

## FOOTHILL MORTGAGE FUND OF OLYMPIA, LLC

**Up to \$50,000,000 of Class B Membership Interest Units (“Units”) at \$1.00 per Unit<sup>1</sup>**  
**Initial Minimum Cash Subscription: 25,000 Units (\$25,000)<sup>2</sup>**

Foothill Mortgage Fund of Olympia, LLC (“**FMF**” or the “**Fund**”) is a California limited liability company whose sole manager is Olympia Mortgage & Investment Company, Inc. (the “**Manager**”). FMF has been organized for the purpose of making or investing in loans secured by deeds of trust encumbering real estate located primarily in California. FMF loans will be secured primarily by first priority deeds of trust encumbering improved residential, commercial, industrial, multi-family and mixed use properties. (See “Fund Business and Lending – Lending Standards and Policies” and “Risk Factors – Risks Related to FMF’s Business”) FMF may also make or invest in construction or rehabilitation loans made for the purpose of constructing, rehabilitating or otherwise improving the commercial or residential real property securing the loan (“**Construction/Rehab Loans**”) and a limited amount of loans secured by junior deeds of trust (“**Junior Loans**”) and/or loans secured by unimproved properties (“**Land Loans**”). (See “Risk Factors – Risks Related to FMF’s Business” and “Risks Related with Construction/Rehab Loans.”) The Manager is a licensed California real estate broker and will arrange and service all Fund loans. (See “The Manager and its Affiliates,” and “Risk Factors – Risks Related to the Manager.”)

FMF currently has two outstanding classes of membership interests and is governed by the terms and conditions set forth in FMF’s Operating Agreement dated May 2, 2011, a copy of which is attached hereto as Exhibit A (as amended, the “**Operating Agreement**”). Units being offered pursuant to this Offering Circular represent an investment in “Class B” membership interests (“**Class B Interests**”) and purchasers of Units will become Class B members of FMF (the “**Class B Members**” or “**Investor Members**”). Proceeds from the sale of Units will be used to make or purchase loans or fractional interests in loans that meet the lending requirements outlined herein (“**New Loans**”) and for other proper Fund purposes. (See “Fund Business and Lending – Lending Standards and Policies” and “Use of Proceeds.”) A separate class of membership interest, designated the “Class A Interest” (the “**Class A Interest**” or “**OMF Interest**”) has been issued, and is currently held by, Olympia Mortgage Fund, LLC, a California limited liability company (“**OMF**”), an affiliated mortgage fund also managed by the Manager. The Class A Interest was issued to OMF in exchange for contributing FMF’s initial capital in the form of: (i) cash in the amount of \$75,000 (the “**Initial Cash Contribution**”); and (ii) the assignment of twelve (12) loans (the “**Initial Loans**”) with an aggregate par value of \$5,751,119 (the “**Initial Loan Contribution**”). (See, “Terms of the Offering – Membership Classes” and “Fund Business and Lending – Initial Loan Portfolio.”) All interest payments collected by FMF, whether attributable to the Initial Loans or the New Loans, will be payable to both OMF and the Class B Members, pro rata, based upon their relative capital account balances; however, payments received by FMF attributable to the repayment of principal on the Initial Loans (“**Initial Loan Principal Payments**”) will be allocated and distributed 100% to OMF (“**Initial Loan Principal Distributions**”) and payments received by FMF attributable to the repayment of principal on all New Loans (“**New Loan Principal Payments**”) will be allocated 100% to the Investor Members in accordance with their relative capital account balances. FMF is required to distribute OMF’s entire Initial Cash Contribution on or before May 16, 2013 and FMF has other rights and obligations not applicable to the Class B Interests. (See “Terms of the Offering – Membership Classes” and “Summary of the Operating Agreement – Additional Rights and Obligations of OMF.”)

**AN INVESTMENT IN UNITS INVOLVES SIGNIFICANT RISKS, DESCRIBED IN DETAIL IN THIS OFFERING CIRCULAR. See “Risk Factors” beginning on page 9 for certain factors investors should consider before buying Units.** Significant risks include the following: (i) investment in Units is subject to substantial withdrawal restrictions and investors will have a limited ability to liquidate their investment in FMF; (ii) the transfer of Units is restricted and no public market for Units exists or is likely to develop; (iii) the Manager is entitled to various forms of compensation and is subject to certain conflicts of interest; and (iv) Investor Members will have no right to participate in the management of FMF and will have only limited voting rights.

| Investment Class Offering | Price to Investors | Selling Commissions <sup>3</sup> | Net Proceeds to FMF <sup>4</sup> |
|---------------------------|--------------------|----------------------------------|----------------------------------|
|---------------------------|--------------------|----------------------------------|----------------------------------|

<sup>1</sup> The maximum of the offering may be increased by the Manager at any time.

<sup>2</sup> The initial minimum cash subscription amount is 25,000 Units (i.e., \$25,000) with a minimum subscription of 1,000 Units (i.e., \$1,000) thereafter; however, the Manager may accept subscriptions in lesser amounts in its sole discretion. These minimums are also not applicable to Rollover Subscriptions made by existing members of OMF. (See “Terms of the Offering – Subscription for Units and Admission to FMF.”)

<sup>3</sup> Units will be offered and sold directly by the Manager and employees of the Manager who will not receive selling commissions or other compensation from FMF in connection with the sale of Units. Units may be offered and sold by independent broker-dealers. Any such brokers will receive a commission payable by the Manager. There is no firm commitment to purchase or sell any of the Units.

|               |              |     |              |
|---------------|--------------|-----|--------------|
| Per Unit      | \$1.00       | \$0 | \$1.00       |
| Maximum Total | \$50,000,000 | \$0 | \$50,000,000 |

**Manager:**  
**OLYMPIA MORTGAGE & INVESTMENTS, INC.**

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Grass Valley, California 95945  
(530) 272-3030 • [www.omici.com](http://www.omici.com)

*The date of this Offering Circular is May 2, 2011*

**Prospective purchasers of Units should read this Offering Circular in its entirety prior to investing.**

THESE SECURITIES ARE BEING OFFERED AND SOLD ONLY TO RESIDENTS OF THE STATE OF CALIFORNIA PURSUANT TO A PERMIT GRANTED BY THE CALIFORNIA COMMISSIONER OF CORPORATIONS. THE COMMISSIONER OF CORPORATIONS DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF THESE SECURITIES, NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OF THE INFORMATION SET FORTH HEREIN.

THE SALE OF UNITS COVERED BY THIS OFFERING CIRCULAR HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS PROVIDED FOR UNDER SECTION 3(a)(11) OF THE ACT AND RULE 147 THEREUNDER RELATING TO INTRASTATE OFFERINGS. ACCORDINGLY, THESE UNITS ARE BEING OFFERED SOLELY TO CERTAIN SELECTED RESIDENTS OF THE STATE OF CALIFORNIA, AND NON-U.S. CITIZENS WHO ARE RESIDENTS OF A FOREIGN NATION, WHO MEET THE SUITABILITY STANDARDS DESCRIBED HEREIN. THIS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY WITH RESPECT TO ANY OTHER PERSON. FURTHERMORE, FOR A PERIOD OF NINE MONTHS FROM THE TERMINATION OF THIS OFFERING, NO UNITS MAY BE SOLD OR OTHERWISE TRANSFERRED EXCEPT TO PERSONS WHO WERE ELIGIBLE TO PURCHASE UNITS IN THE INITIAL OFFERING.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY IN ANY STATE OTHER THAN THE STATE OF CALIFORNIA OR WITH RESPECT TO ANY PERSON WHO IS NOT EITHER A BONA FIDE RESIDENT OF CALIFORNIA OR A NON-U.S. CITIZEN WHO IS A RESIDENT OF A FOREIGN NATION. NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY WITH RESPECT TO ANY PERSON EXCEPT THOSE PARTICULAR PERSONS WHO SATISFY THE SUITABILITY STANDARDS DESCRIBED HEREIN. (SEE "INVESTOR SUITABILITY STANDARDS.")

THERE IS NO MARKET FOR UNITS, AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. SUMS INVESTED IN FMF ARE ALSO SUBJECT TO SUBSTANTIAL RESTRICTIONS ON WITHDRAWAL AND TRANSFER, AND THE UNITS OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFERING CIRCULAR, AND ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON. ANY PROSPECTIVE PURCHASER OF UNITS WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE MANAGER IMMEDIATELY TO CHECK ITS ACCURACY. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALES

<sup>4</sup> "Net Proceeds to FMF" are calculated before deducting organizational and offering expenses, including without limitation legal and accounting expenses, reproduction costs, selling expenses and filing fees paid to the California Department of Corporations. (See "Use of Proceeds.")

HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF FMF SINCE THE DATE HEREOF.

PROSPECTIVE PURCHASERS SHOULD NOT REGARD THE CONTENTS OF THIS OFFERING CIRCULAR OR ANY OTHER COMMUNICATION FROM FMF AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH POTENTIAL INVESTOR IS ENCOURAGED TO CONSULT WITH HIS OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONAL WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO HIS OWN TAX SITUATION, PRIOR TO SUBSCRIBING TO A MEMBERSHIP INTEREST IN FMF.

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### EXHIBITS

Exhibit A – Operating Agreement

Exhibit B – Subscription Agreement and Power of Attorney

**SUMMARY OF THE OFFERING**

The following information is only a brief summary of the offering, and is qualified in its entirety by the information appearing elsewhere in this Offering Circular. A thorough examination of the entire Offering Circular is recommended.

Fund Objectives ..... FMF is a California limited liability company formed for the purpose of making or investing in business purpose loans and Construction/Rehab Loans primarily secured by deeds of trust on California real estate. (See “Fund Business and Lending – Lending Standards and Policies.”)

FMF’s objectives are to provide the opportunity for the Members to earn income from interest paid by borrowers on Fund loans; (2) to protect and preserve Fund capital (3) provide cash distribution to Electing Members; and (4) redeem the OMF Interest within the Liquidity Period. There is no guaranty that each of these objectives will be met.

Membership Classes ..... Membership interests in FMF are comprised of Class B Interests and Class A Interests. Units offered hereby represent Class B Interests in FMF and purchasers of Units will be admitted to FMF as Class B Members, only. The Class A Interest has been issued to, and will be held by, OMF, only, and will be redeemed by FMF over time from Initial Loan Principal Distributions derived from the Initial Loans contributed by OMF and potentially from other redemption provisions applicable to the Class A Interest. (See, “Terms of the Offering – Membership Classes” and “Summary of the Operating Agreement.”)

Allocations of Loan Proceeds ..... Prior to the full redemption of the Class A Interest, all principal and interest payments collected on Fund loans will be allocated to the Members, as follows: (i) all Initial Loan Principal Payments received by FMF will be allocated 100% to OMF as Initial Loan Principal Distributions; (ii) all New Loan Principal Payments received by FMF will be allocated 100% to the Class B Members in accordance with the Class B Members’ relative capital account balances); and (iii) all interest payments collected by FMF on either the Initial Loans or the New Loans will be allocated among all Members based upon the relative capital account balances of all

Members.

Following the full redemption of the Class A Interest and the withdrawal of OMF's Initial Cash Contribution, Class B Interests will be FMF's sole membership Class and income from any source will be allocated among the Class B Members, pro-rata in accordance with their relative capital account balances. (See "Terms of the Offering – Membership Classes" and "Summary of the Operating Agreement.")

|  |   |
|--|---|
| Capitalization .....                             | A maximum of \$50,000,000 of Class B Interests (subject to increase by the Manager). Such capitalization is in addition to the Initial Cash Contribution and the Initial Loan Contribution made by OMF in exchange for the Class A Interest.  |
| Term of FMF.....                                 | Indefinite. (See "Summary of Operating Agreement – Term of FMF.")   |
| Manager, Mortgage Broker and Loan Servicer ..... | Olympia Mortgage & Investment Company Inc.<br>1740 East Main St. Suite 102<br>Grass Valley, California 95945<br>(530) 272-3030 • <a href="http://www.omici.com">www.omici.com</a>   |
| Prior Experience.....                            | The Manager has substantial prior experience in the mortgage industry including managing OMF. (See "The Manager and Its Affiliates.")   |
| Compensation to Manager and Its Affiliates ..... | The Manager will receive fees and other forms of compensation. (See "Compensation to Manager and Its Affiliates.")  |
| Suitability Standards .....                      | Units are offered exclusively to investors who are California residents who meet certain minimum standards of income and/or net worth. Qualified investors admitted to FMF (including existing members of OMF purchasing Units) will become Class B Members. (See "Investor Suitability Standards" and "Terms of the Offering – Subscribing for Units and Admission to FMF.") |
| Mortgage Loan Portfolio.....                     | Fund loans will be secured primarily by first priority deeds of trust on construction/rehab, improved residential properties, improved commercial, industrial, multi-family and mixed use properties. FMF also may make Junior Loans (i.e., loans secured by junior deeds of trust or   |

Land Loans (i.e., loans secured by unimproved properties, including fully entitled, partially entitled, unentitled or agricultural land); however, Land loans and Junior Loans will each be limited to 10% of FMF's total loan portfolio at the time such loans are made. (See "Fund Business and Lending – Lending Standards and Policies.") New Loans will be made while this offering is continuing.

Cash Distributions.....

Investor Members have the choice of (1) regular monthly cash distributions of their share of income, or (2) income credited to capital account and retained by FMF for further investment. An investor may elect to switch from one of these options to the other only upon 90 days' written notice to the Manager. OMF's interest income will be distributed to OMF on a monthly basis and Initial Loan Principal Distributions will be made to OMF at intervals determined by the Manager.

The Manager, in its sole and absolute discretion, reserves the right to commence making cash distributions at any time to previously compounding ERISA investors in order for FMF to remain exempt from the ERISA plan asset regulations. (See "ERISA Considerations" and "Summary of Operating Agreement – Cash Distributions.")

Withdrawal.....

Investor Members have no right to demand the withdrawal of all or a portion of their investment for twelve (12) months after the date of their purchase of Units. Thereafter, withdrawals from FMF will be subject to cash flow and other restrictions. (See "Summary of Operating Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of Units.")

Withdrawal of OMF's Initial Cash Contribution is not subject to the twelve (12) month holding period applicable to Investor Members and the Manager is required to distribute the full amount of OMF's Initial Cash Contribution to OMF on or before May 16, 2013 and may give OMF priority over Investor Members with respect to withdrawal distributions if, in the Manager's sole discretion, such priority is necessary to liquidate OMF's Class A Interest by such date. FMF may utilize money from new subscriptions to fund Investor Member withdrawals but may not utilize new

subscription money to fund the return of OMF's Initial Cash Contribution. (See "Summary of Operating Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of Units.")

Restrictions on Transfers ..... There are substantial restrictions on transferability of Units under federal and state securities laws and under the Operating Agreement. (See "Terms of Offering – Restrictions on Transfer" and "Risk Factors – Risks Related to Ownership of Units.")

Liquidity..... The purchase of Units is an illiquid investment. There is no public market for Units and none is expected to develop in the foreseeable future and an investor's withdrawal of invested capital is limited by Fund cash flow and other restrictions. (See "Risk Factors – Risks Related to Ownership of Units.")

Reports to Investors ..... Annual reports, including audited financial statements.

Risks..... An investment in Units is subject to certain risks which should be carefully evaluated before an investment in Units is made. (See "Risk Factors.")

Voting ..... Members will have no right to vote on matters concerning FMF except as expressly granted in the Operating Agreement or required by law. All voting rights granted to the members in the Operating Agreement require the affirmative vote of Members representing a majority of the total outstanding membership interests including the interest of OMF; however, any vote by OMF will be subject to, and directed by, the approval of a majority interest of OMF Members. (See "Risk Factors – Risks Related to Ownership of Units" and "Summary of Operating Agreement – Rights and Liabilities of Members.")

Conflicts of Interest..... FMF's business operations will be managed by the Manager which has and will have certain conflicts of interest. (See "Conflicts of Interest.")

**INVESTOR SUITABILITY STANDARDS**

Units are being offered to a limited number of qualified investors including the existing members of OMF ("OMF Members"). To purchase Units an investor must execute a Subscription Agreement in the form attached hereto as Exhibit B. (See "Terms of the Offering – Subscribing for Units and Admission to

FMF.”) All investors, including all OMF Members purchasing Units, must meet certain eligibility and suitability standards at the time of subscription, some of which are set forth below. By executing the Subscription Agreement, an investor makes certain representations and warranties, upon which the Manager will rely in accepting subscriptions. Read the Subscription Agreement carefully. Each investor must represent in writing that such investor is a bona fide resident of the State of California or non-U.S. citizen who resides in a foreign nation (or if the investor is a trust, corporation or other entity, that the principal office of such trust, corporation or other entity is located in California or a foreign nation). In addition:

1. Each Investor must have either (a) a net worth (exclusive of home, furnishings and automobiles) of at least \$250,000 and an annual gross income of at least \$65,000; or (b) a net worth (exclusive of home, furnishings and automobiles) of at least \$500,000; and

2. The amount of each investor’s investment in Units offered hereby must not exceed 10% of such investor’s net worth (exclusive of home, furnishings and automobiles).

3. If the investor is an ERISA Plan (such as a pension or profit sharing plan, Individual Retirement Account, or 401(k) plan), the foregoing requirements must be met by either the ERISA Plan itself or, if the investment is being made on behalf of a plan participant who has the power to direct the investment on his or her behalf, by the plan participant for whose account the investment is being made.

4. If the investor is a fiduciary account other than an ERISA Plan (such as a family trust or a custodial account for the benefit of a minor), the foregoing suitability standards may be met by any of the following: (i) by all beneficiaries of the account; (ii) by the trustee or custodian if that person is the donor of FMFs for investment; or (iii) by the donor of FMFs for investment if the only beneficiaries of the fiduciary account are the donor’s ancestors, descendants or spouse.

