

**CBP FUND V, LLC**  
**\$100,000,000 of Membership Interests<sup>[1]</sup>**  
**Minimum Investment: \$100,000<sup>[2]</sup>**

CBP Fund V, LLC, is a California limited liability company formerly known as RTC Investors V, LLC (the “**Fund**”), whose sole manager is Capital Bridge Partners, Inc., a California corporation (the “**Manager**”). The Fund is in business of investing in loans secured primarily by first deeds of trust on residential, commercial, multi-family, mixed use and unimproved properties. Fund loans are primarily business or investment purpose loans, however, consumer purpose loans may be made at the Manager's discretion. The Fund may also invest in construction loans and legalized cannabis related loans. (“See Fund Business and Lending – Lending Standards and Policies” and “Risk Factors.”) Fund loan investments may be acquired directly by the Fund or through one or more wholly owned subsidiaries (a “**Funding SPE**”). (See “Fund Lending and Business” and “Leveraging the Portfolio.”)

The Manager is now offering to qualified accredited investors, only, the right to purchase membership interests in the Fund (“**Interests**”) on the terms outlined in this Private Placement Memorandum (the “**Memorandum**”). Investors purchasing interests must be “accredited investors” and meet the suitability standards outlined in this Memorandum at the time of subscription. (See “Investor Suitability Standards.”) Fund loan investments will be selected, arranged and serviced by the Manager. (See “The Manager and its Affiliates.”)

The Fund was formed on October 6, 2014 under the name “RTC Investors V, LLC” and was previously managed by Red Tower Capital, Inc., a California corporation (“**Prior Manager**”). Management of the Fund was assumed by the Manager on January 22, 2020 and an amendment to the Fund’s Articles of Organization changing its name to CBP Fund V, LLC was filed January \_\_, 2020. The Fund’s management and name have been changed in connection with a continuing reorganization of the business interests of the principals of the Prior Manager and certain of their affiliates. (See “The Manager and its Affiliates.”) As part of this reorganization certain Fund members and Fund loans with an aggregate principal balance of approximately **[\$4.8 million]** are expected to be transferred from the Fund to a new fund formed and managed by the Prior Manager at the end of February 2020. Members of a second fund managed by the Manager and loans with an aggregate principal balance of approximately **[\$5.75 million]** are expected to be transferred into the Fund at or about this time. (See “The Manager and its Affiliates – CBP Fund, LLC” and “Operations to Date – Loan Transfer Transactions.”) As of December 31, 2019, the Fund had a total equity capitalization of approximately **[\$19,730,759]**, and held **[30]** loans with an aggregate principal balance of approximately **[\$25,724,133]**; however, these amounts do not include the net increase in total Fund equity and loan portfolio principal expected upon the completion of the pending affiliate loan transfers. (See “Operations to Date.”)

Investors admitted to the Fund as members (“**Members**”) will become non-managing members of the Fund governed by the Fund’s Second Amended and Restated Operating Agreement, a copy of which is attached hereto as hereto as Exhibit A (the “**Operating Agreement**”).<sup>[3]</sup> Pursuant to the terms of the Operating Agreement, Members have the right to a cumulative, non-compounded preferred return of 9.0% per annum on their invested capital (“**Preferred Return**” or “**Member Preferred Return**”) payable quarterly from accrued net income earned over the course of each calendar quarter after the Manager receives an asset management fee equal to one percent (1%) of total Fund assets, payable quarterly (i.e. 0.25% per quarter) (the “**Asset Management Fee**”).<sup>[4]</sup> Fund profits in excess of the aggregate Preferred Returns payable to the Members and the Asset Management Fee will be paid 50% to the Members and 50% to the Manager (the “**Manager Profit Distributions**”). (See “Terms of the Offering - Member Preferred Returns,” “Compensation to the Manager and its Affiliates” and “Risk Factors – Risks Related to Ownership of Interests.”)

***There is a high degree of risk associated with an investment in Interests. You should purchase Interests only if you can afford a complete loss of your investment.*** See “Risk Factors” beginning on page 13 for certain factors investors should consider before buying Interests. Significant risks include the following:

- The Fund is a “blind pool” because the Manager has the discretion to select the specific loans that will be invested in with the proceeds of this offering and investors will not have the opportunity to evaluate or approve loan investment before they are made.
- Loans invested in by the Fund will not be insured by any government agency, instrumentality or entity.
- An investment in Interests is subject to substantial withdrawal restrictions and investors will have a limited ability to liquidate their investment in the Fund.
- The Fund will use leverage which could hinder the Fund’s ability to make distributions and cause losses to the Fund.
- The transfer of Interests is restricted and no public market for Interests exists or is likely to develop.
- The Manager is entitled to various forms of compensation and is subject to certain conflicts of interest.
- Investors will have no right to participate in the management of the Fund and will have only limited voting rights.

	Price to Investors	Selling Commissions <sup>[5]</sup>	Net Proceeds to Fund <sup>[6]</sup>
Per \$1.00 Interest	\$1.00	\$0	\$1.00

Minimum Total	\$100,000	\$0	\$100,000
Maximum Total	\$100,000,000	\$0	\$100,000,000

(Footnotes appear on page iv)

Manager:  
**CAPITAL BRIDGE PARTNERS, INC.**  
One Sansome Street, Suite 1500  
San Francisco, CA 94104  
(415) 820-4770 | [www.capbridgepartners.com](http://www.capbridgepartners.com)

*The date of this Memorandum is January 30, 2020.*

Prospective purchasers of Interests should read this Memorandum in its entirety.

**THESE INTERESTS ARE BEING OFFERED SOLELY TO ACCREDITED INVESTORS TO WHOM A COPY OF THIS MEMORANDUM HAS BEEN PERSONALLY DELIVERED BY THE MANAGER. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY WITH RESPECT TO ANY OTHER PERSON.**

**INVESTORS SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS MEMORANDUM. THE FUND HAS NOT AUTHORIZED ANYONE TO PROVIDE INVESTORS WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS MEMORANDUM. ANY PROSPECTIVE PURCHASER OF MEMBERSHIP INTERESTS WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE MANAGER IMMEDIATELY TO CHECK ITS ACCURACY.**

**THE INFORMATION IN THIS MEMORANDUM IS ACCURATE ONLY AS OF THE DATE OF THIS MEMORANDUM, REGARDLESS OF THE DATE OF DELIVERY OF THE MEMORANDUM OR THE SALE OF ANY OF THE INTERESTS. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALES HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE FUND SINCE THE DATE HEREOF.**

**THE SALE OF INTERESTS COVERED BY THIS MEMORANDUM HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS PROVIDED FOR UNDER SECTION 4(a)(2) OF THE ACT AND REGULATION D THEREUNDER RELATING TO CERTAIN LIMITED OR PRIVATE OFFERINGS. CONSEQUENTLY: (I) THE FUND IS NOT REQUIRED TO COMPLY WITH SPECIFIC DISCLOSURE REQUIREMENTS THAT APPLY TO OFFERINGS REGISTERED UNDER THE SECURITIES ACT; (II) THE COMMISSION HAS NOT PASSED UPON THE MERITS OF OR GIVEN ITS APPROVAL TO THE INTERESTS THE TERMS OF THE OFFERING, OR THE ACCURACY OR COMPLETENESS OF THIS MEMORANDUM OR ANY OTHER OFFERING MATERIALS; (III) INTERESTS ARE SUBJECT TO SUBSTANTIAL LEGAL RESTRICTIONS ON TRANSFER AND RESALE AND INVESTORS SHOULD NOT ASSUME THEY WILL BE ABLE TO RESELL THEIR SECURITIES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.**

**ANY PERFORMANCE DATA UTILIZED IN CONNECTION WITH THE OFFERING OF INTERESTS REPRESENTS PAST PERFORMANCE FOR THE STATED PERIOD, ONLY, AND DOES NOT GUARANTY FUTURE RESULTS. THE FUND IS NOT REQUIRED BY LAW TO FOLLOW ANY STANDARD METHODOLOGY WHEN CALCULATING AND REPRESENTING PERFORMANCE DATA AND THE PERFORMANCE OF THE FUND MAY NOT BE DIRECTLY COMPARABLE TO THE PERFORMANCE OF OTHER PRIVATE OR REGISTERED FUNDS. CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE PERFORMANCE DATA PRESENTED FOR EARLIER PERIODS. INVESTORS MAY OBTAIN CURRENT PERFORMANCE DATA BY CONTACTING THE MANAGER AT THE CONTACT INFORMATION PROVIDED ABOVE.**

**THE SALE OF INTERESTS HAS NOT BEEN QUALIFIED WITH THE CALIFORNIA COMMISSIONER OF BUSINESS OVERSIGHT UNDER THE CALIFORNIA CORPORATE SECURITIES LAW OF 1968, AS AMENDED (THE “LAW”), OR IN ANY OTHER JURISDICTION IN RELIANCE UPON THE EXEMPTION FROM SUCH QUALIFICATION REQUIREMENTS PROVIDED FOR UNDER SECTION 25102.1 OF THE LAW AND SIMILAR EXEMPTIONS PROVIDED UNDER THE LAWS OF EACH JURISDICTION WHETHER INTERESTS ARE OFFERED AND SOLD.**

THERE IS NO MARKET FOR INTERESTS AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. SUBSTANTIAL COMPENSATION WILL BE PAID TO THE MANAGER AND ITS AFFILIATES, WHICH HAS NOT BEEN DETERMINED BY ARMS-LENGTH NEGOTIATION. THE MANAGER AND ITS AFFILIATES ARE ALSO SUBJECT TO CERTAIN CONFLICTS OF INTEREST. (SEE "RISK FACTORS," "COMPENSATION TO MANAGER AND ITS AFFILIATES" AND "CONFLICTS OF INTEREST.")

THE FUND WILL NOT BE REGISTERED AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940 (THE "INVESTMENT COMPANY ACT"). CONSEQUENTLY, INVESTORS WILL NOT BE AFFORDED THE PROTECTIONS OF THE INVESTMENT COMPANY ACT. THE MANAGER OF THE FUND IS NOT REGISTERED AS AN INVESTMENT ADVISOR WITH THE SEC OR CERTIFIED AS AN INVESTMENT ADVISOR IN CALIFORNIA OR UNDER THE LAWS OF ANY OTHER STATE OR JURISDICTION BASED UPON THE EXPECTATION THAT IT IS OR WILL BE EXEMPT FROM SUCH REQUIREMENTS. POTENTIAL INVESTORS SHOULD CONSULT WITH THEIR OWN INDEPENDENT SECURITIES PROFESSIONALS TO DETERMINE THE SUITABILITY OF INTERESTS AND THE LOAN INVESTMENTS MADE BY THE FUND FOR THEIR OWN PERSONAL FINANCIAL SITUATION AND INVESTMENT OBJECTIVES.

PROSPECTIVE PURCHASERS SHOULD NOT REGARD THE CONTENTS OF THIS MEMORANDUM OR ANY OTHER COMMUNICATION FROM THE MANAGER, THE FUND OR ANY AFFILIATE THEREOF AS INVESTMENT ADVICE REGARDING THE VALUE OF THE INTERESTS, THE ADVISABILITY OF INVESTING IN INTERESTS OR THE SUITABILITY OF AN INVESTMENT IN INTERESTS FOR ANY POTENTIAL INVESTOR'S INDIVIDUAL SITUATION. EACH POTENTIAL INVESTOR SHOULD CONSULT WITH HIS OR HER OWN INDEPENDENT INVESTMENT ADVISOR OR OTHER INVESTMENT PROFESSIONAL TO ASSESS THE SUITABILITY OF THIS INVESTMENT FOR HIS OR HER OWN FINANCIAL SITUATION. EACH POTENTIAL INVESTOR SHOULD ALSO CONSULT WITH HIS OR HER OWN LEGAL COUNSEL, ACCOUNTANT AND ANY OTHER PROFESSIONAL NECESSARY TO ASSESS THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT WITH SPECIFIC REFERENCE TO HIS OR HER OWN TAX SITUATION PRIOR TO SUBSCRIBING FOR INTERESTS.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE SECURITIES ACT OF 1933 AND THE SECURITIES LAWS OF CERTAIN JURISDICTIONS GRANT PURCHASERS OF SECURITIES SOLD IN VIOLATION OF THE REGISTRATION OR QUALIFICATION PROVISIONS OF SUCH LAWS THE RIGHT TO RESCIND THEIR PURCHASE OF SUCH SECURITIES AND TO RECEIVE BACK THEIR CONSIDERATION PAID. THE MANAGER BELIEVES THAT THE OFFERING DESCRIBED IN THIS MEMORANDUM IS NOT REQUIRED TO BE REGISTERED OR QUALIFIED. MANY OF THESE LAWS GRANTING THE RIGHT OF RESCISSION ALSO PROVIDE THAT SUITS FOR SUCH VIOLATIONS MUST BE BROUGHT WITHIN A SPECIFIED TIME, USUALLY ONE YEAR FROM DISCOVERY OF FACTS CONSTITUTING SUCH VIOLATION. SHOULD ANY INVESTOR INSTITUTE SUCH AN ACTION ON THE THEORY THAT THE OFFERING CONDUCTED AS DESCRIBED HEREIN WAS REQUIRED TO BE REGISTERED OR QUALIFIED, THE MANAGER WILL CONTEND THAT THE CONTENTS OF THIS MEMORANDUM CONSTITUTED NOTICE OF THE FACTS CONSTITUTING SUCH VIOLATION.

