mini-warehouse or self-store Real Property depends on:

- building design;
- location and visibility;
- tenant privacy;
- efficient access to the property;
- proximity to potential users, including apartment complexes or commercial users;
- services provided at the Real Property, such as security;
- age and appearance of the improvements; and
- quality of management.

Warehouse Real Property may pose environmental risks depending upon the nature of the business conducted in the warehouse.

franchise regulations may impose additional risk, including the risk that the transfer of a franchise acquired through foreclosure or similar proceedings may require registration with governmental authorities or disclosure to prospective transferees.

Manufactured Housing Communities, Mobile Home Parks and Recreational Vehicle Parks. Manufactured housing communities and mobile home parks consist of land that is divided into "spaces" or "home sites" that are primarily leased to owners of the individual mobile homes or other housing units. The homeowner often invests in site-specific improvements such as carports, steps, fencing, skirts around the base of the home, and landscaping. The landowner typically provides private roads within the park, common facilities and, in many cases, utilities. Due to relocation costs and, in some cases, demand for home sites, the value of a mobile home or other housing unit in place in a manufactured housing community or mobile home park is generally higher, and can be significantly higher, than the value of the same unit not placed in a manufactured housing community or mobile home park. As a result, a well-operated manufactured housing community or mobile home park that has achieved stabilized occupancy is typically able to maintain occupancy at or near that level. For the same reason, a lender that provided financing for the home of a tenant who defaulted on his or her space rent generally has an incentive to keep rental payments current until the home can be resold in place, rather than to allow the unit to be removed from the park.

Recreational vehicle parks lease spaces primarily or exclusively for motor homes, travel trailers and portable truck campers, primarily designed for recreational, camping or travel use. In general, parks that lease recreational vehicle spaces have a less stable tenant population than parks occupied predominantly by mobile homes.

However, it is not unusual for the owner of a recreational vehicle to leave the vehicle at the park on a year-round basis or to use the vehicle as low cost housing and reside in the park indefinitely.

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

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

Manufactured housing communities and mobile home parks also compete against alternative forms of residential housing, including multifamily rental properties, cooperatively owned apartment buildings, condominium complexes and single-family residential developments. Recreational vehicle parks also compete against alternative forms of recreation and short-term lodging, such as staying at a hotel at the beach.

Manufactured housing communities, mobile home parks and recreational vehicle parks are "special purpose" properties that the operator cannot readily convert to general residential, retail or office use. This will adversely affect the liquidation value of the Real Property if its current operations become unprofitable due to competition, age of the improvements or other factors.

The state of Arizona regulates the relationship of an owner of a manufactured housing community or mobile home park and its tenants in a manner similar to the way they regulate the relationship between a landlord and tenant at a multifamily rental property.

In addition to state regulation of the landlord-tenant relationship, numerous counties and municipalities impose rent control on manufactured housing communities and mobile home parks. These ordinances may limit rent increases to:

- fixed percentages;
- percentages tied to the consumer price index;
- increases set or approved by a governmental agency; or
- increases determined through mediation or binding arbitration.

In many cases, the rent control laws either do not permit vacancy decontrol or permit vacancy decontrol only in the relatively rare event that the mobile home or manufactured housing unit properties that the owner cannot readily convert to alternative uses. The "special purpose" nature of these facilities will adversely affect their liquidation value.

Parking Lots and Garages.
The primary source of income for parking lots and garages is the rental fees charged for parking spaces. Factors affecting the success of a parking lot or garage include:

- the number of rentable parking spaces and rates charged;
- the location of the lot or garage and, in particular, 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
- the perceptions of the safety, convenience and services of the lot or garage.

Unimproved Real Property.
The value of unimproved Real Property is largely a function of its potential use. The Real Property's potential use may depend on:

- its location;
- its size;
- the surrounding neighborhood; and
- local zoning laws.

Loans Secured By Mortgages On Ground Leases Create Risks Not Present When Lending On A Fee Ownership Interest In Real Property.
In order to secure a Loan, a Borrower may grant a lien on its leasehold interest in Real Property as tenant under a ground lease. If the ground lease does not provide for notice to a lender of a default by the Borrower under the lease, and a reasonable opportunity for the lender to cure the default, the lender may be unable to prevent termination of the lease and may lose its collateral. Such a result would severely and adversely impact the Direct Deed of Trust Investment relating to the Loan.