### **TERMS OF THE OFFERING**

Units may be purchased by new investors and OMF Members that meet the Investor Suitability Standards set forth above. The Unit subscription price for all investors is \$1.00 per Unit. Each Unit of investment represents a \$1.00 Investment Class Membership interest in FMF. OMF and Investor Members are collectively referred to herein as the “**Members.**”

#### **Formation of FMF; Maximum Offering**

FMF was formed on February 11, 2011 upon the filing of the Articles of Organization with the Office of the California Secretary of State; however, FMF did not commence operations until on or about May 16, 2011 when FMF obtained its initial capital from OMF in the form of the Initial Cash Contribution and the Initial Loan Contribution (the “**Initial Capital**”).

The maximum capitalization of FMF, exclusive of the Initial Capital, is \$50,000,000 (50,000,000 Units). The maximum may be increased by the Manager at any time. This offering may also be terminated at the option of the Manager at any time, but in no event later than one year from the date of this Offering Circular, unless the offering permit issued by the California Commissioner of Corporations is thereafter extended.

#### **Membership Classes**

FMF currently has two outstanding membership classes comprised of: (i) the Class B Interests being offered as Units; and (ii) the Class A Interest held by OMF. On or about January 27, 2011, the

Manager and OMF Members elected to dissolve and wind down OMF and commenced a five-year liquidation period which will terminate on January 26, 2016, unless such date is extended by a majority interest of FMF Members (the “**Liquidation Period**”). (See “The Manager and its Affiliates – Olympia Mortgage Fund, LLC.”) On or about May 16, 2011 the Class A Interest was issued to OMF in exchange for the Initial Capital as part of the liquidation plan approved by OMF Members which was designed, in part, to give electing OMF Members the opportunity to reinvest their OMF liquidation distributions in this Fund.

The Class A Interest held by OMF and the Class B Interests offered hereby are identical with the exception of the following rights and obligations material to each such class: (i) all Initial Loan Principal Payments received by FMF will be allocated and distributed 100% to OMF and all New Loan Principal Payments will be allocated 100% to the Investor Members and re-invested in New Loan investments or utilized for other proper Fund purposes (see “Summary of Operating Agreement – Cash Distributions,” and “Use of Proceeds”); (iii) OMF is required to re-acquire any Non-Performing Initial Loan as such item is defined in the section of this Offering Circular entitled, “Summary of the Operating Agreement – additional Rights and Obligations of OMF”; (iv) each Initial Loan Principal Distribution made to OMF and the outstanding principal balance of any Non-Performing Initial Loan re-acquired by OMF (if any) will redeem and reduce OMF’s Class A Interest on a dollar-for-dollar basis; (v) OMF is not subject to the twelve (12) month holding period applicable to Investor Members and the Manager is required to distribute OMF’s entire Initial Cash Contribution within 24 months of OMF’s admission to the Fund (i.e. May 16, 2013 (the “**Redemption Deadline**”)); and (vi) the Manager may, in its discretion, give priority to withdrawal distributions payable to OMF over the withdrawal requests of Investor Members if the Manager deems such distributions necessary to distribute the Initial Cash Contribution to OMF on or before the Redemption Deadline (see “Summary of Operating Agreement – Withdrawal from Fund”).

Following the complete redemption of the Class A Interest and the final distribution of OMF’s Initial Cash Contribution, OMF will cease being a member of FMF and Class B Interests will be FMF’s sole membership interests class.

### **Subscribing for Units and Admission to FMF**

Units may be purchased at the rate of \$1.00 per Unit by completing the Subscription Agreement and Power of Attorney attached hereto as Exhibit B (the “**Subscription Agreement**”) and delivering the executed Subscription Agreement to the Manager. Units may be purchased with cash or, in the case of OMF Members electing to purchase Units (“**Rollover Investors**”), by directing the Manager to utilize all or a portion of the liquidation distributions payable to a Rollover Investor by OMF to purchase Units in FMF.

### ***Cash Subscriptions***

Any potential investor including OMF Members, may purchase Units for cash by completing and executing the Subscription Agreement and delivering the Subscription Agreement to the Manager together with the purchase price payable for Units (“**Cash Subscriptions**”). The minimum initial Cash Subscription amount is \$25,000 (i.e., 25,000 Units); provided, however, that the Manager may, in its sole discretion, accept Cash Subscriptions in lesser amounts. Cash Subscriptions will be accepted or rejected by the Manager promptly after receipt. The Manager reserves the right to reject any Cash Subscription submitted for any reason. If accepted, the Manager may, in its discretion, admit an investor submitting a Cash Subscription (a “**Cash Subscriber**”) to the Fund only when all, or any portion, of the Cash Subscriber’s subscription funds are required by FMF to invest in a mortgage loan, to create appropriate reserves or for any other proper Fund purpose at which time all or a portion of the Cash Subscription funds will be transferred to FMF. (See “Use of Proceeds.”) A Cash Subscriber’s subscription is

irrevocable, and Cash Subscription funds received by the Manager may be held by it for the account of each Cash Subscriber in a non-interest-bearing subscription account (the “**Subscription Account**”). Cash Subscription funds will be transferred from the subscription account into FMF on a first-in, first-out basis, at which time the Cash Subscriber will be admitted to FMF and Units will be issued to such Cash Subscriber at the rate of \$1.00 per Unit.

Cash Subscriptions are non-cancelable and irrevocable and Cash Subscription funds are non-refundable for any reason, except with the consent of the Manager. Notwithstanding the preceding sentence, Cash Subscription funds remaining in the subscription account after the expiration of 65 days from the first day of the month following the date the subscription funds were received from the investor will be returned to the investor. After having subscribed for at least 25,000 Units (\$25,000), an investor may at any time, and from time to time, submit additional Cash Subscriptions to purchase additional Units subject to a minimum subscription amount of \$1,000 (or 1,000 Units), subject to the Manager’s right to accept lesser additional Cash Subscription amounts in its discretion.

### ***Rollover Subscriptions***

In addition to purchasing Units for cash, OMF Members receiving monthly income and periodic liquidating distributions from OMF (“**Liquidation Distributions**”) may purchase Units by directing the Manager to utilize all or a portion of such Liquidating Distributions to purchase of Units on their behalf (a “**Rollover Subscription**”). Rollover Subscriptions may be made by indicating the percentage of each Liquidation Distribution to be applied to such purchase in the “Rollover Subscription Election” section of the Subscription Agreement. The \$25,000 initial and \$1,000 subsequent minimum subscription amount applicable to Cash Subscriptions is not applicable to Rollover Subscriptions and Rollover Investors may elect to have less than 100% of each Liquidation Distribution applied to the purchase of Units by indicating such lesser percentage in the Subscription Agreement. Any Liquidation Distributions in excess of such percentage will be distributed to the Rollover Investor in accordance with OMF’s Operating Agreement or any other agreement between Manager and the Rollover Investor in connection with such distributions.

Rollover Investors must meet the Investor Suitability Standards set forth above at the time the Rollover Subscription is submitted and the Rollover Investor authorizes the application of future Liquidation Distributions to the purchase of Units. The Manager reserves the right to reject any Rollover Subscription submitted for any reason. Rollover Subscriptions received from Rollover Investors will be accepted or rejected by the Manager promptly after receipt. If accepted, a Rollover Investor will become an Investor Member at the time the first Liquidation Distribution is made and transferred into FMF and Units are issued in the Rollover Investor’s name. Thereafter, the designated percentage of each Liquidation Distribution will be applied to the purchase of Units by the Manager at the time each Liquidation Distribution is made unless and until a maximum number of Units identified in the Subscription Agreement have been issued or the Rollover Subscription is cancelled. Each Liquidation Distribution will be transferred to FMF and Units will be issued to the Rollover Investors at one time following each Liquidation Distribution and the Manager may delay transferring the aggregate Rollover Subscription amounts until all or a large portion of such amount is needed by FMF to invest in a mortgage loan, to create appropriate reserves or to pay organizational expenses. (See “Use of Proceeds – Proceeds from the Sale of Units.”) Until then, Rollover Investors’ funds may be held by the Manager for the account of the Rollover Investor in the Subscription Account and only upon the transfer of all Rollover Investors’ funds from the Subscription Account into FMF will Units will be issued to such investors at the rate of \$1.00 per Unit. Rollover Subscriptions payable from future Liquidation Distributions are cancelable by the Rollover Investor or the Manager at any time prior to the transfer of the Liquidation Distribution to FMF and the issuance of Units to the Rollover Investor.

### **Use of Subscriptions to Pay Pending Withdrawal Requests**

Subscription amounts transferred into FMF may be utilized by the Manager for any proper Fund purpose, including funding New Loans, creating appropriate reserves or paying proper Fund expenses. Additionally, the Manager may accept subscriptions for the purpose of fulfilling Investor Members' withdrawal requests if at the time of receipt of a subscription there is a "waiting list" for withdrawals from FMF. (See "Summary of Operating Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of the Units.") Investors should ask the Manager about the aggregate amount of the then-current waiting list for withdrawals and the anticipated waiting period (if any) if that information would be a factor in determining whether to invest in Units. No subscriptions will be accepted by the Manager for the purpose of funding the withdrawal of OMF's Initial Cash Contribution.

### **Election to Receive Monthly Cash Distributions**

Upon subscription for Units, an investor must elect whether to receive monthly cash distributions from FMF or to allow his or her earnings to compound for the term of FMF. An investor may elect to switch from compounding to monthly distributions upon 90 days' prior notice to the Manager. In addition, if there is in effect a permit issued by the California Commissioner of Corporations qualifying this offering, an investor may switch from receiving monthly distributions to compounding and reinvesting earnings upon 90 days' prior notice to the Manager. Notwithstanding the foregoing, the Manager reserves the right, at any time, to immediately commence making monthly cash distributions to ERISA plan investors who previously compounded earnings in order to ensure that FMF remains exempt from the Plan Asset Regulations pursuant to the "significant participation" exemption. (See "ERISA Considerations.") Moreover, Rollover Investors electing to receive monthly cash distributions will, nonetheless, have their earnings compounded until their aggregate Rollover Subscriptions, plus any Cash Subscriptions submitted by a Rollover Investor and all compounded earnings thereon are satisfactory to establish a minimum capital account balance of \$5,000.

All earnings payable to OMF and those members electing to receive monthly distributions (other than Rollover Investors prior to establishment of a \$5,000 capital account balance) will be distributed on a monthly basis and all income allocable to investors who elect to compound their earnings (and income payable to Rollover Investors prior to establishment of the \$5,000 capital account balance) will be retained by FMF for investing in New Loans or other proper Fund purposes. The income from the New Loans will be allocated among all Fund Members (including OMF); however, investors who compound will be credited with a larger proportionate share of such earnings than OMF and the Investor Members who receive monthly distributions since the capital accounts of compounding Investor Members will increase over time. (See "Summary of Operating Agreement – Capital Account Maintenance.")

The amount of monthly distributions made to OMF and Investor Members electing such distributions will be based upon each such Member's allocable share of FMF's monthly net income. Net income calculations will necessarily be based upon the Manager's good faith estimate of FMF's income and liabilities (including estimated reserves for New Loan losses) as of the month for which the distribution is made. Such estimates are unaudited until after the end of each calendar year and are subject to subsequent adjustment over the course of the year to reflect losses or gains realized by FMF in later months. (See "Risk Factors – Risks Related to Ownership of Units.")

### **Restrictions on Transfer**

As a condition to this offering of Units, restrictions have been placed upon the ability of investors to resell or otherwise dispose of any Units purchased hereunder, including without limitation the following:

(1) No Member may resell or otherwise transfer any Units without the prior written consent of the Manager, which may be withheld in its sole discretion. (See “Summary of Operating Agreement -- Limitations on Transferability.”)

(2) Units may not be sold or transferred without the prior written consent of the California Commissioner of Corporations, except as permitted by the Commissioner’s Rules. (See “Commissioner’s Rule 260.141.11.”)

(3) During the period that Units are being offered and sold and for a period of nine months from the date of the last sale of Units, no Units may be sold or otherwise transferred to any person who is not a bona fide resident of the State of California.

Legends substantially set forth in the forms below will be placed upon all instruments or certificates evidencing ownership of Units in FMF stating that the Units have not been registered under the Securities Act of 1933, as amended, and setting forth the foregoing limitations on resale, and notations regarding these limitations shall be made in the appropriate records of FMF with respect to all Units offered hereby. The foregoing steps will also be taken in connection with the issuance of any new instruments or certificates for any Units which are presented to the Manager for transfer during the nine-month period described in subparagraph (3) above.

Certificates shall bear the following legends:

THE UNITS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”). SUCH INTERESTS MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED TO ANY PERSON AT ANY TIME IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH UNITS UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE MANAGER OF FMF TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED. IN ADDITION, IN NO EVENT MAY UNITS BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED TO ANY PERSON WHO IS NOT A RESIDENT OF CALIFORNIA FOR A PERIOD OF NINE MONTHS FROM THE DATE OF THE LAST SALE THEREOF BY FMF.

IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED BY THE COMMISSIONER’S RULES.

### **RISK FACTORS**

Any investment in the Units involves a significant degree of risk and is suitable only for investors who have no need for liquidity in their investments or who can bear the loss of their entire investment. When analyzing this offering, prospective investors should carefully consider the following risks and other factors, in addition to those discussed under the captions “Compensation to Manager and its Affiliates,” “Conflicts of Interest,” and “Federal Income Tax Consequences.” If any of these risks

actually occur, the business, financial condition and operating results of FMF could be materially adversely affected.

### **Risks Related To FMF's Business**

#### ***FMF will be subject to risks related to high-yield mortgage loans.***

FMF does not intend to make the type of loans that resulted in the “sub-prime mortgage” collapse in 2007-2008 because it will not make loans with such high loan-to-value ratios. FMF may, however, make or invest in loans to borrowers that are less creditworthy than those who can satisfy institutional lenders’ credit requirements or who cannot satisfy institutional lenders’ income documentation requirements, which are reasons FMF can charge much higher interest rates on its loans. (See “Fund Business and Lending – Lending Standards and Policies.”)

Asset-based loans involve numerous risks, some of which include: (i) an increased risk of the non-availability of credit for a borrower to refinance a Fund loan at maturity; (ii) an increased risk of foreclosures in the area surrounding the security property negatively affecting the value of the property securing a Fund loan; (iii) increased constraints on consumer credit affecting the ability of borrowers to sell residential property; and (iv) increased risk of an abandonment of property by a borrower due to other financial problems or general market decline. The occurrence of any of these events for a borrower could lead to a default on a Fund loan, potentially causing losses and extra costs to FMF, which may lead to lower returns or losses for investors. These risks further increase in the case of Construction/Rehab Loans that are underwritten based upon the “as completed” value of the security property. (See “Risks Related to Construction/Rehab Loans” below.)

#### ***The real estate market is experiencing stagnation and declines in property values.***

During the present real estate market decline, the most dramatic and well-publicized declines in property values (and the largest loan losses) occurred in the single-family residential sector; however, commercial and other property categories are also experiencing declines in value and a slow-down in sales volume. It is impossible to forecast how significant such declines will be or how long the stagnation of the real estate market or the economy generally will continue. If the market value of a property securing a new Fund loan declines significantly or declines below the amount of the new Fund loan on such property, borrowers may have difficulty paying or refinancing the loan or selling the property, potentially causing losses to FMF and investors. Moreover, the continued lack of real estate sales volume in the market may affect the Manager’s ability to accurately value FMF’s assets for the purpose of making withdrawal distributions, potentially resulting in excessive or deficient distributions to withdrawing Investor Members. (See “The Manager and its Affiliates – Olympia Mortgage Fund, LLC.”)

#### ***Fund loans will be concentrated in the Northern California real estate market.***

FMF may make loans throughout California and in other states; however, FMF loans will primarily be made and secured by properties concentrated in Northern California. Therefore FMF will be highly dependent upon the continued demand for housing, office, retail and other commercial and residential property in that region. FMF’s revenue and the value of its loan portfolio may be disproportionately affected if Northern California’s local economy and real estate markets suffer greater adverse impacts than the economies and real estate markets in other regions or nationally due to local industry slowdowns and layoffs, changing demographics and other factors that result in oversupply of, or reduced demand for, commercial or residential properties in the region.

***FMF could suffer defaults on the loans in its portfolio of New Loans and may have to foreclose on the underlying real estate collateral.***

FMF is in the business of lending money and, as such, takes the risk of defaults by borrowers and other risks faced by lenders. While some New Loans will be partially amortizing, most Fund loans will provide for monthly payments of interest only and require the borrower to make a large “balloon” payment of principal due at the end of the term. Many borrowers are unable to repay such loans out of their own funds and are compelled to refinance or sell the property. Fluctuations in interest rates and the unavailability of financing could adversely affect the ability of borrowers to refinance their loans at maturity or to sell the underlying property. Such risks will often be increased in the case of Construction/Rehab Loans. (See “Risks Related to Construction/Rehab Loans”) below.)

If the borrower defaults, FMF may be forced to purchase the property at a foreclosure sale. If FMF cannot quickly sell such property, and the property does not produce any significant income, FMF’s profitability will be adversely affected. Further, the property’s condition might deteriorate by the time FMF obtains possession of the property.

***The value of the real estate securing Fund Loans may be insufficient to protect its Investment.***

FMF will frequently be an “asset” rather than a “credit” lender although each borrower will need to demonstrate adequate ability to meet its financial obligations under the terms of any loan in which FMF may invest. This means that FMF may rely primarily on the value of the real property securing loans to protect its investment, with repayment ability always being taken into consideration.