*Footnotes from cover page:*

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- [1] The maximum of the offering may be increased by the Manager at any time.
- [2] The minimum purchase of Interests for cash is \$100,000; however the Manager may accept subscriptions in lesser amounts in its sole discretion. If approved by the Manager, Interests may also be issued in exchange for loans including loans deemed contributed to the Fund by members of CBP I LLC, a mortgage fund affiliate with, and managed by the Manager. The minimum par value of such loans is subject to Manager discretion and may be higher or lower than the \$100,000 minimum investment amount applicable to cash subscriptions. (See "Terms of the Offering – Subscription Agreements; Admission to the Fund.")
- [3] The Fund is currently governed by the First Amended and Restated Operating Agreement for the Fund dated July 1, 2020 ("Prior Agreement"); however, the Manager and the Existing Members have or will adopt the Second Amended and Restated Operating Agreement for the Fund attached to this Memorandum which, by its terms will be made effective as of the April 1, 2020 (the "Effective Date"). The amendments to the Prior Agreement reflected in the Operating Agreement are limited to: (i) those necessary to reflect the change of the name of the Fund from "RTC Investors V, LLC" to "CBP Fund V, LLC"; (ii) those necessary to reflect the termination of Prior Manager and the appointment of the Manager as the new manager of the Fund; (iii) eliminating a prior right of the Manager to adjust the Preferred Return rate payable to the members, subject to a minimum preferred return rate of 8.0% per annum; and (iv) those necessary to increase the stated Preferred Return payable to the Members to a fixed 9.0% per annum. Except to the extent expressly stated in this Memorandum, all references to the "Operating Agreement" refer to the Second Amended and Restated Operating Agreement attached as Exhibit A.
- [4] The Prior Agreement provides for a Preferred Return rate of 8.0% per annum which is increased to 9.0% per annum in the amended Operating Agreement (see, footnote [3] above). While the Effective Date of the amended Operating Agreement is April 1, 2020, the increased Preferred Return payable thereunder will be applied retroactively to January 1, 2020. Consequently, Interests issued following the date of this Memorandum and prior to the April 1, 2020 effective date will not be adversely affected by the continued effectiveness of the Prior Agreement during this time.
- [5] Interests will be offered and sold directly by the Manager and employees of the Manager who will not receive selling commissions or other compensation from the Fund in connection with the sale of Interests. Interests may also be offered and sold by independent broker-dealers. Currently, any commissions or placement fees payable to such brokers will be borne by the Manager and will not be payable by the Fund or the Members; however, in the future, the Manager may amend the terms of the offering to provide for payment of broker commissions by those members acquiring their Interests through such brokers. There is no firm commitment to purchase or sell any of the Interests. (See "Risk Factors.")
- [6] "Net Proceeds to the Fund" is calculated without deducting organizational and offering expenses of the Fund, including without limitation all legal and accounting expenses, reproduction costs, selling expenses and filing fees incurred in connection therewith. The Fund's initial organizational and offering expenses have been paid by the Manager; however, such expenses are reimbursable to the Manager by the Fund over a four year period. The Fund will also be responsible for paying all ongoing offering and operating costs incurred by the Fund. (See "Use of Proceeds" and "Compensation to the Manager and its Affiliates.")

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## **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 Memorandum. A thorough examination of the entire Memorandum is recommended.

Fund Objectives..... The Fund is a California limited liability company formed for the purpose of making or investing in loans secured by deeds of trust on commercial and residential real estate within and outside California. The Interests offered hereby represent membership interests in the Fund.

The Fund's objectives are to (1) yield a competitive risk adjusted rate of return relative to other pooled mortgage investments; (2) to protect and preserve Fund capital; and (3) provide cash distributions to electing members. There is no guaranty that any of these objectives will be met. (See "Risk Factors.")

Equity Capitalization ..... Maximum equity capitalization of \$100,000,000; subject to increase by the Manager. (See "Terms of the Offering – Formation of the Fund; Maximum Offering Amount.")

Leverage ..... The Fund currently has a revolving line of credit facility with a maximum principal balance of \$8 million from Avidbank Bank. The Fund's current credit line is utilized by the Manager to both fund loans in excess of those funded with the proceeds of this offering and to fund loan opportunities at times when the Fund lacks sufficient liquidity to do so and to better ensure that Fund capital remains actively invested. The use of leverage to fund loans in excess of the proceeds of this offering can increase the Fund's yield through retention of the "spread" earned on the leveraged portion of the portfolio; however, any use of leverage entails certain additional risks and may create adverse tax consequence for certain tax exempt investors. (See "Leveraging the Portfolio – Additional Risks of Leverage" "ERISA Considerations" and "Federal Tax Considerations – Unrelated Business Taxable Income.")

Member Preferred Return..... 9% per annum payable quarterly on an annualized basis (i.e. 2.25% per quarter) from the Fund's net income after payment of all Fund expenses (including the 1% Asset Management Fee). (See "Compensation to the Manager and its Affiliates.") The Member Preferred Return is cumulative within each year but non-cumulative from year to year. Payment of the Members Preferred Return is not guaranteed by the Manager or its affiliates. (See "Description of the Interests – Member Preferred Return.")

Fund profits in excess of the Preferred Return payable to the Members will be allocated 50% to the Members (and allocated among the Members pro rata based upon their relative capital accounts) and 50% to the Manager. (See "Summary of the Operating Agreement – Profits and Losses.")

Manager..... Capital Bridge Partners, Inc., One Sansome Street, Suite 1500, San Francisco, California 94104; (415) 820-4770; [www.capbridgepartners.com](http://www.capbridgepartners.com).

Prior Experience .....	The Manager and its principals have substantial prior experience in the real estate and mortgage lending industries. (See “The Manager and Its Affiliates.”)
Compensation to Manager and its Affiliates .....	The Manager will be entitled to an Asset Management Fee equal to one percent (1.0%) of total Fund assets, payable quarterly (i.e. 0.25% of the value of total Fund assets held at the end of each quarter). The Manager will also be entitled to 50% of all Fund profits in excess of the Member Preferred Return payable quarterly and the 1% Asset Management Fee. The Manager will also receive origination and extension fees payable by Fund borrowers and other fees and forms of broker compensation from Fund borrowers and the Fund. (See “Compensation to Manager and its Affiliates.”)
Suitability Standards.....	Interests will be sold exclusively to “accredited investors” as defined in Rule 506(a) of Regulation D. Individual investors may be required to provide evidence of their accredited status. Qualified investors admitted to the Fund will become Members. (See “Investor Suitability Standards.”)
Mortgage Loan Portfolio .....	Fund loans will primarily be secured by first priority deeds of trust encumbering: (1) improved residential real estate (primarily non-owner occupied properties); (2) mixed use properties (i.e., property containing both residential and commercial components); or (3) commercial, multi-family and industrial real estate. The Fund may also make Fund loans secured by unimproved land (including fully entitled, partially entitled or unentitled land). The Manager also has the discretion to make junior loans to the extent it deems such loans in the interest of the Fund.  The Fund will also make construction and rehabilitation loans to fund the construction or rehabilitation of the property securing the loan and may make cannabis real estate related loans where the borrower and or the security property is involved in some aspect of a state’s legalized cannabis industry. (See “Business and Lending - Lending Standards and Policies.”) Construction and Rehabilitation loans will generally be underwritten based upon the “as completed” or “as rehabilitated” value of the security property and involve additional risk. (See “Risk Factors – Risks Related to Construction and Rehabilitation Loans.”) Cannabis related loans will be subject to the increased risks associated with financing a newly legalized industry and the continued illegality of cannabis at the federal level. For this reason, the Manager has decided to limit the aggregate principal amount of cannabis related loans to no more than 20% of the total principal amount of the Fund’s portfolio at the time any cannabis loan is made. (See “Business and Lending - Lending Standards and Policies” and “Risk Factors – Risks Related to Cannabis Loans.”) Loans will be selected exclusively by the Manager and will be made while this offering is continuing.
	Fund loans may be held in one or more Funding SPEs (i.e., limited liability companies or other entities wholly owned by the Fund and formed to own one or more Fund loans).

Cash Distributions .....	Choice of (1) regular quarterly cash distributions of Fund income, or (2) income credited to capital account and compounded. (See “Terms of the Offering – Election to Receive Quarterly Distributions.”) An investor may elect to switch from one of these options to the other by giving the Manager 60 days’ prior written notice. Special rules apply with respect to distributions to ERISA investors. (See “ERISA Considerations” and “Summary of Operating Agreement Cash Distributions.”)
Withdrawal .....	Investors have no right to withdraw all or any portion of their investment in the Fund for a period of one (1) year after their purchase of Interests. Thereafter, investor withdrawals from the Fund will be subject to cash flow and other significant restrictions. (See “Summary of Operating Agreement – Withdrawal from Fund” and “Risk Factors – Risk Related to Ownership of Interests.”)
Restrictions on Transfers .....	There are substantial restrictions on transferability of Interests under federal and state securities laws and as set forth in the Operating Agreement. (See “Terms of Offering – Restrictions on Transfer” and “Risk Factors – Risks Related to Ownership of Interests.”)
Term of the Fund .....	Indefinite. (See “Summary of Operating Agreement – Term of the Fund.”)
Liquidity .....	The purchase of Interests is an illiquid investment. There is no public market for Interests and none is expected to develop in the foreseeable future and the withdrawal of Member’s invested capital is limited by Fund cash flow and other restrictions. (See “Risk Factors – Risks Related to Ownership of Interests” and “Summary of Operating Agreement – Withdrawal from Fund.”)
Reports to Investors .....	Quarterly status reports and annual financial statements. Annual financial statements will be audited by a third party auditing firm selected by the Manager prior to dissolution of the Fund and thereafter until total Fund assets have been reduced to \$5,000,000. The Manager may also terminate the annual audit requirement, subject to the affirmative consent of a majority interest of the Members. (See "Summary of Operating Agreement – Accounting and Reports.")
Voting .....	Investors will have a limited right to vote on matters concerning the Fund and will be subject to actions approved by, at a minimum, a majority interest of the Members. (See “Summary of Operating Agreement – Rights and Liabilities of Members and “Risk Factors – Risks related to Ownership of Interests.”)
Risks .....	An investment in Interests is subject to certain risks that should be carefully evaluated before an investment in Interests is made. (See “Risk Factors.”)
Tax Consequences .....	An investment in Interests involves certain tax consequences which should be evaluated before an investment in Interests is made. (See “Federal Income Tax Consequences.”)

Conflicts of Interest ..... The Fund's business operations will be managed entirely by the Manager and its principals which are subject to certain conflicts of interest. (See "The Manager and its Affiliates" and "Conflicts of Interest.")

### **FORWARD-LOOKING STATEMENTS**

This Memorandum 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 Memorandum, including, without limitation, the "Use of Proceeds" and "Lending Standards and Policies" sections, and include statements regarding the Fund's intent, belief or current expectation about, among other things, trends affecting the markets in which the Fund operates, its business, financial condition and growth strategies. Although the Fund 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 Memorandum. If any of the events described in "Risk Factors" occur, they could have an adverse effect on the Fund'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 Memorandum. Prospective investors should not place undue reliance on any forward-looking statement. The Fund is not obligated to update forward-looking statements.

### **INVESTOR SUITABILITY STANDARDS**

Interests are being offered and sold in reliance upon the exemption from federal registration provided for under section 4(a)(2) of the Securities Act of 1933 (the "Act") and Rule 506(c) of Regulation D issued by the Securities and Exchange Commission, thereunder ("Regulation D"). As such, Interests will be sold only to "accredited investors," as such term is defined in Regulation D ("Accredited Investors"). All Accredited Investors must be of substantial means with no need for liquidity with regard to this investment and must meet certain eligibility and suitability standards, some of which are set forth below. Each investor must execute a Subscription Agreement in the form attached hereto as Exhibit B. 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.

Individual Investors may also be required to provide additional documentation upon which the Manager can verify such Investor's status as an Accredited Investor. Non-individual investors may also be required to provide verification documentation to the extent such documentation is deemed necessary by the Manager to comply with the Act, Regulation D, or any other state or federal securities laws applicable to this offering. Existing Members desiring to purchase additional Interests in the Fund must meet the suitability standards outlined herein at the time each additional purchase of Interests is made.

#### **Accredited Investor Standards**

Accredited Investors include individuals and entities who meet the requirements set forth in Rule 501(e) of Regulation D, including those set forth below.

##### ***Individuals***

Each Accredited Investor that is an individual must meet one of the following tests:

- (1) **Income Test**. The investor is an individual: (i) whose individual income exceeded \$200,000 in each of the two most recent calendar years, and who has a reasonable expectation of reaching the same income level in the current calendar year; or (ii) An individual whose joint income with his/her spouse exceeded \$300,000 in each of the two most recent calendar years, and who has a reasonable expectation of reaching the same income level in the current year (the "**Income Test**").

(2) An individual whose individual net worth, or whose joint net worth with such individual's spouse, at the time of purchase exceeds \$1,000,000 (exclusive of the value of the individual's primary residence)<sup>1</sup> (the "Net Worth Test").

#### ***Entities, Trusts, Etc.***

An entity (such as a trust, partnership or corporation) will be an Accredited Investor if it was not formed for the specific purpose of purchasing Interests and it is one of the following:

- (1) Any corporation, partnership, limited liability company or other business entity in which all of the equity owners are Accredited Investors;
- (2) Any trust, with total assets in excess of \$5,000,000 if (i) the trust has not been formed for the specific purpose of purchasing Units, and (ii) the trust's purchase of Interests is being directed by a sophisticated person with the knowledge and experience in financial and business matters required to capably evaluate the merits and risks of an investment in Units;
- (3) Any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA") with either (i) \$5,000,000 in total assets (regardless of liabilities) or (ii) a bank, insurance company or registered investment advisor as its trustee;
- (4) Any self-directed ERISA plan with investment decisions made solely by persons that are Accredited Investors; or
- (5) An individual retirement account ("IRA") owned by an Accredited Investor.

#### ***Other Accredited Investors***

Certain other entities may also be eligible to be Accredited Investors. Prospective investors with questions should communicate with the Manager for further information.

#### **Verification of Accredited Status**

Interests are being offered pursuant to Rule 506(c) of Regulation D which became effective as of September 23, 2013 ("Rule 506(c)"). Pursuant to Rule 506(c), the Manager is required to take "reasonable steps to verify" that all purchasers of Interests meet the accredited investor standards set forth above at the time such Interests are purchased. To meet this requirement, individual investors (i.e., natural persons) purchasing Interests will generally be required to deliver a Third Party Confirmation (as defined below) to the Manager at the time of subscription. The Manager may, however, utilize other verification procedures available under Rule 506(c).