In addition, upon the bankruptcy of a landlord or a tenant under a ground lease, the debtor entity has the right to assume or reject the ground lease. If a debtor landlord rejects the lease, the tenant has the right to remain in possession of its leased premises at the rent reserved in the lease for the term, including renewals. If a debtor tenant rejects any or all of its leases, the tenant's lender may not be able to succeed to the tenant's position under the lease unless the landlord has specifically granted the lender that right. If both the landlord and the tenant are involved in bankruptcy proceedings, it is possible that you could be deprived of your security interest in the leasehold estate, notwithstanding lender protection provisions contained in the lease or Loan documents.

The Deed Of Trust May Or May Not Contain Due On Sale Provisions Accelerating The Debt Upon The Sale Of The Real Property Securing The Same.
If a Loan does contain a due on sale provision, the Real Property may be less marketable and therefore the Borrower may have difficulty repaying the Loan. However, if there is no due on sale provision, a Borrower may sell the Real Property subject to the lien of the deed of trust which may subject the Company to the risk that the knowledge and experience of the new purchaser is not equal to that of the original Borrower, thereby affecting the potential successful resale of the Real Property and impairing the chances of repayment of the Loan on maturity.

A Deed Of Trust Securing A Loan May Provide For Releases Of All Or A Portion Of The Real Property Securing A Loan Upon Payment Of A Release Price.
The Company generally intends to enter into Loans that allow releases upon prepayment of a sum equal to 120% or more of the pro rata portion of the principal amount of the Loan securing the area to be released. By allowing releases, there is a risk that over time the remaining collateral securing the Loan may not be as valuable as the remaining unpaid balance under the Loan.

You Will Have Several Options In The Event Of A Default By A Borrower On A Note.
(a) General. In the event of default by a Borrower with respect to a Loan secured by a Deed of Trust, you will have a choice of the following alternative and mutually exclusive remedies with respect to the collateral (*i.e.*, the Real Property):

- cause the power of sale under the Deed of Trust to be exercised, resulting in the Real Property being sold at a non-judicial sale as underlying Real Property to the purchaser at the sale. Such conveyance is absolute, without right of redemption and clear of all liens, claims, or Direct Deed of Trust Investments having a priority subordinate to that of the deed of trust.

(c) Judicial Foreclosure. Under Arizona law, you, as the lender, could initiate a judicial foreclosure by filing a complaint in the Superior Court of the State of Arizona in the county in which the Real Property is located. The length of time required to obtain a judgment of foreclosure largely depends on whether the action is contested by the owner of the Real Property encumbered by the deed of trust or by any person having a subordinate interest in the Real Property. In uncontested actions, a final judgment of foreclosure is often obtained in several months. In contested actions, however, a final judgment of foreclosure may not be obtained for several years.

Upon the rendering of a final judgment of foreclosure, a writ of special execution would be issued directing the property to be sold at public sale. Notice of such sale would be required to be given by posting such notice prior to the date of the sale in three public places in the county in which the Real Property is located and by publishing such notice in a newspaper of general circulation prior to the date of sale. The sale would take place at or near the courthouse door in the county in which the Real Property is located. A purchaser at the sale would acquire the right, title, interest and claim of the Borrower in the Real Property. Following the sale, the title of the purchaser is subject to rights of redemption in favor of the Borrower or his or her successors-in-interest, and junior creditors. This right of redemption may impede the ability of the purchaser to sell the Real Property prior to the expiration of the redemption period.

(d) Action on Note or Guarantee. Subject to the restrictions on a suit for a deficiency judgment or directly on a loan obligation, you may bring an action against a Borrower on a recourse Loan or any guarantors thereof, whether before, during or after a judicial or non-judicial foreclosure, for the outstanding amount under the Loan or for the deficiency, if any, which existed after a foreclosure. Any claim for a deficiency must be made within 90 days after the foreclosure and is limited to the difference between the outstanding indebtedness and the greater of the fair market value of the real estate at the time of the sale or the actual sales price. There is no assurance, however, that the Company could successfully collect the debt or that a Borrower or the guarantors will have sufficient assets to pay its obligations under a Note or their obligations under a guarantee.