FMF will rely on a Market Value Analysis to determine the fair market value of real property used to secure loans made by FMF (see “Lending Standards and Policies loans” for the definition of Market Value Analysis), but no assurance can be given that such an analysis will in any or all cases, be accurate. Moreover, since a Market Value Analysis fixes the value of real property at a given point in time, subsequent events could adversely affect the value of real property used to secure a loan. Such subsequent events may include nationwide, statewide or local economic trends. They may also include, demographic, property or other trends, including overall market declines, neighborhood values, increased interest rates and unavailability of financing to repay loans and/or purchase properties, or may include specific local events such as freeway construction or adverse weather conditions. It is possible that the declines in value experienced from 2007 to the present could continue to occur in commercial, industrial, construction and residential properties, resulting in losses to FMF. Neither the appraiser, the Manager or any other party conducting the Market Value Analysis will be able to predict with any certainty whether these events will occur after a loan is made.

***In a foreclosure, FMF may not be able to recover its full investment.***

California state laws and the manner in which FMF’s security interest in the security property is enforced may preclude FMF from recovering any deficiency from the borrower if FMF cannot recover its investment from the real property security. Under provisions of California law applicable to all real estate loans, if the real property security proves insufficient to repay amounts owing to FMF, in most cases FMF would not have a right to recover any deficiency from the borrower. (See “Certain Legal Aspects of Fund Loans.”) While FMF in many cases will obtain personal guaranties which may be enforced to collect any deficiency balance, such collection may require FMF to incur litigation expenses and recovery will depend on the collectibility of a judgment from the guarantors at the time the judgment is obtained.

The recovery of sums advanced by FMF in making or investing in loans and protecting its security may also be delayed or impaired by the operation of the federal bankruptcy laws. Any borrower

has the ability to delay a foreclosure sale by FMF for a period ranging from several months to several years simply by filing a petition in bankruptcy, which automatically stays any actions to enforce the terms of the loan. The length of this delay and the costs associated with it may cause losses to FMF.

***FMF will be operating in a highly competitive business.***

Due to the nature of FMF's business, its profitability will depend to a large degree upon the future availability of secured loans. FMF will compete with other private money lenders, institutional lenders and others engaged in the mortgage lending business, including banks and savings institutions, many of which have greater financial resources and experience than FMF. If these companies increase their marketing efforts to include FMF's market of borrowers, or if additional competitors enter these markets, FMF may be forced to reduce its interest rates and fees in order to maintain or expand market share. Any reduction in interest rates or fees charged could have an adverse impact on FMF's liquidity and profitability.

***If FMF cannot collect all of the principal and interest due on its loans, FMF's ability to earn a profit or to fund withdrawals will be impaired.***

FMF's liquidity is dependent on, among other things, payments by borrowers of principal and interest on Fund loans. The Manager will continually monitor the delinquency status of FMF's loan portfolio and promptly institute collection activities on delinquent accounts but these efforts may ultimately prove unsuccessful. Loan repayments are also likely to be affected by economic conditions in the real estate market. Any failure by FMF, for any reason, to collect nearly all of the principal and interest on FMF's New Loans may impair FMF's ability to operate successfully.

***A decline in the demand for, or increase in the risks of, real estate financing will impair FMF's ability to make loans or could jeopardize repayment.***

A variety of factors affect the demand for real estate financing, including, without limitation, economic cycles, demand for and availability of new development and construction, competitive pressures, the availability and cost of labor and materials, changes in costs associated with real estate ownership, changes in consumer preferences, demographic trends and the availability of mortgage financing. FMF will be directly and materially affected by the same risks faced by borrowers as well as those inherent to the commercial and residential real estate development and construction industries. Recently, the U.S. has experienced significant deterioration in certain sectors of the real estate, credit and mortgage markets which may negatively impact FMF's ability to make suitable real estate loans. Any reduction in the cash flows, income of or financial condition of commercial and residential real estate borrowers by reason of any of the aforementioned factors or others may impair their ability to repay FMF, which would increase the possibility that delinquencies would occur, that FMF could incur losses and that Members could lose some or all of their investment in the Units.

***A decline in real estate values may impair the collateral for Fund loans.***

Declining real estate values will increase the probability of a loss in the event of a borrower default on Fund loans. As noted elsewhere in these Risk Factors, the U.S. has recently been experiencing significant deterioration in certain sectors of the real estate market. As a result, the value of the real estate or other collateral securing Fund loans may not, at any given time, be sufficient to satisfy the outstanding principal amount and accrued interest on such loans. If a borrower were to default, and if the collateral were insufficient, FMF would suffer a loss and Members could lose some or all of their investment.

***FMF may lend to credit-impaired borrowers, which will make its investment portfolio susceptible to high levels of default risk.***

FMF may lend money to borrowers that are either unable or unwilling to obtain financing from traditional sources, such as commercial banks. Loans made to such individuals or entities may entail a high risk of delinquency and loss. Higher than anticipated delinquencies, foreclosures or losses will adversely affect FMF's profitability and results of operations, and may result in a loss of some or all of the Members' investment in Units.

***The purchase of a minority interest in a loan may affect the ability of FMF to direct loan enforcement decisions.***

FMF may purchase undivided fractional interests in loans arranged by the Manager on behalf of FMF and other lenders rather than funding or acquiring an entire loan in the name of FMF at closing. (See "Fund Management and Loan Servicing – Loan Brokerage and Servicing.") In such circumstances, the Manager will service the loan as the agent of FMF as well as the other purchasers of interests in the loan and could be subject to additional conflicts of interests in determining the appropriate actions to take on behalf of all of the lenders. (See "Conflicts of Interests"). Moreover, pursuant to the servicing agreement between the Manager, FMF and the other lenders on the loan, the Manager's actions in connection with loan enforcement will be directed by lenders holding more than 50% of the total outstanding interests in the loan. Consequently, if the Manager arranges for FMF to purchase a minority interest in a loan, FMF will not have the right to control the enforcement of its rights under the loan if such enforcement action conflicts with the decisions of the majority.

***FMF's business entails risks related to the ownership of real property.***

When FMF acquires any equity in real property by direct investment, foreclosure or otherwise, FMF is exposed to the risks of liability incident to real property ownership or tenancy. Owners of real property may be subject to liability for injury to persons and property occurring on the real property or in connection with the activity conducted thereon, as well as liability for failure to comply with governmental regulations.

***FMF may suffer from uninsured losses.***

The Manager will require comprehensive title, fire and casualty insurance on the properties securing FMF's loans. At the Manager's discretion, the Manager may also require earthquake insurance, but will not generally do so. However, there are certain types of losses (generally of a catastrophic nature) which are either uninsurable or not economically insurable, such as losses due to war, floods, mudslides or other acts of God. Should any such disaster occur, or if casualty insurance is allowed to lapse through oversight, FMF could suffer losses.

***The industry in which FMF will be active is not extensively regulated or supervised.***

The lending and investment practices of FMF are not supervised or regulated by any federal or state authority, except to the extent that the lending and brokerage activities of the Manager and FMF are subject to supervision or regulation by the California Department of Real Estate or Department of Corporations. A return on a Member's investment is completely dependent upon the successful operation of FMF's business. To the extent that FMF does not operate successfully for any reason, its ability to return Members' investments and earn a profit is limited.

***Lending laws and other laws and regulations applicable to FMF's business may be amended in the future and affect FMF's ability to operate.***

The laws and regulations applicable to FMF's lending and the offering of Units are subject to amendment by federal and state regulators and agencies. Changes in such laws and regulations that may result from future federal, state or municipal actions, judicial decisions, or interpretations of existing laws and regulations could affect the ability of FMF to operate under its current business plan. (See "Fund Business and Lending.") Following the 2008-2009 financial crisis, a great deal of new federal and state legislation was enacted to regulate the mortgage lending business far more closely. Any new legislation affecting the types of loans made by FMF could adversely affect the ability of FMF to operate and be profitable in the future.

***There are risks of government action if the Manager or FMF does not comply with all applicable laws and regulations.***

While the Manager will use its best efforts to comply with all local, state and federal lending regulations applicable to it and to FMF, there is the possibility of governmental action to enforce any alleged violations of such lending laws which may result in legal fees, damage awards or fines and penalties.

***FMF may be responsible for environmental liabilities.***

Under current federal and state law, the owner of real property contaminated with toxic or hazardous substances (including a mortgage lender that has acquired title through foreclosure) may be liable for all costs associated with any remedial action necessary to bring the property into compliance with applicable environmental laws and regulations. This liability may arise regardless of who caused the contamination or when it was caused.

FMF does not and will not participate in the on-site management of any facility on the property in order to minimize the potential for liability for cleanup of any environmental contamination under applicable federal, state or local laws. There can be no assurance that FMF would not incur full recourse liability for the entire cost of any such removal and cleanup, or that the cost of such removal and cleanup would not exceed the value of the property. In addition, FMF could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. FMF would also be exposed to risk of lost revenues during any cleanup, and to the risk of lower lease rates or decreased occupancy if the existence of such substances or sources on the property becomes known. If FMF fails to remove the substances or sources and clean up the property, it is possible that federal, state and/or local environmental agencies could perform such removal and cleanup, and impose and subsequently foreclose liens on the property for the cost thereof. FMF may find it difficult or impossible to sell the property prior to or following any such cleanup. Fund could be liable to the purchaser thereof if the Manager knew or had reason to know that such substances or sources existed. In such case, FMF could also be subject to the costs described above. If toxic or hazardous substances are present on real property, the owner may be responsible for the costs of removal or treatment of the substances. The owner may also incur liability to users of the property or users of neighboring property for bodily injury arising from exposure to such substances. If FMF is required to incur such costs or satisfy such liabilities, this could have a material adverse effect on Fund profitability. Additionally, if a borrower is required to incur such costs or satisfy such liabilities, this could result in the borrower's inability to repay its loan from FMF.

Even if FMF does not foreclose on a contaminated site, the mere existence of hazardous substances on the property may depress the market value of the property such that the loan is no longer adequately secured.

A lender's best protection against environmental risks is to thoroughly inspect and investigate the property before making or investing in a loan. The Manager may take some precautions to avoid environmental problems but is not required to engage in any specific environmental review of the property. Where deemed appropriate by the Manager prior to making a loan, FMF may engage a qualified environmental inspection firm to conduct an environmental review of the property (which may or may not include a "Phase I" or other level of environmental review). However, due to the nature of many types of environmental contamination, the possibility of the existence of toxic substances may not be apparent from a site visit, and any environmental review conducted may not reveal the extent or all types of contamination. As a result, it is possible that a security property could have toxic contamination not known to the Manager at the time of making the subject loan.

***FMF will face an ongoing risk of litigation.***

The Manager will act in good faith and use reasonable judgment in selecting borrowers and making and managing the loans. However, as a lender, the Manager and FMF are exposed to the risk of litigation by a borrower for any allegations by the borrower (warranted or otherwise) regarding the terms of the loans or the actions or representations of the Manager in making, managing or foreclosing on the loans. It is impossible for the Manager to foresee what allegations may be brought by a specific borrower. The Manager will use its best efforts to avoid litigation if, in the Manager's judgment, the circumstances warrant an alternative resolution. If an allegation is brought and/or litigation is commenced against FMF or the Manager, FMF will incur legal fees and costs to respond to the allegations and to defend any resulting litigation. If FMF is required to incur such fees and costs, this could have an adverse effect on Fund profitability.

**Additional Risks Related to Junior Loans and Land Loans.**

***Should FMF make Junior Loans, it will face additional risks if the debtor defaults.***

Up to 10% of FMF's loan portfolio, at any time, may be secured by second priority loans (See "Fund Business and Lending – Lending Standards and Policies.") To the extent FMF makes or invests in Junior Loans and is thereafter, required to foreclose on such loan, the debt secured by the senior deeds of trust will need to be satisfied before any proceeds from the sale of the property could be applied toward the debt owed to FMF. Furthermore, to protect its junior security interest, FMF may be required to make cash outlays for such items as loan payments to senior lienholders to prevent their foreclosure, property taxes, insurance, property maintenance or repair, etc. If FMF does not have adequate cash reserves on hand to protect its second priority security interest, FMF could suffer a loss of its invested capital in such loan.

***Should FMF make Land Loans, it will be subject to the additional risks associated with undeveloped land.***

The Security Property may consist of undeveloped land. For a number of reasons, undeveloped land is generally considered a riskier and more speculative form of security for a loan than is improved real estate. For example, before improvements can be constructed on undeveloped land the owner of the land may need to secure entitlements (e.g., zoning approvals, variances, and architectural approvals), undergo review of and obtain clearance on environmental impact issues (including issues concerning traffic, open space, school or transit impact, endangered species, wetlands, noise and air quality), obtain

building permits, secure access and connections to necessary utilities, obtain construction financing, undertake and complete construction, and find buyers or tenants once the undeveloped land has been improved. Many of these risks are no longer at issue with respect to improved real estate. Moreover, it is likely that undeveloped land will not generate any income that can be used to pay the interest and/or principal owing under the Loan or real property taxes assessed against the undeveloped land. Accordingly, the Borrower must have other sources of income in order to make these payments.

Even if the owner of undeveloped land intends to hold the undeveloped land for investment, rather than developing the land itself, any prospective purchaser of the undeveloped land will take these risks into account when it sets the purchase price. Additionally, it can take up to several years or more to market and sell undeveloped land. Due to this potentially protracted time frame, it may be difficult for the owner of undeveloped land to sell the undeveloped land in time to pay off the Loan at maturity. Finally, most lenders are more reluctant to lend against undeveloped land than against improved real estate due to the risks and other matters described above. Due to these considerations, it may be more difficult for the Borrower to sell or refinance the Security Property in order to repay the Loan.

In acknowledgment of these increased risks, Manager will not make a loan secured by undeveloped land that exceeds fifty percent (50%) of the fair market value of the undeveloped land (as compared to up to 80% loan-to-value ratio for improved real estate). (See “Fund Business and Lending – Lending Standards and Policies.”) This more conservative underwriting does not, however, eliminate the risks described above. It merely provides the Investors with a greater equity cushion should the Borrower default under the Loan.

#### **Additional Risks Related To Construction/Rehab Loans**

Construction/Rehab Loans involve additional risks which may not be prevalent in loans secured by fully improved real property or may increase those risks associated with FMF’s investments in real estate secured loans, generally. (See “Risks Related to FMF’s Business” above.) Construction/Rehab Loans referenced herein include both loans to fund total construction projects from the ground up as well as rehabilitation loans which are used to fund construction or the rehabilitation of existing improvements on the real property. In either case, however, the loan-to-value ratios attributable to the Construction/Rehab Loans are based upon the estimated value of the security property upon completion of the construction or rehabilitation being funded by the loan. Some of the additional risks associated with Construction/Rehab Loans are set forth below.

***FMF will make Construction/Rehab Loans based upon the “as constructed” value of the improvements funded by the Construction/Rehab Loan increasing the risks of debtor default and loss of capital invested by FMF.***

The value of the properties securing Construction/Rehab Loans will be based upon a Market Value Analysis of the projected value of the security property when the construction has been completed (i.e., the “as constructed” value) rather than the value of the property at the time the loan is made. In making a Construction/Rehab Loan based upon the “as constructed” value, if for any reason the construction project is not completed, it is likely that the property securing FMF loan would be worth less than the value determined by the Market Value Analysis. In those cases, the loan-to-value ratio will at times during the period that construction is not yet completed be higher than the percentage set forth in the “Lending Standards and Policies” section of this Offering Circular and may be in excess of 100% of the value of the property prior to the completion of construction.

If FMF must foreclose before construction is completed, and if there are insufficient funds in the construction disbursement account to complete construction, the Manager will need to choose between

selling the property with construction incomplete or incurring debt to finance completion of the project before it is sold. If the Manager elects to sell the property before completing construction, the property is more likely to sell at a price which will not return to FMF the amount owed causing losses to FMF. On the other hand, if monies are borrowed to complete construction, those monies will have to be repaid before FMF will receive the amount it invested increasing the ultimate risk of loss to FMF upon sale. The Manager may, but is not obligated to, advance the funds required to complete construction of a property or to otherwise increase its marketability. If the Manager advances funds, the advances plus interest will be repayable out of proceeds from the sale or refinancing of the property before payments will be made to FMF.

***Construction/Rehab Loans will, in most cases, be funded in installments increasing the risk of default by FMF under the loan.***

Construction/Rehab Loans will, in most cases, only be partially funded at the closing of the loan and FMF will be required to fund additional draws as construction proceeds to disburse the loan funds to the borrower in accordance with the disbursement schedule set forth in the Construction/Rehab Loan agreement. If FMF is unable or unwilling to fund the loan disbursement when due, FMF may be liable to the borrower for damages caused by FMF's breach of the loan documents, including damages in excess of the loan amount caused by FMF's breach. Notwithstanding the foregoing, Olympia has never failed to fully fund a construction loan it has made or arranged whether for OMF, FMF or otherwise.

***Current economic conditions will effect the ability of borrowers to perform under Construction/Rehab Loans for an undetermined period.***

Construction/Rehab Loans both are subject to the same economic risks associated with mortgage loans generally including the risks created by the property value declines resulting from the "sub-prime lending crisis" and the current national economic downturn. The current declines in property values and recessionary economic outlook will result in slower sales of construction projects until the inventory of new construction has been cleared from the market. There is no way to predict when such a market turn around will occur and the ability of borrowers to sell the completed construction projects will stabilize. Moreover, the severe restriction on the availability of credit resulting from the "sub-prime" lending crisis and the resulting global financial crisis may affect the borrower's ability to refinance the project funded by a Construction/Rehab Loans upon completion and potential buyers of the property will be unable to find purchase financing unless and until credit becomes readily available in the future. Until such, time there will be an increased risk of borrower default upon maturity, resulting in losses to FMF.