#### ***Third Party Confirmation***

The Manager will generally require an investor to verify his or her accredited status by delivering to the Manager a written confirmation of accredited status that meets the requirements of Rule 506(c)(2)(ii)(C) (a "Third Party Confirmation") including each of the following:

(1) The Third Party Confirmation must be issued by: (i) a registered broker-dealer; (ii) an investment adviser registered with the Securities and Exchange Commission; (iii) a licensed attorney who is in good standing under the laws of the jurisdictions in which he or she is admitted to practice law; or (iv) a certified public accountant who is duly registered and in good standing under the laws of the place of his or her residence or principal office; and

(2) The Third Party Confirmation must include a representation by the issuing party that he, she or it has taken reasonable steps to verify that the investor is an accredited investor within three months of the investor's purchase of Interests and has determined that the investor is an accredited investor.

#### ***Other Safe Harbor Verification Methods***

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<sup>1</sup> See the Subscription Agreement attached hereto as Exhibit B for further information regarding calculation of an investor's net worth or joint net worth.

The use of a Third Party Confirmation to verify an investor's accredited status is considered complying with a "safe harbor" provision of Rule 506(c) because the Manager's receipt of a Third Party Confirmation itself is deemed reasonable verification under the rule. There are additional safe harbor provisions of Rule 506(c); however, they require each investor to deliver personal financial information to the Manager and for the Manager to assess each investor's financial situation and to confirm their accredited status.<sup>2</sup> The Manager may elect to utilize one of these verification methods on a case-by-case basis but has the right to require the delivery of a Third Party Confirmation as a condition of the investment.

#### ***Principles-Based Method of Verification***

In addition to the "safe harbor" provisions of Rule 506(c), the SEC has enumerated a "principals based method of verification" under Rule 506(c) that allows for verification on grounds that are reasonable in the context of the particular facts and circumstances of each purchaser and transaction ("**Principle Based Verification**"). The SEC has and continues to issue guidance with respect to Principals Based Verification and the adequacy of particular verification procedures utilized in connection with Rule 506(c) offerings and the Manager may rely upon Principle Based Verification (i.e., utilize non-safe harbor verification procedures) if it determines that a verification procedure falls within Rule 506(c) based upon the SEC guidance available at the time. Nonetheless, the use of Principle Based Verification does not provide the certainty afforded by the use of one of the "safe harbor" provisions of Rule 506(c) and involves additional risk. (See "Risk Factors – Risks Related to the Ownership of Interests.")

#### **Additional Standards**

Interests may be acquired for investment purposes only, and not with a view to, or for resale in connection with, any further distribution thereof.

### **TERMS OF THE OFFERING**

This offering is made to a limited number of qualified investors to purchase Interests in the Fund. The minimum subscription for Interests from each investor is \$100,000; provided, however, that the Manager may accept subscriptions from investors in lesser amounts in its sole discretion. Interests represent a membership interest in the Fund.

#### **Formation of the Fund; Maximum Offering**

The Fund was formed on October 6, 2014 upon the filing of the Articles of Organization with the Office of the California Secretary of State and began doing business in November of 2014 when the Fund's original minimum capitalization of \$500,000 was reached. The Fund's original maximum offering amount of \$15,000,000 was reached in mid-2018 and is currently \$100,000,000. This maximum may be increased by the Manager at any time without notice to the Members. This offering may also be terminated at the option of the Manager at any time.

#### **Subscription Agreements; Admission to the Fund**

Potential investors may purchase Interests by completing and executing the Subscription Agreement and Power of Attorney attached as Exhibit B (the "**Subscription Agreement**") and delivering the Subscription Agreement to the Manager. Interests may be purchased for cash ("**Cash Subscriptions**") or, if approved by the Manager, in exchange for the assignment of loans to the Fund for inclusion in the Fund's loan portfolio ("**Loan Subscriptions**"). Subscription Agreements from prospective investors will be accepted or rejected by the Manager promptly after receipt. The Manager reserves the right to reject any subscription submitted for any reason. The Manager or its affiliates may also acquire interests in exchange for Cash Subscriptions or Loan Subscriptions on the

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<sup>2</sup> For example, individuals claiming they are accredited under the Income Test are required to provide W-2s, Form 1099s, Schedule K-1s or similar IRS issued documentation reflecting an annual income in excess of the Income Test for two years prior to the investment. Individuals claiming they are accredited under the Net Worth Test are required to provide reliable documentation evidencing both the investors assets and liabilities dated within three months of the subscription date including providing personal bank statements, brokerage statements, certificates of deposit (i.e., CDs) or other forms of asset verification. See the Subscription Agreement attached hereto as Exhibit B for further information regarding the documentation that may be required from individual investors to verify their accredited status.

terms and conditions set forth below, and all such Interests shall be subject to the same rights and privileges of Interests issued to any other Member.

### ***Cash Subscriptions***

Investors making Cash Subscriptions ("Cash Subscribers") may purchase Interests by delivering the completed Subscription Agreement to the Manager together with the amount of their subscription. Cash Subscriptions, once accepted, are non-cancelable and irrevocable and subscription funds received in connection with Cash Subscriptions are non-refundable for any reason, except with the consent of the Manager. Subscription Funds received from Cash Subscribers will only be transferred to the Fund's operating account (the "Operating Account") when such funds required to: (1) fund or invest in a loan; (2) pay fund debts; (3) create appropriate reserves; (4) pay withdrawal requests to existing Members; or (5) pay other proper expenses of the Fund as determined by the Manager. Prior to transfer, accepted subscription funds may be deposited by the Manager into a non-interest bearing subscription account at a financial institution selected by the Manager (the "Subscription Account") and held for the account of investors. When transferring monies from the Subscription Account to the Operating Account, the Fund will generally try to transfer the full amount of a Cash Subscriber's subscription; however, partial transfers of subscription funds may be made in the Manager's discretion. Such transfers will generally be made in the order Cash Subscriptions are received by the Manager; however, the Manager may prioritize such transfers based upon the amount of Cash Subscriber's subscription or any other criteria determined by the Manager.

Interests will generally be issued to Cash Subscribers upon acceptance of the Cash Subscription and transfer of the subscription funds into the Operating Account (the "Admission Date"). On a subscribing Member's Admission Date: (1) the Member will receive a capital account credit and Interests will be issued to the Member in the subscription amount transferred plus any accrued Interim Interest payable thereon; (2) the investor will be admitted as a Member of the Fund; and (3) the Member Preferred Return will begin to accrue on the transferred subscription amount.

Notwithstanding the foregoing, subscription funds remaining in the Subscription Account, or checks from investors that are physically held by the Manager, shall be returned to the investor without interest after the expiration of 120 days from the date the subscription funds were first received from the investor. After an investor's initial purchase of Interests, an investor may at any time, and from time to time, subscribe to purchase additional Interests so long as the offering is open.

### ***Loan Subscriptions***

In addition to issuing Interests in exchange for Cash Subscriptions, the Manager may accept Loan Subscriptions whereby the Fund will issue Interests to approved Members in exchange for the assignment of one or more loans to the Fund<sup>3</sup>. Investors seeking to make Loan Subscriptions ("Loan Subscribers") must receive the approval of the Manager prior to submitting their Subscription Agreement. If approved, Loan Subscriptions may be made by delivering a completed Subscription Agreement to the Manager together with all documentation and information requested by the Manager in connection with such approval. Once made, the Manager has the sole right to accept or reject any Loan Subscription and any loan proposed in connection therewith. Notwithstanding the foregoing, in no event will any Loan Subscription be accepted unless the loan proposed in connection therewith (a "Proposed Loan") meets the lending criteria set forth in this Memorandum. (See "Fund Business and Lending – Lending Standards and Policies.")

If approved, Loan Subscribers will become Members upon the effective assignment of the Proposed Loan to the Fund (the "Assignment Date"). Interests issued in exchange for Loan Subscriptions will be issued in an amount equal to the Par Value of the assigned loan (as defined below) as of the Assignment Date, or such other value reasonably determined by the Manager to be in the best interest of the Fund (the "Contribution Value"), and on the Assignment Date: (i) the Loan Subscriber will be issued Interests and will receive a capital account credit equal to the Contribution Value; (ii) the Loan Subscriber will be admitted as a Member of the Fund; and (iii) the

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<sup>3</sup> To facilitate the Loan Acquisition Transaction, existing members of the Manager's affiliate, CBPF, may also elect to make "rollover subscriptions" in which the Manager will determine the net value of CBPF's loans (at their Par Value) and any other assets transferred to the Fund (at their fair market value) and each CBPF member will be deemed to have contributed their pro rata share of such assets to the Fund in exchange for Interests. (See "The Manager and Its Affiliates – CBP Fund, LLC" and "Operations to Date.")

Member Preferred Return will begin to accrue on the Contribution Value of the investment. For the purposes hereof, a loan's "**Par Value**" means the unpaid principal balance of the loan plus all accrued and unpaid interest and other charges owing under the loan as of the Assignment Date.

### **Manager Contributions; Dissolution Subordination Provisions**

At the Fund's inception, the Prior Manager of the Fund was the named "Initial Member" of the Fund and was required to make an initial capital contribution to the Fund of \$300,000 which has since been redeemed by the Prior Manager and replaced by a capital contribution of \$300,000 made by the current Manager (the "**Initial Member Contribution**"). Pursuant to the Operating Agreement, the Initial Member Contributions is only repayable to the Manager as the Initial Member following dissolution of the Fund and only after the other Members, including the Manager with respect to any Additional Manager Contributions (discussed below), have received the full return of their invested capital and payment of all accrued Member Preferred Returns (the "**Dissolution Subordination Provisions**").

The Manager or its affiliates may also make capital contributions in addition to the Initial Member Contribution either in cash or by assigning one or more loans to the Fund in exchange for a capital account credit and the issuance of Interests in an amount equal to the Par Value of each such loan ("**Additional Manager Contributions**"). Additional Manager Contributions made to the Fund (if any) are not subject to the Dissolution Subordination Provisions and are entitled to the same distribution rights as each other Member. The amount of all capital contributions made by the Manager whether as the Initial Member Contribution or Additional Manager Contributions are credited to a single capital account established for the Manager; however, only the portion of such capital account attributable to the \$300,000 Initial Member Contribution (the "**Restricted Capital Balance**") is subject to the Dissolution Subordination provisions discussed above. Other than the applicability of the Dissolution Subordination Provisions to the Initial Member's Restricted Capital Balance, all Interests received by the Manager or its affiliates have the same rights and privileges as any other Member including the right to vote and otherwise consent to actions subject to Member approval under the Operating Agreement. (See "Summary of the Operating Agreement.")

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

Subscription amounts transferred into the Fund may be utilized by the Manager for any proper Fund purpose, including funding loans, creating appropriate reserves or paying proper Fund expenses. Additionally, the Manager may accept subscriptions for the purpose of fulfilling Member withdrawal requests if at the time of receipt of a subscription there is a "waiting list" for withdrawals from the Fund. (See "Summary of Operating Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of the Interests.") 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 Interests.

### **DESCRIPTION OF THE INTERESTS**

The Interests offered hereby represent membership interests in the Fund and upon acceptance of an investor's subscription and admission to the Fund each investor will receive a credit to his or her capital account balance in the amount of his or her investment and will be admitted to the Fund as a Member. The rights of the Members and the Manager are governed by the Fund's Operating Agreement, a copy of which is attached hereto as Exhibit A. Potential investors should read this Memorandum and the Operating Agreement in their entirety prior to purchasing Interests.

### **Profit/Loss Allocations; Member Preferred Return**

Profits or losses earned from Fund operations will be determined by the Manager on a quarterly basis and after deduction of all accrued expenses of the Fund (including the Asset Management Fee payable to the Manager). Such, quarterly profits, if any, will first be allocated entirely to the Members until each Member has received profit allocations equal to a cumulative, non-compounded return on his or her invested capital of 9% per annum (based upon each investor's capital account balance as of the last day of that quarter). Quarterly profits in excess of the above will be allocated 50% to the Members (and further allocated among the Members pro rata based upon their

relative capital account balances) and 50% to the Manager (the “**Manager Profit Interest**”). Operating losses, if any, will be allocated to the Members in accordance with their relative capital account balances.

The Members’ Preferred Return is payable solely from the net income (i.e., profits), if any, earned by the Fund in each calendar quarter. The Member Preferred Return is cumulative over the course of each year but non-cumulative from year to year. Consequently, if Fund profits allocated to Members for any calendar year are less than the Member Preferred Return, the deficiency will not accumulate or be paid from any profits earned in subsequent years. As a result, the Manager may be entitled to Manager Profit Distributions in any year where profits exceed aggregate Member Preferred Returns even if Members have not been paid their full Member Preferred Returns in one or more prior years. Conversely, if the Manager receives Manager Profit Distributions in one or more years but in a subsequent year the Members fail to earn the Member Preferred Return, the Manager has no obligation to return any Manager Profit Distributions received for previous years. (See “Risk Factors – Risks Related to the Ownership of Interests.”)

Upon dissolution of the Fund, profit allocations to the Initial Member will be subordinated to the Member Preferred Returns allocable to the other Members and Member loss allocations will be subordinate to allocations to the Initial Member up to any positive Restricted Capital Balance. (See, “Summary of the Operating Agreement – Profits and Losses.”)

### **Cash Distributions to the Members**

Upon subscription for Interests, an investor must elect whether to receive quarterly cash distributions from the Fund or to allow his or her earnings to compound for the term of the Fund. An investor may elect to switch from compounding to quarterly distributions or vice versa upon 60 days’ prior notice to the Manager. Notwithstanding the foregoing, the Manager reserves the right, at any time, to immediately commence making quarterly cash distributions to ERISA plan investors who previously compounded earnings in order to ensure that the Fund remains exempt from the Plan Asset Regulations pursuant to the “significant participation” exemptions. (See “ERISA Considerations.”)

Income allocable to investors who elect to compound their earnings will be retained by the Fund for investing in further mortgage loans or other proper Fund purposes. The income from these further loans will be allocated among all investors; however, investors who compound will be credited with an increasing proportionate share of such earnings than investors who receive quarterly distributions since their capital accounts (upon which the Members’ Member Preferred Return and profits interests are calculated) will increase over time. (See “Summary of Operating Agreement – Capital Account Maintenance.”)