(e) Restrictions. If a Loan is made for the purpose of acquiring a residence *(i.e.,* purchase money loan) located on 2.5 acres or less and the Loan is secured by a Deed of Trust on such Real Property, then the Company's only remedy is to foreclose the Deed of Trust; the Company would not be entitled to a deficiency against the Borrower. If the Loan is not made for the purpose of acquiring a residence and is secured by a Deed of Trust on such property which can be foreclosed as a mortgage *(i.e.,* judicial foreclosure) then the Company may either: (i) judicially foreclose and sue for the deficiency; or (ii) waive the foreclosure remedy and sue the Borrower personally; or (iii) do a non-judicial foreclosure, in which event the Company cannot sue for any deficiency. The foregoing restrictions have been derived from case law that is presently evolving and there are no assurances that such interpretations will not change.

The Presence Of Hazardous Waste On Real Property Securing A Loan May Impact The Ability Of The Borrower To Pay The Loan And The Decisions Of The Company In The Event Of A Default On The Loan.

The Company cannot provide you any assurance as to any environmental testing conducted on the Real Property in connection with the origination of the Loan. Moreover, the Company cannot guaranty that the results of the environmental testing were 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.

If You Are Investing Through A Pension Or Profit-Sharing Trusts, You Need To Consider The ERISA Regulations.

In considering an investment in Direct Deed of Trust Investments 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: (i) the definition of "plan assets" under ERISA and the labor regulations regarding the definition of "plan assets"; (ii) whether the investment satisfies the diversification requirements of section 404(a) of ERISA; and (iii) whether the investment is prudent, considering the nature of an investment in Direct Deed of Trust Investments. The fiduciary should also consider the fact that there is not expected to be a market created in which the fiduciary can sell or otherwise dispose of the Direct Deed of Trust Investments. (See "ERISA ASPECTS OF THE OFFERING.")

Purchase Of Direct Deed of Trust Investments By Qualified Plans Are Subject To Department Of Labor Regulations.

If you are investing through a Qualified Plan, you should be aware that under certain circumstances the United States Department of Labor or others could contend that the assets of the Borrower will be treated as assets of the Qualified Plan for purposes of testing compliance with the fiduciary responsibility 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 you, your investment in the Direct Deed of Trust Investments could result in various ERISA violations and in penalties being levied against the Qualified Plan fiduciaries, suits being brought by Qualified Plan participants or by the Department of Labor against the Qualified Plan or its fiduciaries, and a possible disqualification of any Qualified Plan investing in a Direct Deed of Trust Investment.

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MORTGAGES, LTD.

FINANCIAL STATEMENTS

Years Ended October 31, 2003 and 2002

11/02/2009

MORTGAGES, LTD.

FINANCIAL STATEMENTS

Years Ended October 31, 2003 and 2002

CONTENTS

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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, 2003 and 2002, 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

December 23, 2003
Phoenix, Arizona

MORTGAGES, LTD.

BALANCE SHEETS

October 31, 2003 and 2002

ASSETS

	2003	2002
CURRENT ASSETS		
Cash	$ 75,208	$ 140,256
Accounts receivable	54,298	19,189
Mortgages held for investment	2,182,972	910,941
Real estate held for investment	45,160	45,160
Other current assets	31,295	124,478
TOTAL CURRENT ASSETS	2,388,933	1,240,024
PROPERTY AND EQUIPMENT, net	1,664,072	1,729,669
OTHER ASSETS	32,576	24,398
TOTAL ASSETS	$ 4,085,581	$ 2,994,091

LIABILITIES AND STOCKHOLDER'S EQUITY

	2003	2002
CURRENT LIABILITIES		
Accounts payable	$ 237,233	$ 127,069
Accrued liabilities	1,320,711	1,658,797
Note payable	1,855,000	750,000
TOTAL CURRENT LIABILITIES	3,412,944	2,535,866
CAPITAL CONTRIBUTED		
Common stock, no par value, authorized 100,000 shares, issued and outstanding 3,000 shares	454,000	454,000
RETAINED EARNINGS	218,637	4,225
TOTAL STOCKHOLDER'S EQUITY	672,637	458,225
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 4,085,581	$ 2,994,091