### **Risks Related To The Manager**

***The Members must rely on the Manager for the success of FMF***

The loans in which the proceeds of this offering will be invested have not yet been determined, and Members will have no opportunity to review potential Fund loans. The Manager will participate in all decisions with respect to the management of FMF, including the determination as to what loans to make or purchase, and FMF is dependent to a substantial degree on their continued services. In the event of the dissolution death, retirement or other incapacity of the Manager or those key principals listed in the "Manager and Its Affiliates" section hereof, the business and operations of FMF may be adversely affected.

***The Members will not have the ability to control the day to day operations of FMF or to control the Manager. It will be difficult to remove the Manager.***

The Members will not have a voice in the management decisions of FMF and can exercise only a very limited amount of control over the Manager. The Members have only the voting rights set forth in the Operating Agreement or required by California law. A vote of Members representing a majority interest of all Members (a “**Member Majority**”) is required to remove the Manager. So long as OMF is a Member of FMF, the Class A Interest will be included for the purposes of calculating the Member Majority; however, any vote cast by the Manager on OMF’s behalf must be submitted to, and approved by, members representing a majority of the outstanding membership interests in OMF and may not be made unilaterally by the Manager. Because there may be a significant number of Members and the Members (including OMF Members) may have differing opinions with respect to a course of action to take respecting FMF, it may be difficult, time consuming and costly to solicit adequate votes to remove the Manager.

***The Manager is not required to devote its full time to the business of FMF.***

The Manager is not required to devote its full time to FMF’s affairs, but only such time as the affairs of FMF may reasonably require. The Manager has ongoing businesses outside of, and in addition to, the business of FMF, including managing OMF until its complete liquidation and termination, and the Manager will be required to allocate its time and resources among such endeavors over the life of FMF.

***The Manager may terminate its business relationship with FMF adversely affecting FMF’s financial position and results of operations.***

The Manager may resign as the Manager of FMF or terminate its business relationship in whole or in part upon six months notice to the Members or a shorter period if approved by a Member Majority. In such event, the Members would be required to find one or more third party servicers to perform the various services rendered to FMF by the Manager. The compensation paid to the Manager as set forth in the “Compensation to the Manager and its Affiliates” section of this Offering Circular was not determined on an arm’s-length basis. If FMF is required to retain one or more third party servicers the fees payable to such third parties will likely be greater than those payable to the Manager and FMF’s financial position and results of operations would likely be adversely affected in the Manager’s absence.

***The Manager is subject to conflicts of interest.***

There are several areas in which the interests of the Manager will conflict with those of FMF, which should be carefully considered. (See “Conflicts of Interest.”)

***Members of FMF will have no claim to the fees payable to the Manager.***

FMF and its borrowers will pay certain fees and compensation to the Manager. (See “Compensation to Manager.”) These fees will be owed as incurred. Even if FMF is unsuccessful in generating sufficient income to cover its operations, it will have no claim against the Manager for a refund of such fees.

## **Risks Related To Ownership Of The Units**

***There is no market for the Units, and transfer of the Units could be severely restricted by law or market conditions.***

There is no public market for the Units and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Units is also restricted by the provisions of the Securities Act of 1933, as amended, and Rule 144 thereunder, and by the provisions of the Operating Agreement. (See “Terms of the Offering – Restrictions on Transfer.”) Any sale, transfer or encumbrance of Units also requires the prior written consent of the Manager, which may be withheld in its sole discretion. Furthermore, Members will have only limited rights to redeem Units or withdraw from FMF or to otherwise obtain the return of their invested capital. Therefore, all purchasers of Units must be capable of bearing the economic risks of this investment with the understanding that their interest in FMF may not be liquidated by resale, and should expect to hold their Units for an undetermined period of time, and should understand that such inability to sell or withdraw “on demand” will subject an investment in Units to any losses FMF may experience during such period.

***Members will be subject to actions taken by the Member Majority.***

The Members have only the voting rights set forth in the Operating Agreement or required by California law and a vote of a Member Majority is required to exercise such rights. Consequently, each Member will have no right to require or approve any action of FMF or the Manager that conflicts with the will of the Member Majority including a majority of FMF interests and it may be difficult, time consuming and costly to solicit adequate votes to take any action because there may be a significant number of Members with differing opinions and perspectives with respect to a course of action to take. Moreover, so long as OMF is a Member of FMF, the Class A Interest will be included for the purposes of calculating the Member Majority and any vote cast by the Manager on OMF’s behalf must be submitted to, and approved by, members representing a majority of the outstanding membership interests in OMF. This will increase the number of votes to solicit and OMF members (many of which will not be investing in FMF) may have significantly differing perspectives with respect to FMF than the Investor Members.

***If FMF cannot collect all of the principal and interest due on its loans, FMF’s ability to earn a profit or to fund withdrawals may be impaired.***

FMF’s liquidity is dependent on, among other things, payments of interest and New Loan Principal Payments on FMF’s New Loans. The Manager will continually monitor the delinquency status of FMF’s New Loan portfolio and promptly institute collection activities on delinquent New Loan accounts but these efforts may ultimately prove unsuccessful. New Loan Principal Payments are also likely to be affected by economic conditions in the real estate market. Any failure by FMF, for any reason, to collect nearly all of the principal and interest on FMF’s New Loans may impair FMF’s ability to operate successfully, unless the net proceeds earned on the sale of the properties securing the loans are adequate to cover such amounts.

The inability of FMF to collect Initial Loan Principal Payments will not affect Investor Members; however, failure to collect interest payments on the Initial Loans and transfer of any Non-Performing Initial Loans to OMF may negatively affect the overall return to Investor Members on their investment.

***FMF will be taxed as a “Partnership” and the Members will be taxed as “Partners.”***

FMF will elect to be treated as a partnership for federal income tax purposes. Any favorable federal tax treatment presently available with respect to FMF could be affected by any changes in tax

laws that may result through future Congressional action, tax court or other judicial decisions, or interpretations of the Internal Revenue Service. IN VIEW OF THE FOREGOING, PROSPECTIVE MEMBERS ARE URGED TO REVIEW THE “FEDERAL INCOME TAX CONSEQUENCES” SECTION CAREFULLY AND TO CONSULT THEIR OWN TAX COUNSEL.

***The Units are not insured or guaranteed by any government agency or public entity.***

The Units are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or any other governmental agency or public entity, in contrast to certificates of deposit or accounts offered by banks, savings and loan associations or credit unions. Members in FMF will be dependent on the Manager’s ability to effectively manage FMF’s business to generate sufficient cash flow for the repayment of Members’ capital and the generation of any profit. If Fund cash flow proves inadequate, investors could lose part or all of their investments.

***FMF will not set aside any funds to satisfy requests for withdrawals or redemptions from FMF. A new investor’s subscription may be used in whole or in part to fund withdrawals or redemptions.***

The Manager will not create or contribute funds to a separate account in order to fund requests for withdrawal from FMF and redemption of any Member’s investment. Because funds are not set aside periodically to fund such withdrawals, Members must rely on cash flow from operations and funds from the sale of Units to satisfy withdrawal requests. Money received from the sale of Units may be used in whole or in part, at the discretion of the Manager, to fund Investor Member withdrawal and redemption requests; however, to the extent cash flow from operations and the sale of Units is not sufficient to fund withdrawal requests received from one or more Investor Members at any time, any Units which are unredeemed will remain subject to Fund operations, which may include Fund losses. Furthermore, an investor may be admitted to FMF at a time when there is a waiting list to withdraw, making it likely that such investor will not be able to withdraw quickly upon being admitted and therefore will remain subject to FMF’s operating results, which may include losses.

***FMF is required to return the Initial Cash Contribution to OMF by the expiration of OMF’s Liquidation Period, which may take priority to Withdrawal Distributions to Investor Members.***

The Manager will not create or contribute funds to a separate account in order to fund the withdrawal and redemption of OMF’s Initial Cash Contribution (which is \$75,000) and will rely on cash flow from operations to make such distribution prior to the expiration of OMF’s Liquidation Period. (See, “Terms of the Offering – Membership Classes” and “The Manager and its Affiliates – Olympia Mortgage Fund, LLC.”) Money received from the sale of Units will not be used to fund OMF’s redemption; however, the Manager may give priority to the redemption of OMF’s Initial Cash Contribution over withdrawal requests received by Investor Members. (See “Summary of the Operating Agreement – Withdrawal from Fund.”) To the extent FMF’s cash flow from operations is not sufficient to fund all withdrawal requests at a time when cash flow is needed to redeem the Initial Interest, Investor Members with outstanding withdrawal requests may be required to remain as Members of FMF longer than they had anticipated, and any Units which are unredeemed will remain subject to Fund operations, which may include Fund losses.

***Fluctuations in interest rates pose risks to FMF’s business.***

Mortgage interest rates are subject to abrupt and substantial fluctuations, but the right of Investor Members to withdraw capital from FMF is subject to substantial restriction and Units are a relatively illiquid investment. (See above, “No Market for Units.”) If prevailing interest rates rise above the average interest rate being earned by FMF’s loan portfolio, Investor Members may wish to liquidate their

investment in order to take advantage of higher returns available from other investments but may be unable to do so.

***Allocation of interest payments among OMF and the Investor Members may benefit OMF.***

Interest payable on the Initial Loans and New Loans will be shared among all Members of FMF at the time the payments are received. Consequently, to the extent the average interest rate payable on Initial Loans is less than the average interest rate payable on the New Loans, interest otherwise payable to Investor Members under the New Loans (and funded by Investor Member capital) may be paid to OMF at the expense of Investor Members.

***The Operating Agreement does not contain provisions to protect investment in the Units.***

The Units do not have the benefit of extensive protective provisions in the Operating Agreement. The provisions of the Operating Agreement are not designed to protect a Member's investment if there is a material adverse change in FMF's financial condition or results of operations. For example, a Member's ability to withdraw from FMF is limited. Therefore, the Operating Agreement provides very little protection of Members' investment.

***Investment delays carry risk.***

There may be a delay between the time a subscription is submitted by a prospective investors and the time FMF accepts such subscription and the investor becomes a Member. There may also be delays between the time a Liquidation Distribution is made and a Rollover Subscription funds are required by FMF. During such time, investors will not earn interest on their investment. There may also be a delay between FMF's receipt of capital into the Operating Account (from new Cash Subscriptions, Rollover Subscriptions, payoffs or otherwise) and funding of a loan with such capital. During these periods of delay, the proceeds may be invested in interest bearing accounts, short-term certificates of deposit, money-market funds or other liquid assets which will not yield as high a return as the anticipated return to be earned on Fund loans. The length of these delays may adversely affect the overall investment return to Members.

***Members may be obligated to return certain impermissible distributions.***

Members are not required to contribute any additional capital to FMF beyond their investment to pay any debts of FMF. Under California law, however, limited liability companies such as FMF are prohibited from making distributions to their members if following such distribution the limited liability company would be unable to pay its debts or following such distribution the company's total liabilities would exceed its total assets. Members receiving such distributions may be obligated to return the distribution but only if such member had actual knowledge of the impropriety of the distribution at the time it was made. Consequently, to the extent that a return of a Member's capital contribution is deemed a distribution, a Member may be required under certain circumstances to return such distributions to FMF to discharge FMF's liabilities to creditors who extended credit to FMF during the period such capital contribution was held by FMF.

***The Units are risky and speculative investments and if you cannot afford to lose your entire investment, you shouldn't invest.***

Prospective investors should be aware that the Units are risky and speculative investments suitable only for investors of adequate financial means. If you cannot afford to lose your entire

investment, you should not invest in the Units. If FMF accepts an investment, you should not assume that the Units are a suitable and appropriate investment for you.

***There is no guaranty that monthly distributions of Fund income will be made. Investors that will sustain substantial economic hardship in the absence of monthly income distributions from FMF should not invest.***

An investor in FMF may, upon purchasing Units, elect to have his or her share of Fund earnings distributed on a monthly basis; however, Rollover Investors may be required to establish a \$5,000 minimum capital account balance prior to being eligible for monthly distributions and neither the amount of, nor the right to, such monthly distributions is guaranteed. (See “Terms of the Offering – Election to Receive Monthly Cash Distributions.”) In any event, Investors purchasing Units are only entitled to distributions equal to their pro-rata share of monthly net income to the extent cash is available for distribution. If FMF is unable to generate sufficient cash in any given month to distribute to electing Members no distributions will be made. (See “Summary of Operating Agreement – Cash Distributions.”) Consequently, investors that will rely on the monthly income received from FMF to meet their monthly expenses or who will suffer substantial economic hardship in the absence of such income should not invest.

***Investors have not been independently represented in the formation of FMF.***

Investors in FMF have not been represented by independent counsel in its organization, and the attorneys who have performed services for FMF have also represented the Manager. Thus, conflicts of interest between FMF and the Manager may not have been addressed as vigorously as in an arms-length transaction. (See “Conflicts of Interest.”)

### **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains forward-looking statements within the meaning of federal securities law. Words such as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate,” “continue,” “predict,” or other similar words, identify forward-looking statements. Forward-looking statements appear in a number of places in this Offering Circular, including, without limitation, the “Use of Proceeds,” “Business” and “Business and Lending - Lending Standards and Policies” sections, and include statements regarding FMF’s intent, belief or current expectation about, among other things, trends affecting the markets in which FMF will operate, its business, financial condition and strategies. Although FMF believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including those set forth in the “Risk Factors” section of this Offering Circular. If any of the events described in “Risk Factors” occur, they could have an adverse effect on FMF’s business, financial condition and results of operations. When considering forward-looking statements, prospective investors should keep these Risk Factors in mind as well as the other cautionary statements in this Offering Circular. Prospective investors should not place undue reliance on any forward-looking statement. FMF is not obligated to update forward-looking statements.

### **FUND BUSINESS AND LENDING**

FMF will engage in the business of making or purchasing loans or interests in loans secured by deeds of trust that encumber real estate located primarily, if not exclusively, in California and, in some circumstances, loans that are secured by promissory notes that are, in turn, secured by deeds of trust (i.e., hypothecated notes). FMF may also purchase loans from third parties when, in the Manager’s discretion,

it is beneficial for FMF to do so. With the exception of the Initial Loans, all Fund loans will be selected by the Manager pursuant to the guidelines set forth in the “Lending Standards and Policies” subsection below. The Initial Loans were contributed to FMF by OMF and may not meet the guidelines set forth herein; however, OMF is required to re-acquire any Non-Performing Initial Loan and the risk of default on those loans and any associated costs of enforcement or collateral will be borne solely by OMF.

## **General**

The Manager is a licensed California real estate broker and will be responsible for selecting, underwriting and arranging all New Loans made or purchased by FMF. In addition to the asset management fee payable to the Manager for managing FMF, the Manager will earn points, generally ranging from 3% to 6% of loan principal, on all New Loans it arranges for FMF and will receive a servicing fee for servicing New Loans on behalf of FMF. (See “Compensation to Manager” and “Conflicts of Interest.”) Borrowers generally will borrow an amount sufficient to pay the points to the Manager, which becomes part of the loan balance to be repaid by the borrower. (See “Use of Proceeds.”) All of the promissory notes and deeds of trust evidencing New Loans will list FMF as the initial lender or will be assigned to FMF upon purchase of the loan. FMF will earn income from the interest on all Fund loans, and from the payment of late fees, prepayment penalties and other fees which may be charged to borrowers.

FMF will usually be an “asset” rather than a “credit” lender. This means that FMF may rely primarily on the value of the real property securing New Loans to protect its investment. To determine the value of the real property, FMF will conduct a Market Value Analysis to determine the fair market value of real property used to secure New Loans made by FMF (see “Lending Standards and Policies,” below, for the definition of Market Value Analysis), but no assurance can be given that such an analysis will in any or all cases, be and remain accurate.

In some circumstances, FMF may purchase undivided fractional interests in loans (“**Fractional Interests**”) arranged by the Manager on behalf of FMF and other lenders (“**Fractionalized Loans**”) rather than funding an entire loan; however, FMF will only acquire Fractional Interests in Fractionalized Loans that meet the New Loan standards set forth in the “Lending Standards and Policies” section, below. Fractionalized Loans will be serviced by the Manager who will act as the agent of FMF and the other holders of Fractional Interests in the loan and who will be paid a loan servicing fee in connection with such services. (See “Risk Factors – Risks Relating to FMF’s Business,” “Conflicts of Interest – Fractional Interests,” and “Compensation to the Manager and its Affiliates.”)

## **Lending Standards And Policies**

### ***General Standards for New Loans***

New Loans made or purchased by FMF will be secured by deeds of trust that encumber real estate located primarily in California including improved residential properties (including owner-occupied and non-owner occupied residential properties) and improved commercial, industrial, multi-family and mixed use properties. FMF will also make or invest in Construction/Rehab loans that are made for the purpose of constructing or rehabilitating improvements on the Security Property which will be underwritten based upon the assessed value of the Security Property following completion of the construction or rehabilitation planned by the Borrower. FMF may also make loans secured by unimproved or partially improved properties including fully entitled, partially entitled or unentitled land and, in some cases, land utilized for agricultural purposes (collectively, “**Land Loans**”). The percentage of such Land Loans, however, will be limited such that no Land Loan will be made if upon closing of the Land Loan the total outstanding principal balance of all Land Loans held by FMF (including Initial Loans

that are Land Loans) would exceed 10% of FMF’s total loan portfolio (i.e., the aggregate principal balance of all loans held by FMF) at such time. (See “Risk Factors – Risks Related to Construction/Rehab Loans.”) FMF’s loans will not be insured or guaranteed by any governmental agency or private entity. FMF will select and underwrite New Loans for investment pursuant to the guidelines set forth below, which guidelines are designed to set standards for the quality of the real property security given for the loans.