Quarterly distributions made to Members electing such distributions will be made to the extent of each Member’s allocable share of the Fund’s quarterly net income up to the amount of such Member’s accrued Preferred Return for the quarter. Net income calculations will necessarily be based upon the Manager’s good faith estimate of the Fund’s income and liabilities (including estimated reserves for loan losses) as of the quarter 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 the Fund in later quarters. (See “Risk Factors – Risks Related to Ownership of Interests.”)

Following the Fund’s dissolution and during the wind down of Fund operations, distributions will be made to all Members in accordance with the distribution provisions set forth in Article X of the Operating Agreement. (See “Summary of the Operating Agreement – Cash Distributions to the Members.”)

### **Restrictions on Transfer**

The sale of Interests in this offering has not been registered with the Securities and Exchange Commission (“SEC”) under the Securities Act of 1933, as amended (the “Act”), and is being made in reliance upon the exemptions from such registration requirements provided for under Section 4(a)(2) of the Act and Regulation D promulgated by the SEC for certain limited or private offerings. The Interests cannot be resold without registration under the Act or pursuant to an exemption therefrom. Similarly, the sale of these Interests has not been qualified with the securities commissioner of any state, in reliance on the exemption from such qualification requirements provided under the provisions of state securities laws relating to the private placement of securities.

There is no public or trading market for the Interests, and the Manager does not anticipate that one will develop in the future. The Manager does not anticipate registering the Interests with the SEC to facilitate resales. Therefore, Investors must be prepared to hold the Interests indefinitely, without the expectation of liquidity in this investment. Under SEC Rule 144, investors will be required to hold their shares for at least six months and possibly one year before being able to dispose of them, unless the sale is registered under the Act or another exemption is available. (See “Risk Factors – *There is no market for the Interests.*”)

The Operating Agreement places the additional restriction that the Manager must give its prior written consent, which may be withheld in the Manager’s sole discretion, to any sale, transfer or encumbrance of all or any part of an Interest in the Fund. Also, Investors have limited rights to withdraw from the Fund. (See “Summary of the Operating Agreement.”) Therefore, Investors needing access to their invested capital in the near term should not invest.

## **FUND BUSINESS AND LENDING**

The Fund has been formed by the Manager to make or otherwise invest in real estate secured loans selected by the Manager. The Fund’s objectives are to: (1) yield a competitive risk-adjusted rate of return relative to other pooled mortgage investments; (2) to protect and preserve Fund capital; and (3) provide cash distributions to Electing Members. There is no guaranty that any of these objectives will be met.

### **General Lending Business**

The Manager is a licensed California real estate broker and will be responsible for selecting, underwriting and arranging all Fund loans. Fund loans will generally be funded directly by the Fund and the Fund will appear as the lender on its loans; however, loans may also be funded through one or more Funding SPE’s established by the Manager to facilitate third party financing or otherwise. To the extent Fund loans are or have been funded by a Funding SPE, the Fund will make capital contributions to the Funding SPE as needed to fund any portion of the loans not funded with the proceeds of the third party financing for which it was formed and any expenses incurred in connection with such loans (if any). Loan payments and other amounts payable to the Fund by borrowers will be made directly to the Fund or, in the case of loans funded by a Funding SPE, to the applicable Funding SPE and thereafter distributed 100% to the Fund as its sole member. (See "Summary of the Operating Agreement – Profits and Losses.”)

The Manager will earn points and other types of broker fees and compensation generally ranging between 1% to 5% of loan principal, on loans it arranges or acquires for the Fund. The Manager is also entitle to the 1% Asset Management Fee (i.e., 0.25% of the Fund assets as of the last day of the quarter) and 50% of the Fund’s profits after payment of all Member Preferred Returns. (See “Compensation to the Manager and its Affiliates” and “Conflicts of Interest.”) In some cases, Borrowers 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 loans will name the Fund as the initial lender or will be assigned to the Fund upon purchase of the loan. The Fund 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 other than extension fees and any other fees payable to the Manager. (See “Compensation to the Manager and Affiliates.”)

The Fund will generally be an “asset” rather than a “credit” lender. This means that the Fund may rely primarily on the value of the real property securing Fund loans to protect its investment. To determine the value of the real property, the Fund will conduct a Market Value Analysis (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. (See “Risk Factors – Risks Related to the Fund’s Business.”)

In some circumstances, the Fund may purchase undivided fractional interests in loans (“**Fractional Interests**”) which will be held by the Fund and other lenders (which may include affiliates of the Fund and the Manager) rather than funding an entire loan; however, the Fund will only acquire Fractional Interests in loans that meet the loan standards set forth in the “Lending Standards and Policies” section, below. Fractionalized loans may be serviced by the Manager or a third party loan servicer who will act as the agent of the Fund and the other holders

of Fractional Interests in the loan. (See "Risk Factors – Risks Relating to the Fund's Business," "Conflicts of Interest – Fractional Interests," and "Compensation to the Manager and its Affiliates.")

## **Lending Standards and Policies**

The Manager is responsible for selecting 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. The Fund's loans are not insured or guaranteed by any governmental agency or private entity.

### ***General Standards for Mortgage Loans***

The Fund may make or otherwise invest in loans secured by: (1) owner occupied and non-owner occupied residential real estate; (2) mixed use properties (i.e., property containing both residential and commercial components); (3) commercial real estate; and (4) unimproved properties, including fully entitled, partially entitled, unentitled or agricultural land. The Fund may also make or invest in construction or rehabilitation loans made to borrowers to fund the construction or rehabilitation of the security property. Such loans will involve additional risks of loss. (See "Risk Factors – Risks Related to Rehabilitation Loans and Construction Loans.")

The Fund may also make loans on real estate that is related to state-legal cannabis businesses, including grow facilities, dispensaries and manufacturers of cannabis related products ("Cannabis Operators"). Cannabis real estate related loans ("Cannabis Loans") may be made (i) directly to Cannabis Operators to fund the acquisition, refinancing or development of commercial, industrial or agricultural properties being used to grow or dispense cannabis, or to manufacture cannabis related products; or (ii) to non-Cannabis Operators seeking to acquire, refinance or develop properties for lease or sale to Cannabis Operators for such uses. If Cannabis Loans are made by the Fund, the Fund will take reasonable actions to ensure that all Cannabis Operators related to such loans (as borrowers or otherwise) are operating legally and in accordance with current state, county and city regulations applicable to such operations. There is no guaranty, however, that potential violations of such laws will not go undetected at the time the loan is made or that violations will not occur thereafter. (See "Risk Factors – Risks Related to Cannabis Loans.") Due to the additional risks associated with Cannabis Loans, the Manager has agreed not to make any Cannabis Loan if closing the loan would result in the total principal amount of all Cannabis Loans held by the Fund to exceed 20% of the aggregate principal balance of all Fund loans in the Fund's loan portfolio at that time.

### ***Priority of Mortgages***

Fund loans will, in most cases, be secured by first deeds of trust, which are senior to all other recorded monetary liens other than liens for taxes, or the assessments of special assessment districts to fund streets, utilities or other public improvements. The Manager may also make loans secured by a junior liens on the security property (e.g., a second or third deed of trust) to the extent deemed in the interest of the Fund.

Fund loans may also be secured by one or more additional deeds of trust encumbering other property owned by a borrower on a loan or its affiliates where, in the reasonable judgment of the Manager, such cross-collateralization is necessary to meet the applicable loan-to-value ratio requirements or to further enhance the security for a loan. Such additional Deeds of Trust may be junior to one or more other encumbrances on the security property.

### ***Geographic Area of Lending Activity***

Fund loans are currently secured by deeds of trust on properties located in California only; however, Fund loans may be made in any state, and the Fund may take a security interest in property outside California as additional collateral for a loan. The Manager anticipates that the geographic area of the Fund's lending activity will broaden over time; however, there is no guaranty this will be the case. (See "Risk Factors – Risks Related to the Fund's Business.")

### **Market Value Analysis/Loan-to-Value Ratios**

The amount of the Fund's loan on the property securing the loan (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 state-licensed independent appraiser; however, the Manager may have an appraisal or a written evaluation done by an independent broker or other non-certified appraiser (including a principal of the Manager) who is qualified and experienced to value the subject property.

Type of Property	Loan-to-Value Ratio
(a) Improved Single-Family Residence (owner occupied)	80%
(b) Improved Single-Family Residence - Non-Owner Occupied	80%
(c) Improved Commercial and Income-Producing Properties	75%
(d) New construction – Residential (as completed value)	75%
(e) New construction – Commercial (as completed value)	65%
(f) Land - single-family residentially zoned lot or parcel which has installed offsite improvements including drainage, curbs, gutters, sidewalks, paved roads, and utilities as mandated by the political subdivision having jurisdiction over the lot or parcel	65%
(g) Land - zoned for and, if required, approved for subdivision as commercial or residential development	50%
(h) Other Unimproved Land	35%

The above-stated loan-to-value ratios may be increased if, in the sole discretion of the Manager, a higher loan amount is warranted by the circumstances of the particular Loan (such as personal guaranties, prior loan history with the particular borrower, market conditions, etc.). However, in no event shall the aggregate principal amount of loan, together with the unpaid principal amount of any encumbrances upon the property senior thereto, exceed 80% of the fair market value of improved real property or 50% of the fair market value of unimproved real property, except in the case of a single-family zoned lot or parcel described in (f) above, which shall not exceed 65% percent of the fair market value of that lot or parcel.

The above stated loan-to-value ratios will also not apply to purchase-money financing offered by the Fund to sell any real estate owned (acquired through foreclosure or otherwise) 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 the Fund, in its sole discretion.

The value of the security property on construction and rehabilitation loans will generally be determined by appraisals conducted by a qualified independent appraiser. 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.")

### ***Terms of Loans***

The term of Fund loans vary at the discretion of the Manager. Fund loans will generally have a term of between six months and five years, but may provide for longer terms. Fund loans generally provide for monthly payments of interest only with a "balloon payment" at the end of the term, but may occasionally be partially-or-fully-amortizing over the term of the loan, especially if the loan is for a term of five or more years.

### ***Escrow Conditions***

Fund loans are funded through an escrow account handled by a qualified title insurance or escrow company or the Loan Servicer (See "Loan Servicing" below). With each new loan the escrow agent will be instructed not to disburse any funds until the following minimum conditions are met (to the extent applicable to the loan):

(1) Satisfactory title insurance coverage is obtained for the loan, with the title insurance policy naming the lender as the insured and providing title insurance in an amount equal to at least the principal amount of the loan. Title insurance insures only the validity and priority of the deed of trust, and does not insure the lender against loss by reason of other causes, such as diminution in the value of the security property, over-appraisals, borrower's defaults, etc.

(2) Satisfactory fire insurance is obtained for the loan (if applicable), which insurance names the Fund as loss payee in an amount equal to the loan amount. (See "Risk Factors—Uninsured Losses.")

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

(4) All loan documents (notes, deeds of trust, construction loan agreements etc.) and insurance policies name the Fund as payee and beneficiary or additional loss insured, as applicable. In the event the Fund purchases loans, the Fund receives 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.

### ***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 the Fund loan according to its terms, but such considerations are subordinate to a determination that a borrower has sufficient equity in the security property to satisfy the loan-to-value ratios described above. Therefore, the Fund may make loans to borrowers who are in default under other of their obligations (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. (See "Risk Factors – Risks Related to the Fund's Business.")

### ***No Loans to Manager***

No loans will be made by the Fund to the Manager or to any of its affiliates other than loans (if any) made in connection with the sale of defaulted loans or REO Properties as described in the section of this Memorandum entitled "Conflicts of Interest – Sale of Defaulted Loans or Real Estate Owned to Affiliates."

### ***Purchase of Loans from Affiliates.***

The Manager is an active mortgage loan broker and existing loans funded or acquired by the Manager may be purchased by the Fund. The Fund may also purchase loans from third parties. All loans purchased by the Fund must satisfy the lending guidelines described above. Generally, the purchase price to the Fund 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 the Fund.

### ***Loan Diversification.***

No Fund loan (or Fund interest in a Loan) will exceed the lesser of (a) \$10,000,000 or (b) 20% of total Fund capital at the time of the loan. The Manager has decided not to invest more than 20% of total Fund capital in Cannabis Loans, including loans secured by properties utilized in state-legal Cannabis industries (see above).

### ***Reserve Fund.***

A contingency reserve fund may be retained in cash for the purpose of covering unexpected cash needs of the Fund, if the Manager believes it to be in the best interests of the Fund. The amount of this reserve fund, if any, would be established by the Manager and may vary from time to time. This reserve fund may be held in bank accounts, money market accounts or other liquid assets.

### **Manager Discretion with Respect to Loan Standards**

The Manager will ordinarily follow the above lending standards and other policies adopted by the Manager for the purpose of achieving the goals of the Fund. However, these lending standards may be exceeded or modified if deemed to be in the best interest by the Fund as determined by the Manager.

### **Fund Accounting Procedures**

The Manager, in consultation with the Fund's accountants, is responsible for determining the accounting policies and procedures of the Fund. In connection therewith, the Manager will assess the Fund's portfolio at intervals determined by the Manager to be reasonable in light of current market conditions in order to account for or recognize any impairment to the loans comprising the Fund's portfolio or to otherwise comply with generally accepted accounting principles ("GAAP").

### **Loan Brokerage and Servicing**

The Manager currently acts as the Fund's exclusive loan broker pursuant to its real estate broker's license and arranges for the funding or purchase of 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 also currently "self-services" the Fund in that all collections of loan payments, administrative services and loan enforcement actions upon a default are performed by the Manager in its capacity of the Manager of the Fund. The Manager may, however, utilize one or more qualified third parties to perform these servicing functions in the future in its sole discretion. Any fees or other compensation payable to such third parties may be payable by the Fund.