See Accompanying Notes to Financial Statements

MORTGAGES, LTD.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended October 31, 2003 and 2002

	2003	2002
INCOME		
Origination fees	$ 5,907,727	$ 5,813,012
Servicing fees	3,692,586	4,278,237
Processing fees	1,983,150	1,407,886
Interest income	303,141	195,498
Other income	822,883	788,255
TOTAL INCOME	12,709,487	12,482,888
EXPENSES		
Payroll	4,858,168	4,397,921
General and administrative	3,390,448	3,564,975
Rents and occupancy	2,391,715	2,408,745
Employee benefits	589,952	507,666
Interest	344,816	35,732
Depreciation and amortization	223,448	194,979
Advertising and promotion	181,053	108,388
Consulting	164,463	452,906
Other expenses	281,132	283,638
TOTAL EXPENSES	12,425,195	11,954,950
NET INCOME	284,292	527,938
RETAINED EARNINGS, BEGINNING OF YEAR	4,225	331,011
STOCKHOLDER DISTRIBUTIONS	(69,880)	(854,724)
RETAINED EARNINGS, END OF YEAR	$ 218,637	$ 4,225

See Accompanying Notes to Financial Statements

MORTGAGES, LTD.

STATEMENTS OF CASH FLOWS

Years Ended October 31, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 284,292	$ 527,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	223,448	194,979
Loss on disposal of assets	-	22,045
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(35,109)	(10,321)
Other current assets	(3,546)	(103,189)
Increase (decrease) in:		
Accounts payable	110,164	(270,533)
Accrued liabilities	(338,086)	161,662
Net cash provided by operating activities	241,163	522,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of mortgages held for investment	1,097,182	1,741,346
Proceeds from sales of real estate held for investment	-	91,160
Acquisition of mortgages held for investment	(2,369,214)	(1,392,246)
Acquisition of property and equipment	(157,851)	(279,672)
Acquisition of real estate held for investment	-	(39,705)
Change in other assets	88,552	(303)
Net cash provided by (used in) investing activities	(1,341,331)	120,580
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt borrowings	1,900,000	3,694,000
Payments on short-term debt	(795,000)	(2,944,000)
Distributions paid to stockholder	(69,880)	(854,724)
Payments on long-term debt	-	(555,000)
Net cash provided by (used in) financing activities	1,035,120	(659,724)
NET CHANGE IN CASH	(65,048)	(16,563)
CASH, BEGINNING OF YEAR	140,256	156,819
CASH, END OF YEAR	$ 75,208	$ 140,256
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 344,816	$ 35,732

MORTGAGES, LTD.

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 2003 and 2002

(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. The *Company* is Arizona's oldest and largest private mortgage banker with a loan-servicing portfolio exceeding $400 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:

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 those 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 maturites of three months or less.

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. 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, 2003 and 2002 to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Depreciation and amortization – Depreciation and amortization of property and equipment are computed by accelerated and straight-line methods over the following estimated useful lives:

Leasehold improvements	5 – 40 years
Furnishings and office equipment	5 – 10 years
Computer hardware and software	3 – 5 years
Vehicles	5 years

Recognition of income – 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, miscellaneous fees, and are recognized when the associated fees are received.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense was $181,053 for 2003 and $108,388 for 2002.

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 $271,935,000 at October 31, 2003 and $201,600,000 at October 31, 2002. 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 $9,173,000 at October 31, 2003 and $8,400,000 at October 31, 2002. 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) Mortgages held for investment

Mortgages held for investment represent mortgages originated by the *Company* with interest rates ranging from 8.0% to 14.75% and terms up to twelve years and held temporarily for investment purposes. The mortgages are collateralized by real property and carried at book value, which management considers to approximate market value. Mortgages held for investment are generally sold to other investors at book value.

(4) Real estate held for investment

Real estate held for investment represents real property purchased by the *Company* and held temporarily for investment purposes. The properties are carried at cost and gains or losses related to the real estate sold are recorded as other income (expense).