1. **Priority of Deeds of Trust.** New Loans made or invested in by FMF will be primarily secured by first deeds of trust which will be senior to all other monetary liens (if any) on the real properties securing such loans (the “**Security Property**”) other than liens for taxes and assessments not yet due and payable. FMF may also make Junior Loans (i.e., loans which are junior to one senior lien); however, the percentage of Junior Loans will be limited such that no Junior Loan will be made if upon closing of the Junior Loan the total outstanding principal balance of all Junior Loans held by FMF (including any Initial Loans that are Junior Loans) would exceed 10% of FMF’s total loan portfolio (i.e., the aggregate principal balance of all loans held by FMF) at such time. The Manager may also obtain additional collateral from borrowers to secure Fund loans if, in the Manager’s sole judgment, such cross-collateralization is necessary to adequately secure the loan or otherwise protect FMF’s interests. Such additional collateral may consist of senior or junior deeds of trust on real property, pledges of personal property, or other forms of collateral deemed by the Manager to provide additional security for a Fund loan.

2. **Geographic Area of Lending Activity.** Fund loans will be secured by deeds of trust on properties located primarily in California; however, FMF may take a security interest in property outside California as additional collateral for a loan. In no event will the aggregate principal amount of Fund loans primarily secured by real estate located outside of California exceed 20% of the aggregate principal amount of FMF’s entire loan portfolio.

3. **Loan-to-Value Ratios.** The amount of FMF’s loan on the Security Property (together with any loans secured by senior liens on the Security Property, if any) generally will not exceed the percentages stated below, based on the value of the Security Property as determined by written appraisal or written evaluation at the time the loan is made (a “**Market Value Analysis**”). In most circumstances the Market Value Analysis will be based upon a written appraisal performed by a licensed independent California appraiser; however, unless the loan is a Construction/Rehab Loan, the Manager may have an appraisal or a written evaluation done by an independent broker or other non-certified appraiser (including Manager) who is qualified and experienced to value the subject property if, in Manager’s judgment, the cost of an certified independent appraisal is not warranted under the circumstances.

| <b><u>Type of Property/Loan</u></b>             | <b><u>Maximum Loan to Value Ratio</u></b> |
|---|---|
| Improved Residential                            | 80%                                       |
| Improved Commercial                             | 75%                                       |
| New Construction Residential                    | 75%<br>(of “as-completed” value)          |
| New Construction Commercial                     | 65%<br>(of “as-completed” value)          |
| Single-Family Residentially Zoned Lot or Parcel | 65%                                       |
| Land  | 50%                                       |

The above-stated loan-to-value ratios may be increased if, in the sole discretion of the Manager, a given loan is supported by credit adequate to justify a higher loan-to-value ratio or if mortgage insurance is obtained; however, the Manager does not anticipate obtaining or requiring the borrowers to maintain mortgage insurance. The above stated loan-to-value ratios will also not apply to purchase-money financing offered by FMF to sell any real estate owned (acquired through foreclosure) or to refinance an existing loan that is in default at the time of maturity. In such cases, the Manager shall be free to accept any reasonable financing terms that it deems to be in the best interests of FMF, in its sole discretion.

The value of the Security Property on all Construction/Rehab loans will be determined by appraisals constructed by licensed independent California appraisers. Such appraisals will be prepared on an “as-completed” basis, i.e., assuming that the improvements for which the loan is obtained will be completed. The appraisal may also assume that all public improvements to be funded by special assessment district bonds will be completed as proposed and that the Security Property will be marketed and sold in the manner planned by the borrower. Consequently, the loan-to-value ratios as estimated in the appraisal and the budget for the project will exceed 75% (residential) or 65% (commercial) at times during the term of the loan. Construction Loans involve higher degrees of risk. (See “Risk Factors – Risks Related to Construction Loans.”)

4. Terms of Loans. The term of Fund loans will vary at the discretion of the Manager. Construction loans will generally have a term of between one and five years and will provide for monthly payments of interest or interest in maturity with a “balloon payment” at the end of the term.

5. Escrow Conditions. Fund loans will be funded through an escrow account handled by the Manager or a qualified title insurance or escrow company. The escrow agent will be instructed not to disburse any funds until the following conditions are met:

(a) Satisfactory title insurance coverage has been obtained with the title insurance policy, or endorsement to an existing policy, naming FMF as the insured and providing title insurance in an amount equal to the principal amount of the loan. Title insurance insures only the validity and priority of FMF’s deed of trust, and does not insure FMF against loss by reason of other causes, such as diminution in the value of the security property, over-appraisals, borrower’s defaults, etc.

(b) Fire and/or liability insurance (to the extent required for the type of Security Property) has been obtained, which insurance shall name FMF as loss payee in an amount equal to the principal amount of FMF’s loan. (See “Risk Factors – Uninsured Losses.”)

(c) The Manager does not intend to arrange for mortgage insurance, which would afford some protection against loss if FMF foreclosed on a loan and there were insufficient equity in the security property to repay all sums owed.

(d) All loan documents (notes, deeds of trust, etc.) and insurance policies will name FMF as payee and beneficiary or additional loss insured, as applicable. In the event FMF purchases loans, FMF shall receive assignments of all beneficial interest in any documents related to each Loan so purchased. Fund investments in Loans will not be held in the name of the Manager or any other nominee.

6. Loans to Related Parties. FMF may make or invest in loans to persons or entities that are related to or affiliated with the Manager or its shareholders including an affiliate construction company of the Manager, Broad & Boulder Properties, Inc. (See “The Manager and its Affiliates.”) Such loans will not exceed 10% the Fund’s total loan portfolio; must not be more favorable to the borrower than similar loans negotiated at arm’s-length; and must be repurchased by the Manager if the loan is in default more than 30 days. Such loans will involve significant conflicts of interest. (See “Conflicts of Interest – Fund Loans to Related Parties.”)

7. Purchase of New Loans from Affiliates. Manager is an active mortgage loan broker, mortgage banker and California finance lender. Manager currently funds a significant portion of mortgage loans it originates and sells interest in such loans to its investors. Existing loans funded by or acquired by the Manager or its affiliates may be purchased by FMF. FMF may also purchase loans from third parties. Loans purchased by FMF shall generally not be in default at the time of purchase and must otherwise satisfy the foregoing lending guidelines; however, in order to take advantage of special opportunities that may arise to purchase loans at significant discounts (and thus yield additional profit to FMF), the Manager has the authority to cause FMF to acquire loans (or interests in loans) that are in default, but only so long as: (i) the loan is being purchased from a third party unrelated to the Manager or its affiliates; (ii) the loan otherwise satisfies the lending guidelines described above; and (iii) FMF shall not acquire or invest in a defaulted loan if, immediately after such transaction, the aggregate principal amount of all loans held by FMF that are in default would exceed 5% of total Fund capital. Generally, the purchase price to FMF for any such loan will not exceed the par value of the note or its fair market value, whichever is lower, but the Manager may purchase loans for a premium if the Manager believes the total purchase price is fair and reasonable and in the best interest of FMF.

8. Loan Diversification. No New Loan (or Fractional Interest in a New Loan) will exceed 20% of total Fund capital at the time of the loan.

9. Cash Reserves. Cash reserves may be retained by FMF for the purpose of covering FMF's unexpected cash needs, if the Manager believes it to be in the best interests of FMF. The amount of cash reserves, if any, will be established by the Manager. Cash reserves may be held in cash, bank accounts, certificates of deposit, money market accounts, short-term bankers acceptances, publicly traded bond funds or other liquid assets.

### ***Credit Evaluations***

The Manager may consider the income level and general creditworthiness of a borrower, and any guarantor, to determine a borrower's ability to repay a New Loan according to its terms, but such considerations may be subordinate to a determination that a borrower has sufficient equity in the security property to satisfy the loan-to-value ratios described above. Therefore, FMF may make New Loans to borrowers with impaired credit (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations.

### **Initial Loan Portfolio**

#### ***Initial Loans***

In May of 2011, OMF contributed to FMF the twelve (12) Initial Loans listed below (the "**Initial Loan Portfolio**"), all of which were current and free from default as of the date of contribution. Some or all of the Initial Loans in the Initial Loan Portfolio may not meet the lending standards in the "Lending Standards and Policies" subsection set forth above; however, as discussed below, the risk of default for loans in the Initial Loan Portfolio will be borne primarily by OMF.

The Initial Loan Portfolio was comprised of the following loans:

| Description of Initial Loan Portfolio as of December 21, 2010 |               |               |                       |               |
|---|---------------|---------------|-----------------------|---------------|
| Loan Number   | Property Type | Note Rate (%) | Outstanding Principal | Maturity Date |
| 5428  | Commercial    | 12.0%         | \$2,056,002           | 12/01/2011    |
| 5450  | Commercial    | 11.5%         | \$750,000             | 04/01/2012    |
| 5462  | Residential   | 11.0%         | \$173,117             | 06/01/2012    |

| Description of Initial Loan Portfolio as of December 21, 2010 |                          |               |                       |               |
|---|--------------------------|---------------|-----------------------|---------------|
| Loan Number   | Property Type            | Note Rate (%) | Outstanding Principal | Maturity Date |
| 5465  | Residential              | 11.0%         | \$475,000             | 12/01/2011    |
| 5502  | Residential              | 12.0%         | \$150,000             | 3/01/2012     |
| 5471  | Residential Construction | 10.95%        | \$800,000             | 09/01/2012    |
| 5491  | Residential              | 11.0%         | \$205,000             | 1/1/2012      |
| 5481  | Residential              | 11.0%         | \$160,000             | 12/01/2011    |
| 5482  | Residential              | 11.0%         | \$192,000             | 12/01/2011    |
| 5483  | Residential              | 11.0%         | \$355,000             | 12/01/2011    |
| 5485  | Residential              | 11.0%         | \$200,000             | 01/01/2012    |
| 5487  | Residential Construction | 10.0%         | \$235,000             | 01/01/2012    |
| <b>Total/Weighted Average</b>                                 | <b>12 Loans</b>          | <b>11.42%</b> | <b>\$5,751,119</b>    |               |

Interest payments payable on all of the Initial Loans will be allocated among all Members including the Investor Members, pro rata, in accordance with their relative capital account balances. All Initial Loan Principal Payments received by FMF will be paid to OMF as Initial Loan Principal Distributions. Conversely, however, OMF will not be entitled to receive any New Loan Principal Payments collected by FMF with respect to New Loans, which will be allocated solely to the Investor Members. (See “Summary of Operating Agreement – Profits and Losses.”)

### ***Non-Performing Initial Loans; Transfer Redemptions***

The Initial Loans were funded by OMF prior to being contributed to FMF and only New Loans will be funded with the proceeds from the sale of Units. Moreover, the Operating Agreement requires OMF to re-acquire any Initial Loan that goes into default and any Initial Loan the Manager determines, in its reasonable judgment, will require FMF to incur any enforcement or collateral protection expenses or that is otherwise not in FMF’s interest (a “**Non-Performing Initial Loan**”). At the time any Non-Performing Initial Loan is transferred to OMF, the Class A Interest of OMF will be reduced and redeemed in an amount equal to the unpaid principal balance of such loan as of the date of transfer (a “**Transfer Redemption**”). Consequently, FMF will not be at risk for losses attributable to Initial Loans, except to the extent of the loss of interest income otherwise payable thereon. (See “Summary of Operating Agreement – Additional Rights and Obligations of OMF.”)

## **FUND MANAGEMENT AND LOAN SERVICING**

### **General**

The Manager will have the sole authority to manage the affairs of FMF including the sole authority to: (i) identify and arrange loans and Fractional Interests to be made or purchased by FMF; (ii) monitor and assess loan portfolio performance and set FMF’s accounting procedures; (iii) oversee loan servicing and make loan enforcement decisions; and (iv) otherwise direct the day-to-day operations of FMF. Members will have limited rights to vote on or direct the actions of FMF and must rely upon the Manager to make decisions in the best interests of FMF. (See “Risk Factors–Risks Related to the Manager” and “Conflicts of Interests.”)

## **Loan Brokerage and Servicing**

It is anticipated that the Manager will act as FMF's exclusive loan broker pursuant to its real estate broker's license and will arrange for the funding or purchase of New Loans or Fractional Interests in New Loans in consideration of points payable to the Manager by the borrower. (See, "Compensation to the Manager and its Affiliates" and "Conflicts of Interest.") The Manager will also "service" all Fund loans which includes the collection of loan payments, performing administrative services in connection with the loan and (except in the case of the Initial Loans) taking all actions the Manager deems necessary to enforce the terms of the loan documents upon a default.

If FMF makes or purchases a Fractional Interest in a loan, the Manager will service the loan on behalf of FMF and the other Fractional Interest holders (the "**Co-Lenders**") pursuant to the terms of a Loan Servicing and Equity Interest Agreement entered into by FMF, the Manager and each of the Co-Lenders (the "**Co-Lender Servicing Agreement**"). Pursuant to the terms of the Co-Lender Servicing Agreement, Co-Lenders holding Fractional Interests representing more than 50% of the aggregate outstanding Fractional Interests in the loan will have the right to direct all decisions following a material loan default including the right to approve: (i) extended forbearances, loan extensions or material loan modifications; (ii) any forgiveness of principal or regular interest payable under the loan; (iii) the terms and conditions of any entity formed to take title to the security property following foreclosure; and (iv) foreclosure by judicial disclosure rather than under the power of sale contained in the deed of trust. Consequently, to the extent FMF invests in less than 50% of the total Fractional Interests outstanding in a loan, FMF will be subject to additional risks not inherent in whole loans or loans in which FMF holds a majority interest. (See "Risk Factors – Risks Relating to FMF's Business.") Moreover, by acting as the servicing agent of both FMF and the other Co-Lenders, the Manager is subject to additional conflicts of interest whether or not FMF holds a majority or minority interest in the loan. (See "Conflicts of Interest")

## **THE MANAGER AND ITS AFFILIATES**

The Manager will manage and direct the affairs of FMF. All loans made or invested in by FMF will be arranged and serviced by the Manager (See "Fund Management and Loan Servicing").

### **Olympia Mortgage and Investment Company, Inc.**

The Manager of FMF is Olympia Mortgage and Investment Company, Inc., a California corporation ("**Olympia**"), which is a California licensed real estate broker which has been engaged in the mortgage industry since 1991. From 1991 through October 2001 the Manager operated as Olympic Mortgage and Investment Company ("**OMIC**"), a sole proprietorship owned and operated by Larry Blanchard. On October 1, 2001, the Manager's current principal shareholders, Phillip L. Ruble and Mimi H. Simmons, purchased OMIC's assets and began operating as Olympic Mortgage & Investment Company, Inc. In January 2003 Phillip L. Ruble and Mimi Simmons began operating the Olympic Mortgage Fund, LLC (OMF). OMF is a mortgage pool managed by Olympia which operated as a lender for Olympia loans from January 2003 through January 2011. In March of 2009, the Manager amended the company's Articles of Incorporation to reflect the Manager's current corporate name, Olympia Mortgage & Investment Company, Inc. and simultaneously amended the name of OMF to Olympia Mortgage Fund, LLC.

Olympia engages in the business of arranging, funding, selling, purchasing and servicing trust deed investments for its private investors and its own account. Olympia has, in addition, engaged in and currently engages in, real estate investment, real estate brokerage and property management activities. Olympia specializes in arranging privately funded trust deed investments. Olympia currently offers fractional interests in trust deed investments to qualified investors pursuant to a permit granted by the

California Department of Corporations (DOC File No. 506-2638). Olympia and its predecessor, OMIC, have arranged over \$400,000,000 of loans secured by deeds of trust. Currently, Olympia has in excess of 400 investors participating in over \$40,000,000 worth of real estate secured loans.

Olympia currently has 7 full time employees. Two of which are corporate officers along with Mimi Simmons. These three individuals will be primarily responsible for the operation and management of FMF:

***Phillip L. Ruble is the President of Olympia.*** Phil has vast experience in the banking, real estate and construction businesses since 1967. His major areas of concentration have been in home mortgages, Construction/Rehab Loans and commercial property loans. Phil's banking experience, starting in 1967, was primarily with Wells Fargo Bank in Southern California. Phil spent his final four years in banking as a senior vice president with City National Bank responsible for a \$120 Million loan portfolio. Phil has been in real estate sales in Nevada County since 1991. He purchased ERA Cornerstone Realty Group with co-founder, Mimi Simmons, in 1995; growing the business from \$32 Million in annual sales, nine agents and one location to over \$200 Million in annual sales, over 65 agents and four locations. In 1994, Phil and Mimi founded Broad and Boulder Properties, a construction and development company and successfully built and sold nearly 40 homes. From 1995 to 1997, Phil and Mimi also founded Cornerstone Sales & Development, a manufactured home dealership. In October 2001, Phil purchased Olympia Mortgage & Investment Co.

***Mimi H. Simmons is the Vice President of Olympia.*** Mimi Simmons is Vice President of Olympia Mortgage. Mimi has been a licensed California Realtor since 1984 and a licensed Broker since 1995. She is the Founder and Broker of Cornerstone Realty Group, a business which she and her husband Phil built up to 4 offices and 65 agents. They sold the business in 2006 and Mimi has worked with her Cornerstone team as a Listing and Selling Broker since that time. Mimi has been one of the County's top 3 producing agents every year for the last 15 years and gratefully holds such awards as Realtor of the Year, Rotary Business Person of the Year and the Community Service Award. She is a two-time past President of the Nevada City Chamber of Commerce, past President of Nevada County Board of Realtors and past President of Big Brothers/Big Sisters. A fifth generation native of Nevada County, Mimi is dedicated to her community and her real estate practice and passionately embraces every real estate deal. Featured in the National Magazine "Top Agent Magazine", Mimi "works smart instead of hard" and her production and commitment to real estate reflects that. Mimi's expert knowledge of the real estate market and its trends has been an added benefit to the operation of Olympia Mortgage.