If the Fund makes or purchases a Fractional Interest in a loan, the Manager or a third party loan servicer selected by the Manager will service the loan on behalf of the Fund and the other Fractional Interest holders (the "Co-Lenders") pursuant to the terms of a loan servicing agreement entered into by the Fund, each of the Co-Lenders (the "Co-Lender Servicing Agreement") and the servicer of the loan. 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 including the right to approve: (1) extended forbearances, loan extensions or material loan modifications; (2) any forgiveness of principal or regular interest payable under the loan; (3) the terms and conditions of any entity formed to take title to the security property following foreclosure; and (4) foreclosure by judicial disclosure rather than under the power of sale contained in the deed of trust. Consequently, to the extent the Fund invests in less than 50% of the total Fractional Interests outstanding in a loan, the Fund will be subject to additional risks not inherent in whole loans or loans in which the Fund holds a majority interest. (See "Risk Factors – Risks Relating to the Fund's Business.") Moreover, if the Manager acts as the servicing agent of both the Fund and the other Co-Lenders, the Manager will be subject to additional conflicts of interest whether or not the Fund holds a majority or minority interest in the loan. (See "Conflicts of Interest.")

### **Sale of Loans**

The Fund invests in mortgage loans for investment purposes and does not anticipate engaging in real estate operations in the ordinary course of business (except as may be required if the Fund forecloses on a property on

which it has invested in a mortgage loan and takes over ownership and management of the property). The Fund may sell mortgage loans (or fractional interests therein) when the Manager determines that it appears to be advantageous for the Fund to do so, based upon then current interest rates, the length of time that the loan has been held by the Fund and the overall investment objectives of the Fund.

## **THE MANAGER AND ITS AFFILIATES**

The Manager has the sole authority to manage the affairs of the Fund and the sole authority to: (1) identify loans to be made or purchased by the Fund; (2) monitor and assess loan portfolio performance and set the Fund's accounting procedures; (3) oversee loan servicing and make loan enforcement decisions; (4) manage and sell any properties acquired by the Fund through foreclosure; and (5) otherwise direct the day-to-day operations of the Fund. Members have limited rights to vote on or direct the actions of the Fund and must rely upon the Manager to make decisions in the best interests of the Fund. (See "Risk Factors – Risks Related to the Manager.") Information regarding the Manager and its principals and affiliates is set forth below.

### **Manager –Capital Bridge Partners, Inc.**

The Fund's Manager, Capital Bridge Partners, Inc., is a California corporation licensed as a real estate broker by the California Bureau of Real Estate ("BRE") (BRE Lic. No. 02102315) and a Mortgage Loan Originator registered with the Nationwide Mortgage Licensing System & Registry ("NMLS") (NMLS I.D. No. 1922416). The Manager was founded in 2019 and has been an active mortgage lender and independent private real estate investment firm since that time. The Manager's founders, Daniel Rabb and Ken Wei, were also founders of the Fund's Prior Manager, Red Tower Capital, Inc., and as part of a reorganization of the business interests of the principals of the Prior Manager, the Manager replaced the Prior Manager as the Fund's manager on January 22, 2020 (the "**Manager Change Date**"). At RTC and prior to formation of the Fund, RTC sponsored six other mortgage funds (the "**Prior Funds**") and since inception through the Management Change Date, RTC made or arranged over 367 loans with an aggregate principal balance of over \$149,177,265 on behalf of the Prior Funds and other private investors. The Manager's operations are conducted under the direct oversight of its founders, who collectively have over 47 years of real estate industry experience, including expertise in mortgages, development, property management, acquisitions and sales. Further information regarding Mr. Rabb and Mr. Wei is set forth below.

#### ***Daniel Rabb***

Mr. Rabb co-founded Capital Bridge Partners, Inc in 2019. Danny has worked in private real estate lending for 10 years, and was a co-founder and partner at Red Tower Capital, Inc where he and his partners originated over 375 loans and \$150 million of capital. Previously, he was a Principal at Industry Capital Management, a private equity firm specializing in real estate investment. Prior to IC, Mr. Rabb worked as a Director at Brog Properties with a core focus around transit-oriented, infill development and the re-creation of downtown Oakland. Mr. Rabb also served as the Director of Property Acquisitions & Management for ATEL Capital Group. He began his career in New York where he held positions at The Staubach Company and at JP Morgan Chase in their Real Estate Investment Banking Group. Mr. Rabb received a B.A. from Tufts University and an MBA from the Haas School of Business at the University of California, Berkeley. He received his Chartered Financial Analyst (CFA) charterholder designation and is a licensed California Real Estate Broker and Mortgage Loan Originator (BRE Lic. No. 01441275; NMLS I.D. No. 357894).

#### ***Kenneth Wei***

Mr. Wei co-founded Capital Bridge Partners, Inc in 2019. Ken has worked in private real estate lending for 17 years, and was a co-founder and partner at Red Tower Capital, Inc where he and his partners originated over 375 loans and \$150 million of capital. Previously, Mr. Wei founded his own business, VGI Venturestar Group and in 2002 alone funded over \$200 million of loans. In 2007, he complemented this business with a second company to originate private money loans. Before starting Venturestar, Mr. Wei was a branch manager at New Century Financial and began his career in 1996 as a Loan Officer with Ameriquest Mortgage. He has also ventured into residential investments and founded Pathmark Group, a successful developer of TIC units in San Francisco. Mr. Wei received a B.S. from San Francisco State University and is a licensed California Real Estate Broker and Mortgage Loan Originator (BRE Lic. No. 01298771; NMLS I.D. No. 285938).

## **CBP Fund I, LLC**

In November 2019, the Manager formed CBP Fund I, LLC, a California limited liability company (“CBPF”), for the purpose of making loans similar to those of the Fund. As of the Manager Change Date, CBPF had made five loans with an aggregate principal balance of approximately **\$4,177,500** (the “**CBPF Loans**”). The Manager now intends to have the Fund acquire all of the CBPF Loans from CBPF in a transaction (the “**Loan Acquisition Transaction**”) whereby: (i) the Manager will transfer the CBPF Loans to the Fund at their Par Value (plus the net amount of any cash and other assets held by CPBF after payment and establishment of reserves for all CBPF expenses through an anticipated liquidation) (the “**Transferred Assets**”); (ii) the Manager will determine the percentage interest of each CBPF member in the finally determined value of the Transferred Assets based upon the CBPF members’ relative capital account balances in CBPF as of the date of transfer (each CBPF member’s “**Liquidation Amount**”); and (iii) the Transferred Assets will be deemed distributed to the CBPF members, pro rata based upon their relative Liquidation Amounts, and recontributed to the Fund in exchange for Interests. It is currently anticipated that the Loan Acquisition Transaction will be completed in late February or early March of 2020 and that the net effect of the Loan Transfer Transaction and the Loan Acquisition Transaction will result in a net increase in both the total principal balance of the Fund’s loan portfolio and its overall equity capitalization to that existing prior to the Loan Transfer Transaction. (See “Operations to Date – Loan Transfer Transactions.”)

## **Affiliate Mortgage Funds**

At RTC, the partners of the Manager sponsored and managed six other mortgage funds formed for the purpose of investing in loans: (i) Red Tower Capital I, LLC (“**Fund I**”), (ii) Red Tower Capital II, LLC (“**Fund II**”), (iii) Red Tower Partners I, LLC (“**Fund III**”), RTC Investors I, LLC (“**Fund IV**”), RTC Investors II, LLC (“**Fund V**”), and RTC Investors III, LLC (“**Fund VI**”). Further information regarding these funds is set forth below. Fund V and any other future funds are collectively referred to herein as, the “**Affiliated Funds**.”

### ***Red Tower Capital I, LLC***

Fund I was formed in May 2011 and was liquidated in September 2013. During its existence, Fund I invested in 14 loans with an aggregate principal balance of \$1,147,980. Fund I was structured as a closed-end pool and members received a fixed 8.00% preferred return. In 2013, as the portfolio loan balance contracted due to loan payoffs, the fund was liquidated, and the remaining loans were rolled into Red Tower Capital II, LLC.

### ***Red Tower Capital II, LLC***

Fund II was formed in May 2012. It has funded 33 loans during its life with a total balance of \$5,569,548 and a total net return since inception of 8.37%. Members in Fund II received a preferred return of 6.00% and 50% of all income over the preferred return. Members are subject to a management fee and typical fund costs. The fund was liquidated on December 31, 2018 and the remaining loans were rolled into the Fund.

### ***Red Tower Partners I, LLC***

Fund III was formed in August 2011. It has funded 75 loans during its life with a total balance of \$17,223,660. Fund III was established to accommodate the very specific needs of one member. The member received a fixed 9.00% preferred return. The fund was liquidated on December 31, 2018 and the remaining loans were rolled into the Fund.

### ***RTC Investors I, LLC***

Fund IV was formed in August 2012. It has funded 27 loans during its life with a total balance of \$4,022,068. Fund IV was established to accommodate the specific needs of one member. The member received an 8.50% priority return. The fund was liquidated on December 31, 2014 and the remaining loans were rolled into the Fund.

### ***RTC Investors II, LLC***

Fund V was formed in January 2014. It has funded 41 loans during its life with a total balance of \$20,178,537. The net investor return since inception was 9.43%. As of December 31, 2019, the fund had 9 loans with a total balance of \$7,212,290. The net investor return for the quarter was 9.41%. Members in Fund V currently receive a preferred return of 8.00% and 50% of all income over the preferred return, though this might be renegotiated soon. The Manager maintains a small subordinate position in the fund. Member return is subject to typical fund costs.

### ***RTC Investors III, LLC***

Fund VI was formed in May 2013. It has funded 39 loans during its life with a total balance of \$17,163,650. The net investor return since inception was 10.75%. Members in Fund VI receive a preferred return of 8.00% and 50% of all income over the preferred return. The Manager maintains a small subordinate position in the fund. Member return is subject to a management fee and typical fund costs. The fund was liquidated on December 31, 2014 and the remaining loans were rolled into the Fund.

### **COMPENSATION TO MANAGER AND AFFILIATES**

The following discussion summarizes the forms of compensation which may be received by the Manager and its affiliates. None of the following compensation was determined by arm's-length negotiations. The Manager retains the right to terminate all or any portion of the business relationship of the Manager with the Fund at any time, in which event the Fund would seek to retain one or more other firms to perform the various services to be rendered by the Manager as described below.

<b><u>Form of Compensation</u></b>	<b><u>Estimated Amount or Method of Compensation</u></b>
Broker Compensation .....	The Manager or an affiliate is entitled to retain certain forms of broker compensation collected from Fund borrowers including: (i) loan origination fees (i.e. "points"); (ii) loan processing and documentation fees collected by the Fund at loan closing; (iii) and all extension fees and similar fees collected from borrowers over the term of each loan. Loan points may be payable as up front origination fees or exit fees payable at maturity and are anticipated to average between 1% and 5% of the principal amount of each loan but may be higher or lower depending upon market conditions and the transaction. Loan processing fees and loan documentation fees are paid by borrowers at prevailing industry rates, of approximately \$350 per loan for documentation fees, \$750 per loan for administrative fees and \$750 per loan for underwriting fees. These fees may vary depending on market conditions and/or the transaction.
Asset Management Fee .....	One percent (1%) of total assets under management payable quarterly (i.e., 0.25% of the assets under management as of the last day of each calendar quarter). <sup>4</sup>

<sup>4</sup> For this purpose, "assets under management" means the aggregate value of all Fund assets held directly or indirectly through RTC Funding or any other subsidiary of the Fund (at their book value) without deduction of expenses or Fund liabilities (including any outstanding obligations under the Credit Line or other debt obtained by the Fund to fund loans) and includes: cash, notes (at book value), real estate owned (at book value), accounts receivable, advances made to protect loan investments or real estate owned, unamortized organizational expenses and any other Fund assets held by the Fund as of any date.

<u>Form of Compensation</u>	<u>Estimated Amount or Method of Compensation</u>
Subordinated Profits Interest .....	The Manager is entitled to 50% of any Fund profits after payment of (i) all Fund expenses (including the Asset Management Fee and other compensation payable to the Manager); and (ii) all Member Preferred Returns.
Extension Fees.....	The Manager is entitled to retain 100% of all extension fees collected from borrower on Fund loans.
Reimbursement of Expenses to Manager:.....	Reimbursement for all ongoing operating and administrative expenses of the Fund.

### OPERATIONS TO DATE

The Fund was formed on October 6, 2014 and has been investing in mortgage loans since that time. Information regarding the Fund's operations to date and its current portfolio of loans is set forth below. Unless otherwise indicated all information is current through December 31, 2019. The Loan Transfer Transaction and the Loan Acquisition Transaction discussed below and elsewhere in this Memorandum have not been completed as of the date of this Memorandum and are therefore not reflected in the December 31, 2019 information. These transactions, however, and their expected net effect on the Fund are discussed under the "Loan Transfer Transactions" subheading below.

### Investor Member Profits and Losses

Average annual yields paid by the Fund to the Members are reflected in the table below.

<b>Year</b>	<b>Average Annual Yield</b>
2015	10.97%*
2016	10.57%*
2017	9.84%
2018	9.85%
2019	9.91%**

\* Yields stated include the waiver of fees and/or profits payable to the Manager under the Operating Agreement. The Manager has no obligation to waive any fees or profits in the future.

\*\* The Fund is currently in the process of obtaining its year-end audit and yield information stated for 2019 is based upon unaudited financial information that year.

### Loan Portfolio

As of December 31, 2019, the Fund had a total equity capitalization of approximately \$19,730,759. and held 30 loans with an aggregate principal balance of approximately \$25,724,133. The lien priorities and types of properties securing these loans is summarized below.