(5) Property and equipment

Property and equipment consist of:

	2003	2002
Cost:		
Leasehold improvements	$ 1,450,214	$ 1,435,814
Furnishings and office equipment	797,876	665,218
Computer hardware and software	219,331	208,538
Vehicles	36,000	36,000
Total cost	2,503,421	2,345,570
Accumulated depreciation and amortization	(839,349)	(615,901)
Net property and equipment	$ 1,664,072	$ 1,729,669

Depreciation and amortization expense was $223,448 for 2003 and $194,979 for 2002.

(6) Note payable

Note payable consists of a $2,000,000 unsecured line of credit with a bank, personally guaranteed by the sole stockholder of the *Company*, with interest payable monthly at the Wall Street Journal prime rate (4.0% at October 31, 2003), maturing on October 31, 2004. At October 31, 2003, the *Company* had an outstanding balance on the line of credit of $1,855,000.

(7) Other income (expense)

Other income consists of:	2003	2002
Construction administration fees	$ 225,850	$ 185,350
Rental fees	157,157	122,566
Inspection fees	81,676	90,215
Prepayment fees	51,613	141,984
Servicing set-up fees	48,075	54,900
Credit analysis income	2,970	23,648
Loss on disposal of investments	-	(22,045)
Other fees and miscellaneous	255,542	191,637
Total other income (expense)	$ 822,883	$ 788,255

(8) Operating lease commitments

The *Company* leases various properties from entities controlled by the *Company's* sole stockholder under operating lease agreements expiring between 2018 and 2022. Total lease expense for these properties was $1,570,931 for 2003 and $494,495 for 2002. Subsequent to October 31, 2002, the *Company* entered into two lease agreements for properties leased from an entity controlled by the *Company's* sole stockholder.

The *Company* leases vehicles from the sole stockholder under operating lease agreements expiring in 2003. Rental expense under these leases was $60,092 for 2003 and $62,400 for 2002.

The *Company* leased office space for three months during 2003. The *Company* also leases copiers and a postage machine from unrelated third parties under operating leases expiring between 2004 and 2010. Rental expenses under these leases were $364,597 for 2003 and $288,440 for 2002.

Minimum future rental commitments under noncancelable leases having remaining terms in excess of one year at October 31, 2003 are as follows:

Years Ending October 31,	Related Party	Other	Total
2004	$ 1,942,280	$ 28,257	$ 1,970,537
2005	1,895,238	24,924	1,920,162
2006	1,925,795	24,924	1,950,719
2007	1,956,954	24,924	1,981,878
2008	1,988,728	-	1,988,728
Subsequent to 2008	44,737,558	-	44,737,558
Total minimum future rental payments	$ 54,521,477	$ 103,029	$ 54,624,506

In the normal course of business, operating leases are generally renewed or replaced by other leases.

(9) Employee benefit plan

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 $31,012 for 2003 and $27,223 for 2002. The *Company* made discretionary contributions of $325,000 for 2003 and 2002.

(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 2003 and 2002, the agreement specified that payments may be required on demand by the related party licensor. A payment was demanded by the licensor of $2,204,250 during 2003 and $2,281,000 in 2002. At October 31, 2002, license fees of $500,000, included in accrued liabilities on the accompanying balance sheet, were due to the related party entity.

The *Company* has also incurred losses on properties initially purchased by the *Company* and sold to a related party. These properties were held during 2002 by the related party and certain investor pools. Certain improvements were completed on the properties in order for the properties to be saleable. The total amount of these losses incurred during 2002 was $879,316.

The *Company* also paid insurance on behalf of an entity controlled by the *Company's* sole stockholder in the amount of $71,342 in 2003 and $45,373 in 2002.

The *Company* has various lease agreements with related parties as disclosed in Note 9.

(11) Concentrations of credit risk

Financial instruments that potentially subject the *Company* to concentrations of credit risk consist principally of cash deposits in banks and temporary investments in mortgage loans. The *Company* places its cash deposits with quality financial institutions and generally limits the amount of credit exposure to the amount of the Federal Deposit Insurance Corporation (FDIC) coverage of $100,000. For cash deposits that exceed the FDIC coverage, the *Company* acquires additional insurance coverage.

The *Company* also maintains investments in mortgage loans. Collateral for such loans consists of real estate with estimated fair market values in excess of the loan balances.