***Craig Ruble is the Vice President of Olympia for Sales and Marketing.*** Craig received his undergraduate degree in Communications from California State University at Chico in 1994. While in school, Craig worked for Weyerhaeuser Mortgage Co. and was an Account Executive with the University Newspaper. From 1994 – 2000 Craig worked for Enterprise Rent-a-Car as a Group Marketing Manager. Craig led the overall marketing effort for Northern California. His responsibilities included, but were not limited to, growing auto loan portfolios for financial institutions. In 2001, Craig obtained his Real Estate License and since then Craig's ongoing responsibilities are focused on Olympia Mortgage and Investment Company's growing loan portfolio. Craig obtained his National Mortgage Loan Origination License in 2010. His responsibilities for the fund are to oversee the day to day lending activity as well as work with new and existing investors. Craig has acquired detailed experience in the day to day running of a mortgage fund since the purchase of Olympia in 2001.

### **Broad & Boulder Properties, Inc.**

The President and 50% shareholder of the Manager, Phillip L. Ruble, is also the principal shareholder and officer of a development company, Broad & Boulder Properties, Inc. ("**B&BP**"), which

may be the borrower under some of FMF’s loans. Broad & Boulder Properties, Inc. was incorporated in February 1997. Since its inception, B&BP has successfully completed construction of approximately 40 single family homes. To date, B&BP has never defaulted on any loan or other financial obligation and has never been the subject of any foreclosure or enforcement action brought against B&BP.

**Olympia Mortgage Fund, LLC**

The Manager is also the sole manager of OMF, which was formed for the same purpose as FMF – investing in trust deed investments arranged by the Manager. OMF began operations in January of 2003, and from OMF’s inception through 2007, OMF paid average yields to its members ranging from 8.92% to 9.11% per annum. In late 2007 and early 2008, OMF’s yield, like so many other investment vehicles, was significantly affected by the financial crisis and the ensuing rapid, unforeseen, deterioration of the credit markets and real estate values. (See “Risk Factors – Risks Related to FMF’s Business.”) The increased defaults and the existence of a depressed real estate market in which to sell properties acquired through foreclosure resulted in losses in 2008 and 2009 of -2.52% and – 8.34%, respectively. OMF’s average annual investment returns since inception are set forth in the table below.

| Year | Average Annual Return to Investors |
|------|------------------------------------|
| 2004 | 8.92%                              |
| 2005 | 9.05%                              |
| 2006 | 9.11%                              |
| 2007 | 9.09%                              |
| 2008 | (2.32%)                            |
| 2009 | (12.98%)                           |
| 2010 | 1.48%                              |

\*Based on year-end results pre-audit.

In the fourth quarter of 2010, the Manager submitted proposals to OMF members recommending the dissolution and orderly liquidation of OMF and the transfer of the Initial Capital to FMF in exchange for the Initial Interest, which proposals were approved by FMF I Members in January of 2011. The Manager’s OMF dissolution proposal was made in response to two primary issues that resulted from the financial crisis: (i) decreased liquidity due to increased withdrawal requests received in response to the financial crisis; and (ii) the effect of the market uncertainty and stagnation on the Manager’s ability to accurately value Fund assets for the purposes of making withdrawal distributions. (See “Risk Factors – Risks Related to Ownership of Units” and “Risks Related to FMF’s Business.”)

To address the issue of decreased liquidity resulting from the significant increase in withdrawal requests experienced by OMF, FMF’s withdrawal provisions have been structured to allow the Manager to utilize up to 50% of FMF’s cash otherwise available for making withdrawal distributions to make investments in New Loans. (See “Summary of the Operating Agreement – Withdrawal Restrictions.”) While such a provision does not guaranty FMF will not be adversely affected by significant increases in withdrawal requests, it provides the Manager with an increased ability in such circumstances to maintain FMF’s performance for non-withdrawing Members while continuing to allocate a portion of FMF’s available cash flow to meet outstanding withdrawal requests. FMF will also be subject to the risk that market uncertainty and stagnation will render valuing FMF’s assets difficult for the purposes of making withdrawal distributions. FMF was formed, however, to take advantage of lending opportunities believed by the Manager and certain OMF Members to exist in the post-financial crisis market and, so long as FMF can take advantage of these opportunities and grow and remain profitable for its Members, the

Manager believes withdrawal requests received by Investor Members will be significantly reduced from those received by OMF in the wake of the panic experienced during the financial crisis. Moreover, as real estate markets stabilize over time, the ability of the Manager to value FMF's assets will reduce the risk of making incorrect asset valuations in connection with any withdrawal requests FMF receives in the future. This does not preclude the possibility of future downturns in the real estate market and investors should take this possibility into account.

In connection with its liquidation, OMF Members voted to make the Initial Cash Contribution and the Initial Loan Contribution to FMF in exchange for the Class A Interest on the terms and conditions described herein.

**COMPENSATION TO MANAGER AND ITS AFFILIATES**

The following discussion summarizes the forms of compensation to be received by the Manager and its affiliates. All of the amounts described below will be received regardless of the success or profitability of FMF. None of the following compensation was determined by arm's-length negotiations. The Manager retains the right to terminate all or any portion of its business relationship with FMF at any time, in whole or in part upon six months notice or a shorter period if approved by a Member Majority, in which event FMF would seek to retain one or more other firms to perform the various services to be rendered by the Manager. If this occurs, fees payable to such third parties will likely be greater than those payable to the Manager and the Fund's financial position and results of operations would likely be adversely affected in the Manager's absence.

| <u>Form of Compensation</u>  | <u>Estimated Amount<br/>or Method of Compensation</u>   |
|--|---|
| Loan Brokerage Commissions, Renewal and Forbearance Fees to the Manager..... | Anticipated to average between 3% and 6% of the principal amount of each loan and generally not less than \$2,500 per loan, and may be higher or lower depending upon market conditions |
| Loan Processing and Documentation Fees .....                                 | Prevailing industry rates, of approximately \$400 per loan for documentation fees, \$350 - \$700 per loan for loan processing fees. These fees may vary depending on market conditions. |
| Loan Servicing Fee .....   | Up to 1% of the principal amount of each Fund loan on an annual basis, payable monthly (i.e., 1/12th of 1% per month), but only as interest is received by FMF.                         |
| Asset Management Fee .....   | 1.00% of Net Assets Under Management on an annual basis, payable monthly (i.e., 1/12 <sup>th</sup> of 1.00% per month). <sup>5</sup>  |

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<sup>5</sup> "Net Assets Under Management" means the total Fund capital, including cash, notes (at book value), real estate owned (at book value), accounts receivable, advances made to protect loan security, unamortized organizational expenses and any other Fund assets valued at fair market value, less Fund liabilities. The Asset Management Fee will be calculated and paid to the Manager on the last day of each calendar month with respect to Net Assets Under Management on such date.

| <u>Form of Compensation</u> | <u>Estimated Amount<br/>or Method of Compensation</u> |
|-----------------------------|---|
|-----------------------------|---|

|   |   |
|---|---|
| Reimbursement of Expenses to Manager..... | Reimbursement for all out-of-pocket organization, syndication, operating and administrative expenses of FMF. The Manager will not allocate any portion of its general overhead expenses to FMF. |
|---|---|

**FIDUCIARY RESPONSIBILITY OF THE MANAGER**

Under California law, the fiduciary duties of a manager to the limited liability company and to its members are those of a partner to a partnership and to the partners of a partnership. Accordingly, a manager is accountable to a limited liability company as a fiduciary, which means that a manager is required to exercise good faith and integrity with respect to company affairs. This fiduciary duty is in addition to those other duties and obligations of, and limitations on, the Manager which are set forth in the Operating Agreement. FMF's business operations and affairs will be managed entirely by the Manager, which is subject to certain conflicts of interest. (See "Conflicts of Interest.")

FMF has not been separately represented by independent legal counsel in its formation or in its dealings with the Managers, and Members must rely on the good faith and integrity of the Managers to act in accordance with the terms and conditions of this offering.

The Manager must, on demand, give to any Member or his legal representative true and complete information concerning all Fund affairs. Each Member or his legal representative has the right to inspect and copy FMF books and records upon reasonable request.

The Operating Agreement provides that the Manager shall have no liability to FMF for losses resulting from errors in judgment or other acts or omissions, unless the Manager is guilty of fraud, bad faith or willful misconduct. The Operating Agreement also provides that FMF shall indemnify the Manager against liability and related expenses (including reasonable attorneys' fees and costs) incurred in dealing with FMF, Members or third parties, so long as no fraud, bad faith or willful misconduct on the part of the Manager is involved. Therefore, Members may have a more limited right of action than they would have absent these provisions in the Operating Agreement. A successful indemnification of the Manager or any litigation that may arise in connection with the Manager's indemnification could deplete the assets of FMF. Members who believe that a breach of the Manager's fiduciary duty has occurred should consult with their own counsel.

**CONFLICTS OF INTEREST**

The following is a list of the important areas in which the interests of the Manager will conflict with those of FMF. The Members must rely on the general fiduciary standards which apply to a general partner of a limited partnership to prevent unfairness by the Manager or an affiliate of the Manager in a transaction with FMF. FMF has not been represented by separate legal counsel in connection with its formation or its dealings with the Manager. (See "Fiduciary Responsibility of the Manager.") Except as may arise in the normal course of the relationship, there are no transactions presently contemplated between FMF and its Manager (or its affiliates) other than those listed below.

## **Loan Brokerage Commissions, Renewal and Forbearance Fees**

None of the compensation set forth under “Compensation to Manager and Its Affiliates” was determined by arms’ length negotiations. It is anticipated that the loan brokerage commissions, renewal and forbearance fees charged to borrowers by the Manager for most loans will average between 3-6% of the principal amount of each loan, but may be higher or lower depending upon market conditions. Any increase in such charges will have a direct, adverse effect upon the interest rates that borrowers will be willing to pay FMF, thus reducing the overall rate of return to Members. Conversely, if the Manager reduced the loan brokerage commissions, renewal and forbearance fees charged by it, a higher rate of return might be obtained for FMF and the Members. Moreover, the Manager will earn the largest portion of its compensation from commissions (or “points”) that it collects at loan closing, which are not affected by whether the loan proves to be a performing or non-performing loan for FMF. Therefore, a conflict will exist when the Manager must decline to fund a loan it deems not to be in the best interest of FMF if such loan would otherwise provide the Manager with additional compensation at closing through earning the points payable on the loan.

This conflict of interest will exist in connection with every Fund loan transaction, and Members must rely upon the fiduciary duties of the Manager to protect their interests. FMF will generally charge borrowers interest at the rate generally prevailing in the geographical areas where the security property is located for loans to comparable borrowers of similar size, duration and security.

The Manager has the right to retain the services of other firms, in addition to or in lieu of the Manager, to perform brokerage services, loan servicing and other activities in connection with FMF’s loan portfolio that are described in this Offering Circular.

## **Other Funds or Businesses**

The compensation structure applicable to the Manager in connection with loans that are arranged or originated for investors unrelated to FMF may be different, and depending on the circumstances at a given point in time, may be more lucrative to the Manager than the compensation payable to the Manager in connection with FMF. As a result, there may exist a financial incentive for the Manager to arrange or originate loans for private investors outside FMF and the Members must rely on the fiduciary duties of the Manager to protect their interests under such circumstances. In the future, the Manager may also sponsor other funds formed to conduct business similar to that of FMF. If these other funds (if formed) have funds to invest at the same time as FMF, there will then exist conflicts of interest on the part of the Manager as to whether to offer a particular loan opportunity to FMF or to these other funds. The Manager will decide which loans are appropriate for funding by FMF or by such other funds after consideration of all relevant factors, including the size of the loan, portfolio diversification, and amount of uninvested funds.

The Manager may engage for its own account, or for the account of others, in other business ventures, similar to that of FMF or otherwise, and neither FMF nor any Member shall be entitled to any interest therein.

FMF will not have independent management and it will rely on the Manager for the operation of FMF. The Manager will devote only so much time to the business of FMF as is reasonably required. The Manager will have conflicts of interest in allocating management time, services and functions between its existing business interests other than FMF and any future partnerships which it may organize as well as other business ventures in which it may be involved. The Manager believes it has sufficient staff available to be fully capable of discharging its responsibilities to all such entities.

## **Managing OMF**

The Manager will manage both FMF and OMF until all of OMF's assets have been liquidated and OMF has been terminated. Consequently, the Manager will have a fiduciary duty to act in the interest of OMF Members in connection with its Class A Interest while simultaneously having a fiduciary duty to the Investor Members. Consequently, a conflict of interest will exist at any time that the interest of OMF deviates from the interest of the Investor Members. In order to minimize this conflict, the Manager has agreed that any vote made by OMF in connection with its Class A Interest will be directed by a majority interest of OMF Members and will not be discretionary on the part of the Manager.

## **Servicing Fractional Interests**

If the Manager arranges for FMF to invest in a Fractional Interest rather than funding an entire loan, the Manager will service the Fractionalized Loan pursuant to a Co-Lender Servicing Agreement between the Manager, FMF and each of the other Co-Lenders on the Loan. (See "Fund Management and Loan Servicing – Loan Brokerage and Servicing.") Under the Co-Lender Servicing Agreement, the Manager will serve as the agent of FMF as well as each of the other Co-Lenders (which in some circumstances may include the Manager or its principals or affiliates). In circumstances where the interests of FMF and the Co-Lenders diverge with respect to each party's interest in the Fractionalized Loan, the Manager will have a conflict of interest arising out of its agency of each party. In the case of such a conflict with Manager will act in accordance with the express terms of the Co-Lender Servicing Agreement unless to do so would require a breach of the Manager's duties to FMF or any of the Co-Lenders, in which case, the Manager shall seek to remove itself as the Manager and to have an independent third party Manager appointed in its place. The Manager may receive loan servicing fees payable by the lenders on Fractionalized Loans; however, either (i) FMF will not be required to pay such fees, or (ii) any loan servicing fees paid by FMF to the Manager will reduce the Asset Management Fee payable to the Manager on a dollar-for-dollar basis. (See "Compensation to the Manager and its Affiliates.")

## **Loans to Affiliates**

FMF may make or invest in loans to persons or entities that are affiliated with the Manager (i.e., loans to a borrower that is owned by one or more of the owners of the Manager). In cases of such related party loans, conflicts of interest will exist between the Manager and its affiliated persons, on the one hand, and FMF, on the other, in connection with setting the terms of the loan and in connection with any enforcement action or renegotiation that may occur in the future. The Manager has undertaken to address these conflicts by applying the following standards and limitations to such related party loans:

- (a) No related party loan will be made if at the time of closing of the loan the aggregate principal amount of all related party loans would exceed 10% of total principal balance of all Fund loans outstanding at such time;
- (b) The terms and conditions of any related party loans shall be consistent with the lending standards and policies set forth above and with loan terms typically offered by the Manager on similar loans to unaffiliated borrowers; and
- (c) The Manager shall purchase (or cause one of its affiliates to purchase) from FMF, at par, any related party loan in which any material event of default has occurred and is continuing for at least 30 days.

### **Lack of Independent Legal Representation**

FMF has not been represented by independent legal counsel to date. The use by the Manager and FMF of the same counsel in the preparation of this Offering Circular and the organization of FMF may result in the lack of independent review. Prospective investors must rely on their own legal counsel for legal advice in connection with this investment.

### **Sale of Defaulted Loans or Real Estate Owned to Affiliates**

In the event a Fund loan goes into default or FMF becomes the owner of any real property by reason of foreclosure on a Fund loan, the Manager's first priority will be to arrange the sale of the loan or property for a price that will permit FMF to recover the full amount of its invested capital plus accrued but unpaid interest and other charges. In order to facilitate such a sale, the Manager may arrange a sale to persons or entities controlled by or affiliated with the Manager (e.g., to another entity formed by the Manager or its affiliates), for the express purpose of acquiring defaulted loans or foreclosure properties from lenders such as FMF. The Manager will be subject to conflicts of interest in arranging such sales since it will represent both parties to the transaction. For example, FMF and the potential buyer will have conflicting interests in determining the purchase price and other terms and conditions of sale. The Manager's decision will not be subject to review by any outside parties.

The Manager shall undertake to resolve these conflicts by setting a purchase price for each defaulted loan or property which is not less than any of the following: (i) the independently appraised value of such loan or property, if any, at the time of sale; (ii) the amount of any third party offer already received, if any; or (iii) the total amount of FMF's investment in the property. FMF's investment is deemed to include without limitation the following: the unpaid principal amount of the loan upon which FMF foreclosed, all unpaid interest accrued to the date of foreclosure, expenditures made to protect FMF's interest in the property such as payments to senior lienholders and for insurance and taxes, all costs of foreclosure (including attorneys fees actually incurred to prosecute the foreclosure or to obtain relief from stays in bankruptcy), and any advances made by or on behalf of FMF for any of the foregoing. A portion of the purchase price may be paid by the affiliate executing a promissory note in favor of FMF, secured by a deed of trust on the property being sold. The total loan-to-value ratio for the property (including FMF's note and any senior liens) will not exceed 90% of the purchase price of the property, and the note will otherwise contain terms and conditions comparable to those that would be contained in notes executed by third parties.

If the Manager is unable to sell such property for a price sufficient to cover all above listed costs, Manager may sell the property for an amount as can reasonably be obtained in light of current market conditions; or at the Manager's discretion, allow FMF to hold the property as an REO until the Manager is able to sell it for a price which is both reasonable in light of current market conditions and for which the Manager believes such sale is in the best interest of the FMF members.