### Lien Priority

<b>Lien Priority</b>	<b>Aggregate Principal Amount of Loans</b>	<b>Percentage of Total Loan Principal</b>
First Trust Deeds	\$24,423,133	94.94%
Second Trust Deeds	\$1,301,000	5.06%

Total:	\$25,724,133	100%
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Type of Property	Number of Loans	Aggregate Principal Amount of Loans
Improved 1-4 Single Family Residential Properties (Owner Occupied)	0	\$0
Improved 1-4 Single Family Residential Properties (Non-Owner Occupied)	18	\$13,180,750
Improved Multi-Family Residential	3	\$2,018,500
Improved Commercial/Industrial	9	\$10,524,883
<b>TOTAL:</b>	<b>30</b>	<b>\$25,724,133</b>

#### ***Loan Defaults and Loan Loss Reserve***

As of December 31, 2019, no Fund loan was in material default or on non-accrual status. The Fund's Loan Loss Reserve balance was \$71,708 as of December 31, 2018 and \$126,488.75 through December 31, 2019. The Manager believes such revenues are adequate given the size of the Fund's loan portfolio. It is possible, however, that additional loan loss reserves and/or charges against Fund income will be required if the Manager determines that loan loss estimates, at any time, exceed the then current Loan Loss Reserves accumulated by the Fund.

#### **Capital Withdrawals**

Withdrawals of the Members are subject to a one year Holding Period and additional cash flow and other restrictions. (See "Summary of the Operating Agreement – Withdrawal from Fund") In connection with the Loan Transfer Transaction, Fund Members seeking to retain their investment with the Prior Manager have requested the withdrawal of approximately \$\_\_\_\_\_ which will be satisfied through the deemed distributions and contributions of loans discussed below and elsewhere in this Memorandum. These withdrawals and the corresponding loan transfers are currently expected to occur on or about February 28, 2020. As of the date of this Memorandum, no other withdrawal requests from Members were pending.

#### **Loan Transfer Transactions**

The Fund was formed on October 6, 2014 under the name "RTC Investors V, LLC" and was previously managed by the Prior Manager (i.e., Red Tower Capital, Inc.) The current Manager, Capital Bridger Partners, Inc., was formed by two of the three principals of the Prior Manager and, as part of a separation of the principals business interests, the Manager assumed management of the Fund on January 22, 2020. (See "The Manager and its Affiliates.") As part of their separation, the Manager and the Prior Manager agreed to the terms of the Loan Transfer Transaction whereby Fund Members electing to retain their investments with the Prior Manager would be allowed to withdraw from the Fund and have their invested capital transferred into a new fund managed by the Prior Manager. To facilitate this transfer, a portion of the Fund's loan portfolio will be transferred from the Fund to the Prior Manager's fund and deemed distributed to withdrawing Fund members (in liquidation of their interest in the Fund) and simultaneously contributed to the new fund.

The Manager is also the manager of CBPF, a mortgage fund that invests in loans similar to the Fund and that currently has a portfolio of loans that meet the Fund's lending criteria. (See "The Manager and its Affiliates - CBP Fund, LLC" and "Fund Business and Lending – Lending Standards and Policies.") In addition to completing the Loan Transfer Transaction, the Manager intends to transfer all of the CBPF Loans and each of the CBPF members into the Fund in the Loan Acquisition Transaction that will also be treated as a deemed distribution of the CBPF Loans to its members and a deemed contribution of those loans to the Fund in exchange for Fund Interests. (See "The Manager and its Affiliates – CBP Fund, LLC.") The loans transferred in the Loan Acquisition Transaction and the loans acquired in Loan Acquisition Transaction (collectively, the "**Loan Transfer Transactions**") will each be valued for all purposes at their Par Value. Cash and other assets (at their fair market

value) may also be transferred and deemed distributed and contributed in connection with the Loan Transfer Transactions to the extent available and appropriate in light of the interests being liquidated in the various entities.

The aggregate principal balance of the loans that will be transferred out of the Fund in the Loan Transfer Transaction is approximately **[\$ ] million**. The aggregate principal balance of the loans that will be acquired in the Loan Acquisition Transaction is approximately **[\$ ] million**. Consequently, the total principal value of the Fund's loan portfolio following consummation of the Loan Transfer Transactions is expected to increase by **\$** . Loans transferred out of the Fund in the Loan Transfer Transaction also include approximately **\$1.8 million** of Cannabis Loans while none of the loans acquired in the Loan Acquisition Transaction will be Cannabis Loans. Consequently, the Fund's exposure to the risks of Cannabis Loans will also be decreased when both the Loan Transfer Transaction and Loan Acquisition Transaction are completed.

#### **Additional Information**

A copy of the Fund's 2018 audited financial statements and unaudited financial statements through 2019 are attached to this Memorandum as Exhibit C. Further details about the Fund's loan portfolio are included in those financial statements and is available upon request.

THE FOREGOING DISCUSSION AND THE INFORMATION PROVIDED IN THE ATTACHED FINANCIAL STATEMENTS ARE PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY, AND ARE NOT A GUARANTY OF FUTURE RESULTS. MOREOVER, ALL SUCH INFORMATION IS REFLECTIVE OF FUND PERFORMANCE AND OPERATIONS FOR THE STATED PERIODS, ONLY. CURRENT PERFORMANCE OF THE FUND MAY BE LOWER OR HIGHER THAN THE PERFORMANCE DATA PRESENTED FOR SUCH EARLIER PERIODS. INVESTORS SHOULD REQUEST MORE RECENT FINANCIAL INFORMATION FROM THE MANAGER PRIOR TO INVESTING IF THAT INFORMATION WOULD BE A FACTOR IN DETERMINING WHETHER TO INVEST IN INTERESTS.

#### **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. The Fund's business operations and affairs are managed entirely by the Manager, which is subject to certain conflicts of interest. (See "Conflicts of Interest.")

The Fund has not been separately represented by independent legal counsel in its formation or in its dealings with the Manager, and Members must rely on the good faith and integrity of the Manager 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 company affairs. Each Member or his legal representative has the right, upon reasonable request, for purposes reasonably related to the interest of that person as a Member, to inspect and copy the company books and records; however, by executing the Operating Agreement, each Member acknowledges that such information is confidential proprietary information and agrees not to disclose such information to any third parties without the consent of the Manager. (See "Summary of Operating Agreement – Rights and Responsibilities of Members.").

No rebates or kickbacks or give-ups may be received by the Manager nor may the Manager participate in any reciprocal business arrangements which would circumvent the fiduciary duties of the Manager to the Members.

The Operating Agreement provides that the Manager shall have no liability to the Fund 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 the Fund shall indemnify the Manager against liability

and related expenses (including reasonable attorneys' fees and costs) incurred in dealing with the Fund, 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 the Fund. Members who believe that a breach of the Manager's fiduciary duty has occurred should consult with their own counsel.

## **RISK FACTORS**

Any investment in the Interests offered hereby involves a significant degree of risk and is suitable only for investors who have no need for liquidity in their investments and 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 the Fund could be materially adversely affected.

### **Risks Related to the Fund's Business**

#### ***The Fund is in the lending business and is subject to risks related to high-yield mortgage loans.***

Fund loans are underwritten primarily on an asset basis rather than a credit basis. While the Fund may take certain steps to determine a borrower's ability to repay the loan according to its terms, such considerations are generally subordinate to a determination that a borrower has sufficient equity in the security property to satisfy the maximum loan-to-value ratios described in the "Fund Business and Lending" section of this Memorandum. (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 develop a property or 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 or construction projects; 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, causing losses and extra costs to the Fund, which may lead to lower returns or losses for investors.

#### ***The real estate market may experience stagnation and declines in property values.***

The Fund's loan portfolio will be secured primarily by non-owner occupied residential properties (including single family homes of one to four units) and commercial properties. During the real estate market decline following the financial crisis, the most dramatic and well-publicized declines in property values (and the largest loan losses) occurred in the single-family residential sector; however, other property categories, including commercial and non-owner occupied residential, also experienced significant declines in value and a dramatic slowdown in sales. Moreover, the portion of the Fund's portfolio secured by a mix of commercial, industrial, construction and multi-family residential properties is not insulated from the risk of loan losses resulting from an overall decline in property values generally. If the market value of property securing Fund loans decline significantly or declines below the amount of a Fund loan on such property, borrowers may have difficulty paying or refinancing the loan or selling the property, causing losses to the Fund and investors.

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

While the Fund may make loans in any state, Fund loans will initially be made and secured primarily by properties in Northern California. Therefore, the Fund will be dependent upon the continued demand for housing, office, retail and other commercial and residential property in that region. The Fund'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. As the Fund grows over time the Manager intends to expand the Fund's lending to other states in which case these risks will be reduced.

***The Fund could suffer defaults on the loans in its portfolio and may have to foreclose on the underlying real estate collateral.***

The Fund is in the business of lending money and, as such, takes the risk of defaults by borrowers and other risks faced by lenders. Most Fund loans provide for monthly payments of interest only or have long amortization schedules, but may be entirely due and payable in one to five years. Thus, the borrower has 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 may be increased in the case of Construction Loans. (See “Risks Associated with Construction Loans,” below.)

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

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

The Fund is frequently an “asset” rather than a “credit” lender although each project needs to demonstrate adequate ability to meet its financial obligations under the terms of any loan which the Fund may invest in. This means that the Fund may rely primarily on the value of the real property securing loans to protect its investment, with repayment ability always being taken into consideration. There are a number of factors which could adversely affect the value of any such real property securing Fund loans, including, among other things, the following:

The Fund relies upon a Market Value Analysis which may or may not include a formal appraisal by a licensed third party appraiser to determine the fair market value of real property used to secure loans made by the Fund (see “Fund Business and Lending – Lending Standards and Policies” for the definition of Market Value Analysis). No assurance can be given that such an analysis in any or all cases, is 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. Neither 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, the Fund may not be able to recover its full investment. California and other state’s laws and the manner in which the Fund’s security interest in the security property is enforced may preclude the Fund from recovering any deficiency from the borrower if the Fund cannot recover its investment from the real property security. For example, under provisions of California law applicable to all real estate loans, if the real property security proves insufficient to repay amounts owing to the Fund, it is unlikely that the Fund would have any right to recover any deficiency from the borrower. (See “Certain Legal Aspects of Fund Loans.”)

The recovery of sums advanced by the Fund 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 the Fund for a period ranging from several months to several years simply by filing a Bankruptcy petition, 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 the Fund.

***The Fund is operating in a highly competitive business.***

Due to the nature of the Fund’s business, the Fund’s profitability depends to a large degree upon the future availability of secured loans. The Fund competes 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 the Fund. If these companies increase their marketing efforts to include the Fund’s market of borrowers, or if additional competitors enter these markets, the Fund 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 the Fund's liquidity and profitability and may result in a reduction of the Preferred Return rate payable to Members. (See "Description of the Interests - Member Preferred Return Adjustment & Amendment.")

***The Fund's success is dependent, in part, on borrowers' financial status.***

While Fund loans are underwritten primarily on an asset basis, the Fund may take some steps to evaluate the creditworthiness of a borrower based on a review of financial information provided by the borrower, and by making other inquiries (e.g., running a credit check). This financial information and these inquiries, however, will be given and made as of a particular point in time. The financial condition and/or credit status of the borrower could change subsequent to when this financial information and these inquiries are given and made, leading to a borrower's inability to pay and corresponding losses for the Fund.

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

The Fund'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 the Fund'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 the Fund, for any reason, to collect nearly all of the principal and interest on Fund loans will substantially impair the Fund's ability to operate successfully.

***A decline in the demand for, or increase in the risks of, real estate financing will impair the Fund'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. The Fund 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. Following the financial crisis in 2008, the U.S. experienced significant deterioration in certain sectors of the real estate, credit and mortgage markets which had a significant negative impact on the ability of mortgage funds like the Fund to make suitable real estate loans. While these sectors have stabilized to some degree, any future reduction in the cash flows, income or financial condition of commercial and residential real estate borrowers by reason of any of the aforementioned factors or others may significantly impair their ability to repay the Fund, which would increase the possibility that delinquencies would occur, that the Fund would incur losses and that Members would lose some or all of their investment in the Interests.

***A decline in real estate values will 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. In the event of another significant deterioration of the real estate market, 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, the Fund would suffer a loss and Members could lose some or all of their investment.

***The Fund lends to credit-impaired borrowers, which makes its investment portfolio susceptible to high levels of default risk.***

The Fund 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 may adversely affect the Fund's profitability and results of operations and may result in a loss of some or all of the Members' investment in Interests.

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

When the Fund acquires any equity in real property through foreclosure or otherwise, the Fund 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.

***The Fund may suffer from uninsured losses.***

The Manager requires comprehensive title, fire and casualty insurance on the properties securing the Fund's loans; 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, earthquakes, mudslides or other acts of God. Should any such disaster occur, or if casualty insurance is allowed to lapse through oversight, the Fund could suffer significant loan losses.

***The Fund is permitted to borrow money from third parties; there are risks in borrowing.***

The Fund currently has a line of credit from Avidbank ("Lender") with a current maximum indebtedness of \$ 8,000,000 (the "Credit Line"). (See "Leveraging the Portfolio – Existing Credit Line.") The Fund may also increase this Credit Line or otherwise borrow other funds from other third-party lenders in the future. The Fund's obligations under the Credit Line are secured by all of the Fund's assets including its loan portfolio. Consequently, in the event of a default, loans and other assets of the Fund up to the balance due on the Credit Line may be lost through foreclosure by the Lender. (See "Leveraging the Portfolio.")

Leveraging the Fund may also result in the receipt of some taxable income by investors (such as ERISA plans) that are otherwise tax-exempt. (See "Federal Income Tax Consequences – Unrelated Business Taxable Income.")

***The industry in which the Fund is active is not extensively regulated or supervised.***

The lending and investment practices of the Fund 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 the Fund are subject to supervision or regulation by the California Bureau of Real Estate (formerly, the California Department of Real Estate) or the Department of Business Oversight (formerly, the California Department of Corporations). A return on a Member's investment is completely dependent upon the successful operation of the Fund's business. To the extent that the Fund 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 the Fund's business may be amended in the future and affect the Fund's ability to operate.***

The laws and regulations applicable to the Fund's lending and the offering of Interests 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 the Fund to operate under its current business plan. (See "Fund Business and Lending.") Following the 2008 financial crisis, a great deal of new federal and state legislation was enacted to regulate the mortgage lending business far more closely. To date, most such legislation has been primarily focused on owner-occupied residential mortgage loans made for personal, family or consumer purposes. The Fund does not intend to make a large amount of consumer loans secured by owner-occupied residential properties; however, any new legislation affecting the types of loans made by the Fund may adversely affect the ability of the Fund to operate and be profitable in the future.

***The failure of the Fund to comply with securities laws applicable to the offering could materially and adversely affect the ability of the Fund to operate and result in losses to the Members.***

Interests are being offered pursuant to Rule 506(c) of Regulation D which became effective as of September 23, 2013. Pursuant to Rule 506(c), all investors in the Fund must be "accredited investors" as defined in

Rule 501(a) of Regulation D and the Manager is required to take "reasonable steps to verify" that all purchasers of Interests meet the accredited investor standards at the time such Interests are purchased. The Manager will generally utilize the "safe harbor" verification procedure set forth in(c)(2)(C) and require each investor to deliver a Third Party Confirmation at the time their subscription is made. (See Investor Suitability Standards – Verification of Accredited Status.") The Manager may, however, utilize Principle Based Verification in cases where it believes the amount of an investor's subscription or other circumstances allow for the use of Principle Based Verification in light of SEC guidance at the time the subscription is made. To date, SEC guidance on the use of Principle Based Verification is limited and such guidance is subject to change over time. Consequently, while the Fund intends to comply with Rule 506(c) at all times, it may be difficult for the Fund to ensure full compliance as guidance evolves and regulatory actions in this area increase over time. Failure of the Fund to comply with 506(c) or any other securities rules or regulations applicable to the offering of Interests could result in regulatory enforcement actions and/or monetary claims against the Fund that could affect the ability of the Fund to operate and cause losses to the Fund and the Members.

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

While the Manager will, at all times, use its best efforts to comply with all local, state and federal lending regulations applicable to it and to the Fund, 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.

***The Fund 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 or otherwise) 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.

The Fund 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 the Fund 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, the Fund could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. The Fund 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 the Fund 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. The Fund 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, the Fund 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 the Fund 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 the Fund.

Even if the Fund 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 takes certain basic precautions to avoid environmental problems, such as not making or investing in loans secured by properties known or suspected to have (or to be likely to have) environmental problems. The Fund generally does not engage an environmental inspection firm to conduct a "Phase I" review of the property unless the loan is secured by commercial or industrial property and the Manager deems such an inspection appropriate. Due to the nature of many types of environmental contamination, the possibility of

the existence of toxic substances may not be apparent from only a site visit and such a site visit 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.

***The Fund 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 Fund's investments; however, as a lender, the Manager and the Fund 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 the Fund or a Manager, the Fund will incur legal fees and costs to respond to the allegations and to defend any resulting litigation. If the Fund is required to incur such fees and costs, this could have an adverse effect on Fund profitability.

***The Fund is not registered as an "investment company" under the Investment Company Act of 1940.***

The Fund is not registered as an "investment company" under the Investment Company Act of 1940 (the "ICA") and will not do so in reliance upon Sections 3(c)(5) thereof. Accordingly, Members will not receive the protections afforded by the ICA to investors in a registered investment company.

**Risks Related to Rehabilitation and Construction Loans**

***Rehabilitation and Construction Loans may involve some level of additional and increased risks of loss, generally.***

Rehabilitation Loans and Construction Loans each involve additional risks which may not be prevalent in loans secured by fully improved real property or may increase the risks associated with trust deed investments, generally. The level of risk associated with a Rehabilitation Loan or a Construction Loan vary based upon the extent of the rehabilitation or construction being funded and the borrower's intention upon completion thereof. For example, a Rehabilitation Loan for the purpose of funding the remodeling of an existing home in a mature neighborhood which the borrower intends to market for sale upon completion, involves less risk of default upon maturity than a Construction Loan for the purpose of constructing a new residential development project on vacant land for sale to unidentified third parties (i.e., "spec home development"). The Fund may make both Construction Loans and Rehabilitation Loans. While the Manager and its principals have many years of experience in making and monitoring Construction and Rehabilitation Loans, investing in such loans involves increased risks of borrower defaults for the various reasons set forth herein. (See, also "Fund Business and Lending – Loan Standards and Policies.")

***Economic conditions may affect the ability of borrowers to perform under Rehabilitation Loans and Construction Loans for an undetermined period.***

Rehabilitation Loans and Construction Loans both are subject to the same economic risks associated with mortgage loans generally. The Fund's Rehabilitation Loans and Construction Loans (if any), however, are predominantly made to borrowers who intend buy single family homes to improve and to sell the completed projects. Such loans are subject to greater risks of loss in the event of a significant decline in property values because borrowers will be less likely to be able to sell the completed project for the full amount due on the loan. Moreover, restrictions on the availability of credit may affect the borrower's ability to refinance the project funded by such Rehabilitation Loans or Construction Loans upon completion and potential buyers of the property will be less able to find financing. To the extent such financing is required by a borrower to pay a loan at maturity, there will be an increased risk of borrower default resulting in losses to the Fund.

***The Fund will be subject to increased risks of loss if the Manager elects to make Construction Loans or Rehabilitation Loans based upon the “as constructed” value of the improvements funded by the loans.***

The Fund may make any Construction or Rehabilitation Loans based upon the “as constructed” or “as completed” value of the security property. Loans based upon the “as constructed” value are subject to greater risk because, if for any reason the construction or rehabilitation project is not completed, it is likely that the property securing loan will be worth less than the value of the Property at the time the loan was made. In the case of Construction Loans or Rehabilitation Loans underwritten on the “as completed” value, 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 Memorandum and may be in excess of 100% of the value of the property prior to the completion of construction. If the Fund must foreclose before construction or renovation is completed, and if there are insufficient funds in any 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 the Fund the amount owed causing losses to the Fund. On the other hand, if monies are borrowed to complete construction, those monies will have to be repaid before the Fund will receive the amount it invested increasing the ultimate risk of loss to the Fund upon sale.

#### **Risks Related to Cannabis Loans**

***Cannabis Operators may be subject to criminal indictment and/or forfeiture under the Controlled Substance Act.***

The Controlled Substances Act ("CSA") currently lists cannabis as a Schedule 1 drug and makes it illegal under federal law to manufacture, distribute and dispense cannabis. Compliance with state laws legalizing such activities is not a defense to a charge or indictment under the CSA. Consequently, Cannabis Operators affiliated with the Fund loans either as borrowers or as tenants on properties securing Fund loans, may be subject to criminal prosecution for violating the CSA at any time, even if they comply will all state and local laws applicable to their operations. Additionally, if a violation of the CSA is found, all of the assets of the Cannabis Operator including the real property securing the applicable Fund loan could be subject to forfeiture. Federal prosecution or forfeiture actions against Cannabis Operators may therefore cause financial losses to the Fund and the Members and may result in the Fund incurring additional costs necessary to protect the Fund's interest in the security property.

As of the date of this Memorandum, the Manager is unaware of any actions being taken against lenders or their owners or managers under the CSA with respect to legally operating cannabis related businesses and the Manager currently believes such actions are unlikely. To date, however, there is no binding legal authority prohibiting such action by federal authorities. Consequently, there no authority that prohibits federal authorities from bringing federal charges of aiding and abetting or conspiring to violate the CSA against the Fund, the Manager or the Members for directly or indirectly financing or otherwise providing goods and services to cannabis related businesses.

***Cannabis Operators may violate existing or future Cannabis laws enacted in California and other states causing losses or liability to the Fund or its Members.***

While the Manager will only seek to make loans reliant upon the operations of reputable Cannabis Operators that are fully compliant with all state and local requirements, the Manager will not extensively inspect or audit the Cannabis Operators for such compliance and will rely on information from the Cannabis Operators or others in connection therewith. Moreover, state and local Cannabis laws and regulations are not uniform, and because the industry is new, they are constantly changing. Consequently, there is a risk that Cannabis Operators may unintentionally (or intentionally) violate such requirements over the course of the loan which may, in turn, result in criminal or regulatory actions against such operators and potentially the Fund and its Members. Any such actions may result in the inability of the Cannabis Operator to perform in connection with the applicable loan and may require the Fund to incur additional expenses (including legal expenses) defending or responding to any claims raised against the Fund, the Manager or its Members in connection therewith.

***Cannabis Operators and the Fund may be adversely affected by future laws and regulations made applicable to the industry.***

The licensing and other regulatory requirements applicable to recreational (and even medical) cannabis businesses in California and other states are relatively new and vary from state to state and from county to county within each state. To the extent such laws and regulations are implemented in the future that materially affect the ability of Cannabis Operators to operate or to operate profitably, the Fund may suffer losses in connection with its Cannabis Loans which may affect overall performance.

***Borrowers may not be able to secure bank accounts or receive other financial services.***

Most banks and financial institutions refuse to provide financing and other services to cannabis related businesses due to the potential for criminal liability under the CSA (discussed above), and the Bank Secrecy Act, prohibiting money laundering by such institutions. The Financial Crimes Enforcement Network issued guidelines in 2014 that allow financial institutions to provide bank accounts to cannabis related businesses, and some state chartered banks do provide bank accounts and banking facilities for the industry. The Fund intends to limit its loans it makes to those where the applicable Cannabis Operator has established bank accounts; however, banks and other financial institutions continue to be reluctant to establish bank accounts for Cannabis-related businesses and it may be difficult for Cannabis Operators to obtain and maintain bank accounts (that are FDIC insured or at all) or other financial services which may affect their ability to operate profitably.

***Cannabis related businesses face challenges in other federal institutions.***

Federal illegality of cannabis means that other federal institutions, such as the United States Patent and Trademark Office, may be barred or limited in the way they can deal with cannabis related businesses. The United States Patent and Trademark Office may not issue trademarks or patents for cannabis goods which may affect the profitability of certain Cannabis Operators upon which Fund loans may rely. Bankruptcy courts may also not allow Cannabis businesses to file for bankruptcy to reorganize their business and liquidate their assets in order to avoid tax liability; however, the Fund currently does not believe this limitation will be a significant issue for the performance of Fund loans.

***Tax limitations of IRC Section 280E will effect Cannabis Operator profitability.***

Internal Revenue Code Section 280E prohibits businesses that engage in “trafficking in controlled substances” (as defined by the CSA) from deducting their ordinary and necessary business expenses. As a result, Cannabis Operators are subject to a higher federal tax rate than similar companies doing business in other industries. Increased taxes paid by Cannabis Operators will directly reduce their profitability and may affect their ability to perform on their obligations owed to the Fund or a borrower landlord (if applicable).

***The Fund will be subject to competition which may significantly increase if cannabis is legalized or accepted at the federal level.***

Even though medical and recreational cannabis is still considered an emerging industry, finding quality and reputable Cannabis related investments is, and will continue to be, competitive as the industry continues to grow. Moreover, increased competition within the industry may result in lower cannabis prices at the retail and wholesale level affecting the profitability of the industry as a whole. Furthermore, if cannabis is declassified as a Schedule 1 narcotic under the CSA or other federal actions are taken to ease the restrictions applicable to cannabis, banks and other institutional lenders may enter the market lowering the rates and returns previously available from industry participants. Such increased competition could significantly affect the profitability of Cannabis Loans causing any increased Fund performances from cannabis loans, if any, to be reduced or eliminated in later periods.

**Risks Related to the Manager**

***Investors must rely on the Manager to make all Fund investment decisions.***

The Manager is responsible for making all decisions with respect to the management of the Fund, including the determination as to what loans to make or purchase. Additionally, the Fund is dependent to a substantial degree on the continued services of the Manager or the Manager's principals. In the event of the dissolution of the Manager

or the death, retirement or other incapacity of one or more of the principals of the Manager profiled in the “The Manager and Its Affiliates” section of this Memorandum, the business and operations of the Fund may be adversely affected.

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

The Members do not have a voice in the management decisions of the Fund 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 a Majority Interest of the Members is required in connection with most actions that are subject to Member approval and the vote of a Super-Majority Interest of the Members is required to remove a Manager. (See "Summary of the Operating Agreement Rights and Liabilities of the Members.") Because there may be a significant number of Members holding Interests, and Members may have differing opinions with respect to any course of action to take respecting the Fund, 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 the Fund.***

The Manager is not required to devote its full time to the Fund’s affairs, but only such time as the affairs of the Fund may reasonably require. The Manager has ongoing businesses outside of and in addition to the business of the Fund which does and will continue to compete for the Manager’s time and resources.

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

The Manager may resign as the Manager of the Fund or terminate its business relationship in whole or in part upon ninety (90) days' notice to the Members. In such event, the Members would be required to find one or more third party servicers to perform the various services rendered to the Fund by the Manager. The compensation paid to the Manager as set forth in the “Compensation to the Manager and its Affiliates” section of this Memorandum was not determined on an arm’s length basis. If the Fund 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 the Fund’s financial position and results of operations would likely be adversely affected in the Manager’s absence.

***The Manager is not registered or certified as an investment advisor and will not select mortgage loan investments based upon the interests of any particular Member.***

The Manager is not registered or certified as an investment advisor under the Investment Advisors Act of 1940 (the “IAA”) or the California Corporate Securities Law of 1968 (the “Law”) based upon the expectation that it is or will be exempt from such requirements. Accordingly, Members will not receive the benefits of any protections that might result from such certification or registration. Moreover, investment decisions made by the Manager will be made based upon the investment objectives of the Fund as a whole rather than those of any particular Member or group of Members. Investors should consult their own investment advisors or other investment professionals with respect to the suitability of an investment in the Fund and its underlying portfolio of mortgage loans as it relates to their own personal financial situation and investment risk profile.

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

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

#### **Risks Related to Ownership of Interests**

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

There is no public market for Interests and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Interests 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 Interests also requires the prior written consent of the Manager, which may be withheld in its sole discretion. Furthermore, Members have only limited rights to redeem Interests or withdraw from the Fund or to otherwise obtain the return of their invested capital. Therefore, all purchasers of Interests must be capable of bearing the economic risks of this investment with the understanding that their interest in the Fund may not be liquidated by resale, and should expect to hold their Interests for an undetermined period of time. Investors should further understand that this inability to sell or withdraw “on demand” will subject their investment in Interests to any losses the Fund may experience during such period.