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974 ("**ERISA**") contains strict fiduciary responsibility rules governing the actions of "fiduciaries" of employee benefit plans. It is anticipated that some Members will be corporate pension, profit-sharing or other employee benefit plans or Individual Retirement Accounts that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Units will be a "fiduciary" of such plan and will be required to conform to ERISA's fiduciary responsibility rules. Persons making investment decisions for employee benefit plans (i.e., "fiduciaries") must discharge their duties with the care, skill and prudence which a prudent man familiar with such matters would exercise in like circumstances. In evaluating whether the

purchase of Units is a “prudent” investment under this rule, fiduciaries should consider all of the risk factors set forth above. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (see “Federal Income Tax Consequences”), as well as the percentage of plan assets which will be invested in FMF insofar as the diversification requirements of ERISA are concerned. An investment in FMF is relatively illiquid, and fiduciaries must not rely on an ability to convert an investment in FMF into cash in order to meet liabilities to plan participants who may be entitled to distributions. DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS OR HER PROSPECTIVE INVESTMENT.

FMF will limit subscriptions for Units from ERISA plan investors such that, immediately after each sale of Units, ERISA plan investors will hold less than 25% of the total outstanding membership interests in FMF.

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan’s fiscal year. Although the Manager will provide annually upon the written request of a Member an estimate of the value of the Units based upon, among other things, outstanding mortgage investments, it may not be possible to value the Units adequately from year to year, because there will be no market for them.

### **USE OF PROCEEDS**

#### **Initial Capital**

FMF’s Initial Capital of \$5,826,119 will be contributed by OMF in the form of the Initial Loan Contribution (\$5,751,119) and the Initial Cash Contribution (\$75,000) and will be utilized as indicated in the table set forth below.

| <b>Use of Proceeds</b>              | <b>Initial Capital</b> | <b>Percentage</b> |
|-------------------------------------|------------------------|-------------------|
| Organization/Syndication Expenses   | \$75,000               | 1.3%              |
| Cash Reserves                       | \$0.00                 | 0.0%              |
| Initial Loan Portfolio <sup>1</sup> | \$5,751,119.00         | 98.7%             |
| Investment in New Loans             | \$0.00                 | 0.0%              |
| TOTAL:                              | \$5,826,119.00         | 100.00%           |

To extent the Initial Cash Contribution exceeds the actual organization and syndication expenses set forth above, any excess will be utilized to establish FMF’s initial cash reserves. Notwithstanding the foregoing, the Manager does not anticipate that the amount of any excess Initial Cash Contribution (if any) will be material and that cash reserves will be funded primarily if not completely from the proceeds from the sale of Units outlined below

#### **Proceeds from the Sale of Units**

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<sup>1</sup> Initial Loan Principal Payments received by FMF will be allocated and distributed to OMF, only, and Investor Members will only be entitled to their pro rata share of interest earned on the Initial Loans except to the extent an Investor Member is also an OMF Member entitled to distributions of Initial Loan Principal Payments payable through OMF. (See “Terms of the Offering – Membership Classes” and “Summary of the Operating Agreement – Profits and Losses.”)

The proceeds from the sale of Units offered hereby will be used to invest in New Loans, to fund and create FMF's initial and ongoing cash reserves and to pay ongoing syndication and other proper Fund expenses. The table below sets forth the anticipated use of the proceeds received from the sale of Units and represents an estimate only. Actual use of such proceeds will vary.

| <b>Use of Proceeds</b>                                  | <b>Maximum Offering of Class B Units</b> | <b>Percentage of Maximum Proceeds</b> |
|---|--|---------------------------------------|
| Operating and Ongoing Syndication Expenses <sup>2</sup> | \$500,000.00                             | 1.0%                                  |
| Reserves <sup>3</sup>                                   | \$1,500,000.00                           | 3.0%                                  |
| Initial Loan Portfolio                                  | \$0.00                                   | 0.0%                                  |
| Investment in New Loans <sup>4</sup>                    | \$48,500,000.00                          | 96.0%                                 |
| <b>TOTAL:</b>   | <b>\$50,000,000.00</b>                   | <b>100.00%</b>                        |

### **FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of certain relevant federal income tax considerations resulting from an investment in FMF, but does not purport to cover all of the potential tax considerations applicable to any specific purchaser. Prospective investors are urged to consult with and rely upon their own tax advisors for advice on these and other tax matters with specific reference to their own tax situation and potential changes in applicable law. FMF will not seek, and therefore will not obtain, an opinion of counsel as to any tax consequences intended to result from an investment in FMF.

#### **Taxation of Undistributed Fund Income**

Under the laws pertaining to federal income taxation of limited liability companies that are treated as partnerships, no federal income tax is paid by FMF as an entity. Each individual member reports on his federal income tax return his distributive share of FMF income, gains, losses, deductions and credits, whether or not any actual distribution is made to such member during a taxable year. Each individual member partner may deduct his distributive share of Fund losses, if any, to the extent of the tax basis of his Units at the end of FMF year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the member as it was for FMF. Since individual members will be required to include FMF income in their personal income without regard to whether there are

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<sup>2</sup> FMF's initial organization and syndication expenses will be paid from the Initial Cash Contribution made by OMF; however, FMF's ongoing operating, administrative and syndication expenses may (in addition to being paid from Fund income) be paid from the proceeds received by FMF from the sale of Units.

<sup>3</sup> Cash reserves may be set aside by the Fund, in such amounts as the Manager shall deem appropriate, to meet unexpected cash needs of the Fund, including such operational cash needs that may arise if a New Fund loan goes into default. The total amount of reserves may be greater or less than indicated in the table, depending on needs perceived by the Manager.

<sup>4</sup> All loan brokerage commissions paid to the Manager on New Loans will be paid by borrowers out of the proceeds of loans made by the Fund. Thus, a portion of the proceeds from the sale of Units, which will be used by the Fund to fund New Loans, will indirectly be paid to the Manager in the form of loan brokerage commissions, but will ultimately be repaid to the Fund by the borrowers if and when the New loans are repaid. (See "Compensation to Manager.")

distributions of FMF income, such investors will become liable for federal and state income taxes on income even though they have received no cash distributions from FMF with which to pay such taxes.

### **Distributions of Income**

To the extent cash distributions exceed the current and accumulated earnings and profits of FMF, they will constitute a return of capital, and each Member will be required to reduce the tax basis of his Units by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Units. Such distributions will not be taxable to Members as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Units.

### **Property Held Primarily for Sale; Potential Dealer Status**

FMF has been organized to invest in loans primarily secured by deeds of trust on real property. However, if FMF were at any time deemed for federal tax purposes to be holding one or more Fund loans primarily for sale to customers in the ordinary course of business (a “dealer”), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The federal income tax rates for ordinary income are higher than those for capital gains. In addition, income from sales of loans to customers in the ordinary course of business would also constitute unrelated business taxable income to any investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all the relevant facts and circumstances. FMF intends to invest in Loans and hold FMF loans for investment purposes only, and to dispose of Fund loans, by sale or otherwise, at the discretion of the Manager and as consistent with FMF’s investment objectives. It is possible that, in so doing, FMF will be treated as a “dealer” in mortgage loans, and that profits realized from such sales will be considered unrelated business taxable income to otherwise tax-exempt investors in FMF.

### **Tax Returns**

Annually, FMF will provide the Members sufficient information from FMF’s informational tax return for such persons to prepare their individual federal, state and local tax returns. FMF’s informational tax returns will be prepared by certified public accountants selected by the Manager.

### **Character of Income**

FMF will report its income as being derived from the trade or business of mortgage lending, not as portfolio income. The Manager believes this is the proper characterization, but there can be no assurance that it will not be challenged by the Internal Revenue Service. If FMF is deemed to be engaged in the trade or business of lending money, its income allocable to that business will generally be characterized as nonpassive income, against which passive losses from other sources may not be offset. This is true even though its net losses allocable to that activity (or that portion of Members’ loss on the sale of a unit that is allocable to FMF’s mortgage lending business) will be treated as passive activity losses. If FMF is not considered engaged in a trade or business of lending money, then income and loss from its mortgage lending activities will be considered portfolio income and loss. In either case, Members will not be permitted to offset passive losses from other activities against Members’ share of that portion of income. Under Section 469 of the Code, FMF’s income will not be passive income against which passive losses from other sources may be offset.

Moreover, if the Company’s income is considered portfolio income, then the loan servicing fees and asset management fees payable by the Company to the Manager will not serve to reduce the

Company's own net taxable income, but will instead be separately passed through to Members for inclusion on their individual tax returns as an investment expense. This means that such expenses may not be tax deductible by Members who do not itemize deductions on their income tax returns, or who do not exceed certain thresholds applicable to the deductibility of such expenses, or who are subject to the alternative minimum tax.

### **Unrelated Business Taxable Income**

Units may be offered and sold to certain tax exempt entities (such as qualified pension or profit sharing plans) that otherwise meet the investor suitability standards described elsewhere in this Offering Circular. (See "Investor Suitability Standards.") Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income," as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Units may be deemed to be engaged in an unrelated trade or business by reason of interest income earned by FMF. Although interest income (which will constitute the primary source of income earned by FMF) ordinarily does not constitute an item of unrelated business taxable income, this exclusion does not apply to the extent interest income is derived from "debt-financed property." To increase Fund profits or increase Fund liquidity, the Manager may borrow funds in order to invest in mortgage loans. This "leveraging" of FMF's loan portfolio will constitute an investment in "debt-financed property" and the interest income earned on loans funded with borrowed funds will be unrelated business income taxable to ERISA plans. (See "Leveraging the Portfolio.") FMF may also realize unrelated business taxable income by reason of profits earned from the resale or lease of properties acquired through foreclosure that are encumbered by senior mortgage loans. However, unrelated business income is taxable only to the extent such income from all sources exceeds \$1,000 per year. The remainder of a tax exempt investor's income will continue to be exempt from federal income taxes to the extent it complies with other applicable provisions of law, and the mere receipt of unrelated business income will not otherwise affect the qualification of an IRA or ERISA plan under the Code. The Manager does not anticipate that FMF will ever earn so much unrelated business taxable income as to exceed this \$1,000 threshold for any tax exempt investor.

Rents from real property and gains from the sale or exchange of property are also excluded from unrelated business taxable income, unless the property is held primarily for sale to customers or is acquired or leased in certain manners described in Section 514(c)(9) of the Code. Therefore, unrelated business taxable income may also be generated if FMF operates or sells at a profit any property that has been acquired through foreclosure on a Fund loan, but only if such property (1) is deemed to be held primarily for sale to customers, or (2) is acquired from or leased to a person who is related to a tax-exempt investor in FMF.

The trustee of any trust that purchases Units in FMF should consult with his tax advisors regarding the requirements for exemption from federal income taxation and the consequences of failing to meet such requirements, in addition to carefully considering his fiduciary responsibilities with respect to such matters as investment diversification and the prudence of particular investments.

### **CERTAIN LEGAL ASPECTS OF FUND LOANS**

Each of FMF's loans will be secured directly or indirectly by a deed of trust, the most commonly used real property security device in California. The deed of trust (also commonly referred to as a mortgage) formally has three parties: a debtor-trustor, a third-party grantee called the "trustee," and the lender-creditor called the "beneficiary." The trustor grants the property, irrevocably until the debt is paid, "in trust, with power of sale" to the trustee to secure payment of the obligation. The trustee's authority is

governed by law, the express provisions of the deed of trust and the directions of the beneficiary. FMF will be the beneficiary under all deeds of trust securing Fund loans.

### **Foreclosure**

Foreclosure of a deed of trust is accomplished in most cases by a nonjudicial trustee's sale under the power-of-sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and send a copy to the trustor, to any person who has recorded a request for a copy of a notice of default and notice of sale, to any successor in interest to the trustor and to the beneficiary of any junior deed of trust. If the default is not cured within 90 days after the filing of the notice of default, then at least 20 days before the trustee's sale, notice of sale must be posted in a public place and published once a week over such period. A copy of the notice of sale must be posted on the property, and sent to the trustor, to each person who has requested a copy, to any successor in interest to the trustor and to the beneficiary of any junior deed of trust, at least 20 days before the sale. The trustor or any person having a junior lien or encumbrance of record may, until five business days prior to the date of a scheduled foreclosure date, cure the default by paying the entire amount of the debt then due, exclusive of principal due only because of acceleration upon default, plus costs and expenses actually incurred in enforcing the obligation and statutorily limited attorney's and trustee's fees. Following the sale, neither the debtor-trustor nor a junior lienor has any right of redemption, and the beneficiary may not obtain a deficiency judgment against the trustor.

A judicial foreclosure (in which the beneficiary's purpose is usually to obtain a deficiency judgment where otherwise unavailable) is subject to most of the delays and expenses of other lawsuits, sometimes requiring up to several years to complete. Following a judicial foreclosure sale, the trustor or his successors in interest will have certain rights to redeem the property, unless the creditor waives any right to a deficiency. FMF generally will not pursue a judicial foreclosure to obtain a deficiency judgment, except where, in the sole discretion of the Manager, such a remedy is warranted in light of the time and expense involved.

### **Anti-Deficiency Legislation**

California has four principal statutory prohibitions which limit the remedies of a beneficiary under a deed of trust. Two statutes limit the beneficiary's right to obtain a deficiency judgment against the trustor following foreclosure of a deed of trust, one based on the method of foreclosure and the other on the type of debt secured. Under one statute, a deficiency judgment is barred where the foreclosure was accomplished by means of a nonjudicial trustee's sale. It is anticipated that all of FMF's loans will be enforced by means of a nonjudicial trustee's sale, if foreclosure becomes necessary. Under the other statute, a deficiency judgment is barred in any event where the foreclosed deed of trust secured a "purchase money" obligation, i.e., a promissory note evidencing a loan used to pay all or a part of the purchase price of a residential property occupied, at least in part, by the purchaser. This restriction may apply to some Fund loans.

Another statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under the deed of trust by foreclosure before bringing a personal action against the trustor on the promissory note. The fourth statutory provision limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale. Other matters, such as litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws, may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property.

### **“Due-on-Sale” Clauses**

FMF’s forms of promissory notes and deeds of trust, like those of most lenders, contain “due-on-sale” clauses permitting FMF to accelerate the maturity of a loan if the borrower sells the property, but do not usually contain “due-on-encumbrance” clauses which would permit the same action if the borrower further encumbers the property (i.e., executes further deeds of trust). The enforceability of these types of clauses is discussed below:

Due-on-sale clauses contained in mortgage loan documents executed by FMF after October 15, 1982 are enforceable in accordance with their terms. However, acquisition of a property by FMF by foreclosure on one of its loans would also constitute a “sale” of the property, and would entitle a senior lienholder to accelerate its loan against FMF. This would be likely to occur if then-prevailing interest rates were substantially higher than the rate provided for under the accelerated loan. In that event, FMF may be compelled to sell or refinance the property within a short period of time, notwithstanding that it may not be an opportune time to do so.

### **Due-on-Encumbrance**

With respect to mortgage loans on residential property containing four or less units, federal and California law prohibits acceleration of the loan merely by reason of the further encumbering of the property (e.g., execution of a junior deed of trust). This prohibition does not apply to mortgage loans on other types of property.

### **Prepayment Charges**

Certain loans originated by FMF may provide for prepayment charges to be imposed on the borrowers in the event of certain early payments on the loans.

## **SUMMARY OF OPERATING AGREEMENT**

The following is a summary of the Operating Agreement for FMF dated as of May 2, 2011, and is qualified in its entirety by the terms of the Operating Agreement itself. Potential investors are urged to read the entire Operating Agreement which is set forth as Exhibit A to this Offering Circular.

### **Membership Classes**

FMF currently has two outstanding membership classes: (i) the Class A Interest held by OMF; and (ii) the Class B Interests being offered as Units to new members, including OMF Members. The Investor Members and OMF will have the same rights and obligations as Members except as expressly provided for in the Operating Agreement.

### **Rights and Liabilities of Members**

The rights, duties and powers of Members (including OMF) are governed by the Operating Agreement and Chapter 3, Title 2.5 of the California Corporations Code (the “Act”) and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to such Agreement and Act. Neither OMF nor Investor Members who become Members in FMF in the manner set forth herein will be responsible for the obligations of FMF and will be liable only to the extent of their agreed upon capital contributions. Members may be liable for any return of capital plus interest if necessary to discharge liabilities existing at the time of such return. Any cash distributed to Members may constitute, wholly or in part, return of capital.

Members will have no control over the management of FMF except that, a Member Majority may approve or disapprove any of the following matters (“**Member Actions**”): (a) dissolution and termination of FMF; (b) merger or consolidation of FMF with one or more other entities; (c) amendment of the Operating Agreement (other than in connection with the matters set forth in the “Amendment of the Operating Agreement” subsection, below); (d) removal of the Manager and election of a successor manager; and (e) election of a successor manager upon the cessation of the Manager for any reason (such as the withdrawal or resignation). OMF’s Class A Interest will be entitled to vote on each of the Member Actions; however, so long as the Manager or its affiliate is the Manager of OMF, the Manager will be required to obtain the approval of OMF’s vote on any Member Action from a majority interest of the outstanding OMF Members of OMF. Members representing 10% or more of the Membership interests may call a meeting of FMF.

### **Additional Rights and Obligations of OMF**

#### ***Non-Performing Initial Loan Obligations***

Each of the Initial Loans was funded by OMF and not by any proceeds of the offering of Units. (See “Use of Proceeds.”) As the Class A Interest holder, OMF is required to re-acquire any Initial Loan that becomes a Non-Performing Initial Loan (i.e., any loan that goes into default or that the Manager determines, in its reasonable judgment, will require FMF to incur any enforcement or collateral protection expenses or is otherwise is not in FMF’s interest). Consequently, FMF will not be at risk for losses on any Initial Loan except to the extent of the loss of interest income otherwise payable to FMF on a Non-Performing Initial Loan.

#### ***Redemption of Initial Interest***

Each Initial Loan Principal Distribution made to OMF and the outstanding principal balance of any Non-Performing Initial Loan re-acquired by OMF will result in the redemption and reduction of OMF’s Class A Interest on a dollar-for-dollar basis. Consequently, upon full repayment of each of the Initial Loans and assignment of all Non-Performing Initial Loans (if any), OMF will be completely redeemed from FMF with the exception of the return of the amount of its Initial Cash Contribution, which the Manager will distribute to OMF from FMF’s available cash flow over time. OMF is not subject to the twelve (12) month holding period applicable to Investor Members and the Manager may distribute available cash to OMF in full or partial liquidation of the Initial Cash Contribution at any time and is required by the terms of OMF’s dissolution proposal approved by OMF Members to fully distribute and liquidate the Initial Cash Contribution within 24 months of OMF’s admittance into FMF (i.e. May 16, 2013), unless such date is extended by a vote of a majority interest of OMF Members. (See “Summary of Operating Agreement – Withdrawal from Fund.”)

### **Capital Contributions**

OMF will contribute FMF’s Initial Capital in the form of the \$75,000 Initial Cash Contribution and by assigning the Initial Loans to FMF with an aggregate par value of \$5,751,119 in exchange for an initial capital account credit of \$5,826,119, which will be redeemed and withdrawn over time in connection with each Initial Loan Principal Distribution and any Transfer Redemption.

Investment Class Interests in FMF will be sold in Units of \$1.00 each. With the exception of Old Members making Rollover Subscriptions, no person may initially acquire less than 25,000 Units, unless the Manager exercises the right in its discretion to allow it. To purchase Units an investor must deliver to FMF a Subscription Agreement in the form attached to this Offering Circular as Exhibit B.

## **Rights, Powers and Duties of Manager**

Subject to the right of the Members to vote on specified matters, the Manager will have complete charge of the business of FMF. The Manager is not required to devote full time to Fund affairs but only such time as is required for the conduct of Fund business. The Manager acting alone has the power and authority to act for and bind FMF.

The Manager is granted the special power of attorney of each Members for the purpose of executing the documents which the Members have expressly agreed to execute and deliver or which are required to be executed, delivered and/or filed under applicable law.

## **Profits and Losses**

Profits of FMF accrued during any calendar month will be allocated as of the last day of such calendar month to the Members (including OMF) in accordance with each Member's respective outstanding capital account balance as of such date; provided, however, that if an Investor Member purchases initial Units following the first day of the month or a Member's interest is otherwise increased or decreased during that month, then the profits allocable to Investor Members for such month will be allocated pro rata in proportion to the Member's account balance and the number of days during such month that the Member held each account balance in FMF.

Any losses attributable to the Initial Loans (if any) will be allocated 100% to OMF and any losses attributable to the New Loans will be allocated 100% to the Investor Members (and further allocated among the Investor Members, pro rata, in accordance with the Investor Members' relative capital account balances). Losses accrued during any calendar month will be allocated as of the last day of such calendar month in accordance with their capital account balances as of such date.

Upon transfer of Units (if permitted under the Operating Agreement and applicable law), profit and loss will be allocated to the transferee beginning on the date of the transfer.

## **Cash Distributions**

OMF's proportionate share of net income will be distributed to OMF on a monthly basis. Initial Loan Capital Payments received by FMF will be distributed to OMF either monthly, quarterly or upon receipt as determined by the Manager.

Upon subscription for Units, an Investor Member must elect whether to receive monthly cash distributions from FMF or to allow his or her earnings to compound for the term of FMF; Investor Member's who elect to change this election must give the Manager 90 days' prior written notice. Investor Members who elect to receive distributions may change this election in order to begin compounding earnings only if there is in effect a permit issued by the California Department of Corporations. Moreover, Rollover Investors electing monthly distributions of income will have their income compounded until their Rollover Investments (and any Cash Subscriptions by the Rollover Investor) together with all accrued income thereon are sufficient to establish a minimum capital account balance of \$5,000 at which time the Fund will automatically begin making monthly distributions in accordance with their election. Earnings allocable to investors who elect to compound their earnings (or Rollover Investment earnings pending reaching the \$5,000 minimum capital account balance) will be retained by FMF for making or investing in further New Loans or other proper Fund purposes. The earnings from these New Loans will be allocated among all Members (including OMF); however, Investor Members

who compound will be credited with an increasingly larger proportionate share of such earnings than OMF and Investor Members who receive monthly distributions, since their capital accounts will increase over time. Cash available for distribution will be determined by computing the net income during the calendar month on the accrual basis and in accordance with generally accepted accounting principles.

Within a reasonable time period after the end of each calendar month, FMF will distribute to Members receiving monthly distributions an amount of cash equal to their proportionate share of FMF's net income during such month. As used herein, net income means the excess of income from operations and investment of, or the sale or refinancing or other disposition of, Fund assets during such calendar month over the accrued operating expenses of FMF during such month, including any adjustments for bad debt reserves or deductions as the Manager may deem appropriate, all determined in accordance with generally accepted accounting principles. Cash available for distribution shall be distributed only to OMF and those Members who elect to receive such distributions in an amount equal to their respective allocable shares of profits earned by FMF during such month, and the balance of the Fund's income will be credited to the capital accounts of Members who elected to compound earnings.

### **Capital Account Maintenance**

The Manager will establish a capital account for each Investor Member which will, upon admission to FMF, be credited with the amount paid by such Investor Member for the purchase of Units. Thereafter, Investor Members' capital account balance will be increased on a monthly basis by: (i) the Investor Members' pro rata share of any net income earned by FMF in such month; and (ii) any additional capital contributions made by the Investor Members during such month through the purchase of additional Units (including additional purchases of Units made by Rollover Investors from their periodic Liquidation Distributions). Investor Members' capital account balance will be reduced on a monthly basis by (i) the amount of cash distributions made to the Investor Members (but only in the case of Investor Member's electing monthly income distributions); and (ii) the amount of any withdrawal distributions made to the Investor Members in such month (if any). The capital account established for OMF will also be reduced periodically in the amount of each Initial Loan Principal Distribution made to OMF and in the amount of any Assigned Loan Redemptions recognized upon the assignment of a Non-Performing Initial Loan to OMF, if any.

In the event any interest in the Company is transferred according to the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

### **Meetings**

The Manager, or Members representing at least 10% of the outstanding membership interests, may call a meeting of FMF. Unless the notice otherwise specifies, all meetings will be held at the office of FMF. Any vote of the membership must be done by mailed ballots. A majority of the membership interests will constitute a quorum at Fund meetings.

### **Accounting and Reports**

The Manager will cause to be prepared and furnished to the Members an annual report of FMF's operation, which will include financial statements audited by an independent accounting firm. If FMF is winding-up, a financial review completed by an independent auditing firm may replace audited financial statements. Within six months of the close of the year covered by the report, a copy or condensed version will be furnished to the Members. The Members will also be furnished such detailed information as is reasonably necessary to enable them to complete their own tax returns within 90 days after the end of the

year. Any Member may inspect the books and records of FMF at all reasonable times and upon reasonable prior notice to the Manager.

### **Amendment of the Operating Agreement**

The Operating Agreement may, in most cases, be amended by the Manager only upon the vote of a Member Majority. The Manager may, however, amend the Operating Agreement unilaterally without the approval of the Members with respect to the following matters: (i) changing the name of the Fund or the amount of the contribution of any Member; (ii) substituting a Member; (iii) admitting additional Members; (iv) admitting a successor or additional Manager in accordance with the terms of the Operating Agreement; (v) reflecting the withdrawal of OMF as a Member and the existence of a single membership class; (vi) correcting a false or erroneous statement in the Operating Agreement; or (vii) changing the Operating Agreement in order to accurately represent the agreement among the Members.

### **Withdrawal from Fund**

Investor Members have no right to withdraw from FMF or to obtain the return of all or any portion of their invested capital (or reinvested earnings with respect thereto) for a period of twelve months following the date Units are purchased (the “**Holding Period**”). Upon expiration of the twelve month Holding Period, Investor Members may request withdrawal of all or part of their capital accounts from FMF by giving the Manager ninety (90) days’ prior written notice indicating the Investor Member’s desire to withdraw capital from FMF and the amount of capital to be withdrawn (a “**Withdrawal Notice**”).

A Withdrawal Notice shall become effective ninety (90) days following the Manager’s receipt of the Withdrawal Notice and, in no event, earlier than the expiration of the Holding Period (the “Effective Date”). Subject to the withdrawal restrictions set forth herein, a Member’s Capital Account will be liquidated and distributed to a requesting Member in not more than four (4) quarterly installments, each equal to 25% of the total Capital Account being liquidated, commencing on or before the last day of the calendar month in which the Notice of Withdrawal became effective. Each quarterly installment payable to a withdrawing Investor Member is subject to the additional withdrawal restrictions described below.

The amount that a withdrawing Investor Member will receive from FMF is based on the withdrawing Investor Member’s capital account. A capital account is a sum calculated for tax and accounting purposes and, because there is no public market for Units, may be greater than or less than the fair market value that might be payable in connection with the sale of an Investor Member’s membership interest. (See “Capital Account Maintenance,” above.)

FMF will not establish a reserve from which to fund withdrawals of Investor Members’ capital accounts and such withdrawals are subject to the availability of cash in any calendar quarter to make withdrawal distributions (“**Cash Available for Withdrawals**”) only after: (i) all current Fund expenses have been paid (including compensation to the Manager and its affiliates as described in this Offering Circular); (ii) adequate reserves have been established for anticipated Fund operating costs and other expenses and advances to protect and preserve FMF’s investments in New Loans (such as enforcement costs and protective advances to senior lien holders); (iii) all Initial Loan Principal Distributions Cash Contributions due to OMF have been made; and (iv) adequate provision has been made for the payment of all monthly cash distributions owing to OMF and the Investor Members who elected to receive such distributions. Moreover, the Manager may, in its sole discretion, withhold up to 50% of FMF’s Cash Available for Withdrawals in any calendar quarter in order to make New Loans or otherwise preserve Fund liquidity for the benefit of the non-withdrawing Members (“**New Investment Reserves**”).

If at any time FMF does not have sufficient Cash Available for Withdrawals (after deduction of any New Investment Reserves) to distribute the quarterly amounts due to all Members that have outstanding withdrawal requests, FMF is not required to liquidate any Fund loans prior to maturity for the purpose of liquidating the capital account of withdrawing Members. In such circumstances, FMF is merely required to distribute that portion of the Cash Available for Withdrawals remaining in such quarter (after deduction of any New Investment Reserves) equally to all withdrawing Investor Members, pro rata based upon their relative Capital Account balances as of the date of each withdrawal distribution.

Notwithstanding the foregoing, the Manager reserves the right to utilize all Cash Available for Withdrawals to liquidate the capital accounts of deceased Members, ERISA plan investors or OMF's Initial Cash Contribution, in whole or in part, before satisfying outstanding withdrawal requests from any other Investor Members. The Manager also reserves the right, at any time, to liquidate the capital accounts of ERISA plan investors to the extent the Manager determines, in its sole discretion, that any such liquidation is necessary in order to remain exempt from the Department of Labor's "plan asset" regulations. Additionally, the Manager has the discretion to limit aggregate withdrawals during any single calendar year to not more than 10% of the total Fund capital accounts of all Members that were outstanding at the beginning of such calendar year.

If at any time there are outstanding unfulfilled withdrawal requests from Members that, together with all withdrawals paid or payable during any calendar quarter, would exceed 25% of the total Fund capital accounts outstanding as of the first day of the current calendar year (a "**Constructive Dissolution Vote**"), the Manager may, in its sole discretion, upon written notice to the Members, dissolve FMF pursuant to the dissolution and winding up provisions of the Operating Agreement.

### **Dissolution and Winding-Up**

FMF may be dissolved upon: (i) the vote of a Majority Interest of the Members with the consent of the Manager; (ii) the election of the Manager following a Constructive Dissolution Vote; (iii) the entry of a decree of judicial dissolution; or (iv) the sale of all or substantially all of Fund's assets. Upon dissolution of FMF, outstanding withdrawal requests will no longer be paid to withdrawing Investor Members based upon their withdrawal requests, but instead all Investor Members will participate in FMF's liquidating distributions in proportion to their relative capital accounts.

Upon dissolution and termination of FMF, a five-year winding-up period is provided for liquidating FMF's loan portfolio and distributing cash to Investor Members. Due to high prevailing interest rates or other factors, FMF could suffer reduced earnings (or losses) if a substantial portion of its loan portfolio remains outstanding and must be liquidated quickly at the end of such winding-up period. Members who complete a withdrawal from FMF prior to any such liquidation will not be exposed to this risk.

### **Limitations on Transferability**

The Operating Agreement places substantial limitations upon transferability of membership interests. Any transferee (including a donee) must be a person or entity which would have been qualified to purchase Units in this offering. A transferee must complete and execute a Subscription Agreement and submit it to the Manager. Manager must accept such Subscription to validate the transfer of ownership. A transferee who does not become a substituted Member will own an economic interest which entitles him or her only to the share of income or return of capital to which the transferor would be entitled. Economic interest holders will have no voting or inspection rights.

In addition to the restrictions imposed by the Operating Agreement, the California Commissioner of Corporations has imposed additional restrictions on transferability as set forth in Commissioners Rule 260.141.11 which is set forth below.

### **Term of Fund**

FMF will continue indefinitely until dissolved and terminated by vote of a Member Majority with the concurrence of the Manager, or upon the occurrence of a Constructive Dissolution Vote, as described above.

### **Merger with Other Business Entities**

The Manager will only have the right to merge FMF with one or more other business entities (of which the Manager may be a sponsor or cosponsor) following the consent of a Member Majority.

### **Mediation and Arbitration**

Any dispute between the parties in connection with the Operating Agreement is subject to certain mediation and arbitration requirements set forth in Section 12.5 of the Operating Agreement. Potential investors should review such requirements and limitations prior to investing.

## **PLAN OF DISTRIBUTION**

The Units will be offered and sold by FMF, with respect to which no commissions or fees will be paid to the Manager or its employees. The Manager may also retain the services of independent securities dealers or finders to locate prospective investors, who may receive selling commissions or finders' fees on the gross proceeds of their sales in amounts negotiated on a case-by-case basis, but any such commissions will be paid by the Manager or its affiliates and will not be borne by FMF. There is no firm commitment to purchase any Units, and there is no assurance that the maximum amount of this offering will be received.

## **LEGAL MATTERS**

The Manager has engaged legal counsel to advise it in connection with the preparation of this Offering Circular and the Operating Agreement, as well as the offer and sale of the Units offered hereby. Such counsel has not been retained to provide legal services in connection with the drafting of any of the loan documents, the negotiation or closing of any loans or the servicing or enforcement of any loans, nor has it represented the interests of the Members in connection with the Units offered hereby. Investors purchasing Units that wish to obtain the benefit of review by legal counsel on their behalf must retain their own attorneys to do so.

## **ADDITIONAL INFORMATION AND UNDERTAKINGS**

The Manager undertakes to make available to each offeree every opportunity to obtain any additional information from FMF or the Manager necessary to verify the accuracy of the information contained in this Offering Circular, to the extent that they possess such information or can acquire it without unreasonable effort or expense. This additional information includes, without limitation, all the organizational documents of FMF, and all other documents or instruments relating to the operation and business of FMF and material to this offering and the transactions contemplated and described in this Offering Circular.

### **COMMISSIONER'S RULE 260.141.11**

In addition to the various restrictions on the transfer of Units imposed by the Operating Agreement and state and federal securities laws generally, no Unit may be sold or transferred or any consideration received therefor without the prior written consent of the California Commissioner of Corporations, except as provided in the Commissioner's Rules. Commissioner's Rule 260.141.11 is set forth below in its entirety.

#### **§260.141.11. Restriction on Transfer**

(a) The issuer of any security upon which a restriction on transfer has been imposed pursuant to Sections 260.102.6, 260.141.10 or 260.534 shall cause a copy of this section to be delivered to each issuee or transferee of such security at the time the certificate evidencing the security is delivered to the issuee or transferee.

(b) It is unlawful for the holder of any such security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

- (1) to the issuer;
- (2) pursuant to the order or process of any court;
- (3) to any person described in Subdivision (i) of Section 25102 of the Corporations Code or Section 260.105.14 of these rules;
- (4) to the transferor's ancestors, descendants or spouse, or any custodian or trustee for the account of the transferor or the transferor's ancestors, descendants, or spouse; or to a transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;
- (5) to holders of securities of the same class of the same issuer;
- (6) by way of gift or donation inter vivos or on death;
- (7) by or through a broker-dealer licensed under the Corporations Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;
- (8) to a broker-dealer licensed under the Corporations Code in a principal transaction, or as an underwriter or member of an underwriting syndicate or selling group;
- (9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;
- (10) by way of a sale qualified under Sections 25111, 25112, 25113, or 25121 of the Corporations Code, of the securities to be transferred, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to such corporation;

(12) by way of an exchange qualified under Section 25111, 25112, or 25113 of the Corporations Code, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(13) between residents of foreign states, territories or countries who are neither domiciled nor actually present in this state;

(14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state;

(15) by the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii) delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;

(16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities; or

(17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Corporations Code but exempt from that qualification requirement by subdivision (f) of Section 25102; provided that any such transfer is on the condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section.

(c) The certificates representing all such securities subject to such a restriction on transfer, whether upon initial issuance or upon any transfer thereof, shall bear on their face a legend, prominently stamped or printed thereon in capital letters of not less than 10-point size, reading as follows:

“IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER’S RULES.

EXHIBIT A

OPERATING AGREEMENT

EXHIBIT B

SUBSCRIPTION AGREEMENT AND POWER OF ATTORNEY