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

The Fund’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 the Fund’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 the Fund, for any reason, to collect nearly all of the principal and interest on Fund loans will substantially impair the Fund’s ability to operate successfully.

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

The Fund will elect to be treated as a partnership for federal income tax purposes. Any favorable federal tax treatment presently available with respect to the Fund 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 Interests are not insured or guaranteed by any third party.***

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

***The timing of Fund loss recognition (if any) will be based on various factors, and losses may be allocated to Investors who purchased Interests before the loss is recognized for accounting purposes even though the loss occurred earlier.***

The Fund will accrue income over the course of a calendar quarter (or other accounting period) and such income is allocated to Members’ capital accounts over the course of that period. However, losses tend to be identified and recognized as the result of specific events, such as the placement of a loan on non-accrual status, and thus losses are allocated less frequently and at the end of an accounting period. As with most other investments, a purchaser may purchase Interests before a loss has been recognized for accounting purposes, but once recognized, such loss will be allocated to the investor’s Interests as well as to the other Members of the Fund on the loss recognition date. In addition, under certain circumstances the Manager may be aware that a loss could occur, such as upon a missed payment by a borrower, but the Manager may not immediately recognize a loss because the Fund’s policies may not require a default recognition until several payments are missed (for example, to allow a borrower time to cure the missed payments). Therefore, investors should be aware that if any actual or potential losses exist before they purchase Interests they may be recognized afterwards and could be allocated to their capital accounts.

***The Fund will not be required to set aside any funds to satisfy requests for withdrawals or redemptions from the Fund. 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 the Fund and redemption of an investor's Interests. 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 Interests to satisfy withdrawal requests, a portion of which may be retained by the Manager to fund additional loan investments. (See "Summary of Operating Agreement – Withdrawal From Fund.") Money received from the sale of Interests may be used in whole or in part, at the discretion of the Manager, to fund such withdrawal and redemption requests. To the extent cash flow from operations and the sale of Interests is not sufficient to fund withdrawal requests received by the Fund at any time, Interests which are unredeemed will remain subject to Fund operations, which may include Fund losses. Furthermore, an investor may be admitted to the Fund 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 the Fund's operating results, which may include losses. (See "Summary of Operating Agreement – Withdrawal from Fund.")

***Fluctuations in interest rates pose risks to the Fund's business.***

Mortgage interest rates are subject to abrupt and substantial fluctuations, but the right of Members to withdraw capital from the Fund is subject to substantial restrictions and the purchase of Interests is an illiquid investment. If prevailing interest rates rise above the average interest rate being earned by the Fund's loan portfolio, investors 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.

***Equity owners have lower priority on liquidation than creditors.***

Creditors of the Fund will have priority over payments to holders of Interests in the liquidation of the Fund. There are no restrictions in the Operating Agreement regarding the amount of indebtedness that the Fund may incur other than the 65% limitation on Leverage Loans. (See "Leverage.") If the Fund is unable to pay any creditor, and is unable to obtain additional financing or other sources of capital, the Fund may be forced to sell its loans and other assets at a discounted price, or be forced to cease operations, and investors could lose some or all of their investment.

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

The Interests 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 the Fund's financial condition or results of operations. For example, a Member's ability to withdraw from the Fund is limited. Therefore, the Operating Agreement provides very little protection of Members' investment.

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

The Members have only the right to vote on those matters expressly set forth in the Operating Agreement or required by California law and any rights granted to the Members under the Operating Agreement require the affirmative vote of at least a Majority Interest of the Members. It may be difficult, time consuming and costly to solicit adequate votes from a Majority Interest to take any action (or the Super-Majority Interest required to remove the Manager) because there may be a significant number of Members who may have differing opinions with respect to a course of action to take. Moreover, the Manager will take only those actions approved by a Majority Interest (or Super-Majority Interest) notwithstanding the fact that one or more Members may object to such action or seek a different course of action be taken by the Fund. In such circumstance, the objecting Member(s) will be subject to the will of a Majority Interest or Super-Majority Interest of the Members (as applicable).

***Investment delays carry risk.***

There may be a delay between the time a Cash Subscription is submitted by a Cash Subscriber and the time the subscription funds are deposited into the Fund's Operating Account (the "Subscription Period") and the

Admission date when the Cash Subscriber is admitted to the Fund as a Member (the "Pre-Admission Period"). During the Subscription Period a Cash Subscriber's subscriptions may be placed in a non-interest bearing account, which will not yield any return as compared to the 9% return payable to Cash Subscribers during the Pre-Admission Period and the anticipated return to be earned on Fund loans upon admission to the Fund. The length of these delays may adversely affect the overall investment return payable to Members acquiring Interests for cash.

***The Purchase of Interests is a risky and speculative investment and if you cannot afford to lose your entire investment, you shouldn't invest.***

Prospective investors should be aware that the purchase of Interests is both risky and speculative, and is suitable only for investors of adequate financial means. If you cannot afford to lose your entire investment, you should not invest in the Interests. If the Fund accepts an investment, you should not assume that the Interests are a suitable and appropriate investment for you.

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

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

### **CONFLICTS OF INTEREST**

The following is a list of the important areas in which the interests of the Manager will conflict with those of the Fund. The Members must rely on the general fiduciary standards which apply to a Manager of a Membership to prevent unfairness by the Manager in a transaction with the Fund. The Fund 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 or as described in this Memorandum, there are no transactions presently contemplated between the Fund and its Manager.

### **Other Funds or Businesses**

The Manager engages for its own account, or for the account of others, including its principals, in other business ventures, similar to that of the Fund (including the Affiliated Funds) or otherwise, and neither the Fund nor any Member shall be entitled to any interest therein. The compensation structure applicable to the Manager or its principals in connection with loans that are arranged or originated for the Affiliated Funds or other investors unrelated to the Fund may be different, and depending on the circumstances at a given point in time, may be more lucrative to the Manager or its principals than the compensation payable to the Manager in connection with the Fund. As a result, there may exist a financial incentive for the Manager or its principals to arrange or originate loans for private investors outside the Fund and the Members must rely on the fiduciary duties of the Manager to protect their interests under such circumstances. Moreover, the Manager or its principals currently manage other mortgage funds with similar lending standards and policies and may form additional funds in the future. If these other funds have funds to invest at the same time as the Fund, there will then exist conflicts of interest on the part of the Manager as to whether to offer a particular loan opportunity to the Fund or to these other funds. The Manager will decide which loans are appropriate for funding by the Fund or by such other funds after consideration of all relevant factors, including the size of the loan, portfolio diversification and amount of un-invested funds.

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

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

The Fund has not been represented by independent legal counsel to date. The use by the Manager and the Fund of the same counsel in the preparation of this Memorandum and the organization of the Fund has resulted 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, becomes delinquent or is non-performing, or the Fund becomes the owner of any real property by reason of foreclosure on a Fund loan, the Manager may attempt to arrange the sale of the loan or property for a price that will permit the Fund to recover the full amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of then-current market conditions. In order to facilitate such a sale, the Manager may effect a sale to an entity controlled by or affiliated with the Manager (e.g., to another entity formed by the Manager or one or more of its principals), for the express purpose of acquiring defaulted or delinquent loans or foreclosure properties from lenders such as the Fund. The Manager will be subject to conflicts of interest in arranging such sales since it will represent both parties to the transaction. For example, the Fund 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 as follows: (A) in the case of a defaulted loan, the Fund's investment in the loan; and (B) if the Fund has already foreclosed on its loan, the greater of the following: (i) the independently appraised value of such 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 the Fund's investment in the property. The Fund's investment in a loan or property is deemed to include without limitation, the unpaid principal amount of the defaulted loan or loan upon which the Fund foreclosed, all unpaid regular interest (but not default interest) accrued to the date of foreclosure, expenditures made to protect the Fund's interest in the loan or property such as payments to senior lienholders and for insurance and taxes, all costs of foreclosure (including attorney's fees actually incurred to prosecute the foreclosure or to obtain relief from stays in bankruptcy), and any advances made by or on behalf of the Fund for any of the foregoing.

At least 10% of the purchase price for any defaulted loan or real property must be paid in cash, and up to 90% of the purchase price may be paid by the Manager or the affiliate pursuant to a promissory note in favor of the Fund which note shall be secured by: (A) in the case of a defaulted loan, a pledge of the purchased promissory note and a collateral assignment of the deed of trust securing the purchased note; or (B) in the case of a purchase of a foreclosure property, a deed of trust on the property being sold. The note will contain terms and conditions comparable to those that would be contained in notes executed by third parties.

### **LEVERAGING THE PORTFOLIO**

The Manager utilizes leverage as part of the Fund's investment strategy. In this context "leverage" refers to the use of borrowed money secured by the Fund's assets (a "**Leverage Loan**") to fund loan investments with the intent of increasing the yield earned by the Fund. This increased yield will result if the interest earned by the Fund on the leveraged portion of its portfolio exceeds the interest and overall costs that must be paid to the lender on the Leverage Loan. This "spread" between the interest earned on the leveraged loan portfolio and the interest paid to a lender on borrowed funds used to make loans will accrue to and for the benefit of the Fund. Use of leverage, however, involves additional risks, some of which are described below.

## **Leverage Loan Facilities**

Since inception the Fund has obtained two Leverage Loans, a now terminated \$10 million credit line and the Fund's current \$8 million credit line facility. These Leverage Loans are briefly discussed below. The Manager may also obtain one or more additional or replacement Leverage Loans from other lenders on terms and conditions negotiated by the Manager in its sole discretion. The Manager may not, however, incur aggregate leverage in excess of the Leverage Limitation set forth in the Operating Agreement and further discussed below.

### ***Former Credit Line & RTC Funding***

In 2015, the Fund obtained a revolving line of credit from B of I Bank ("Former Lender") with a maximum loan amount of \$10 million (the "Former Credit Line"). To facilitate the Former Credit Line, the Manager formed RTC Investors V Funding, LLC ("RTC Funding"), a wholly owned Funding SPE that served as the borrowing entity on the Former Credit Line. Loans funded with the proceeds of the Former Credit Line were funded by RTC Funding with the proceeds of the Former Credit Line and from contributions made to RTC Funding by the Fund. RTC Funding continues to hold loans funded with the Former Credit Line and will continue to hold these loans until all such loans are repaid in full or otherwise liquidated through transfer or foreclosure. All payments received on loans funded by RTC Funding (or any other Funding SPE) will be distributed entirely to the Fund through its 100% membership interest in RTC Funding (or another applicable Funding SPE).

### ***Existing Credit Line***

In 2018, RTC Funding obtained a new revolving line of credit from Avidbank ("Existing Lender") with a maximum loan amount of \$8 million (the "Existing Credit Line"). In addition to being utilized as a Leverage Loan by the Fund, the Manager uses the Credit Line to fund loan opportunities when the Fund lacks sufficient liquidity to do so from other sources and to maximize the amount of Fund capital that remains actively invested. The Credit Line is secured by lien on RTC Funding's assets (including the loan portfolio) and a pledge of the SPE Membership Interest by the Fund.

The Credit Line provides advances of up to 70% of the principal amount of the loan being funded depending upon the type and characteristics of the loan being funded and the property securing the loan. The Credit Line currently provides for an aggregate maximum loan amount of up to \$8 million; however, the Manager may negotiate an increase of the Credit Line in its discretion, subject to the Leverage Limitation discussed below.

Existing Credit Line advances accrue interest at the adjustable rate of one percentage point (1.0%) over the Prime Rate as published in the Wall Street Journal (Western Edition) (the "Index Rate"). As of the date of this Memorandum, the Index Rate was 5.5% per annum resulting in an annual interest rate payable on any balance outstanding under the Existing Credit Line of 6.5%. Interest on the Existing Credit Line is subject to adjustment whenever the Index Rate adjusts and there is currently **no** cap on the total interest that may be charged if the Index Rate rises. (See, the "Additional Risks of Leverage" section below for a discussion of the risks associated with the use of this type of adjustable rate leverage.)

The current term of the Credit Line expires in March of 2020; however, the Manager may extend this term at any time, with the approval of the Existing Lender. The Manager is currently negotiating the terms for an extension and expects its existing Credit Line to be extended on terms similar to those currently in place. A summary of the Existing Credit Line terms is reflected in Table No. 2, below.

*Table No. 2 – Existing Credit Line; Summary of Terms*

<b>Lender:</b>	Avidbank
<b>Borrower:</b>	RTC Investments V, LLC (i.e., the Fund)
<b>Maximum Loan</b>	\$8 million. <sup>5</sup>

<sup>5</sup> The Manager currently expects the current maximum loan amount to be reduced to \$6 million in connection with the current Credit Line extension being negotiated.

<b>Amount:</b>	
<b>Term:</b>	<i>24 months (subject to extension by the Manager with approval of Existing Lender).</i>
<b>Advance Rates:</b>	<i>Residential property – up to 70% of Borrower’s loan origination amount.. Multi-family property – up to 70% of Borrower’s loan origination amount. Commercial property – up to 70% of Borrower’s loan origination amount.</i>
<b>Interest Rate:</b>	<i>U.S. Prime Rate + 1.00% (adjustable [quarterly])</i>
<b>Collateral/Security:</b>	<i>First priority lien on the loan portfolio and other assets of the Fund. <b>Collateral assignment of all loans in the fund.</b> Pledge of the SPE Membership Interest (i.e., the Fund’s 100% interest in RTC Funding).</i>
<b>Prepayment Penalty:</b>	<i>None.</i>

### Additional Risks of Leverage

The use of the Existing Credit Line or any other Leverage Loan, involves additional risks because if the Fund defaults under the Existing Credit Line or another Leverage Loan the Fund may lose some or all of the assets pledged to secure the Leverage Loan. Additionally, utilizing the Credit Line or other Leverage Loans may affect the ability of the Fund to make income and withdrawal distributions to Fund Members.

#### **Defaults**

Potential reasons for the Fund to default under a Leverage Loan, including the Credit Line, include the following:

(a) **Payment Default.** If the Fund’s net income becomes insufficient to pay the Existing Credit Line or any other Leverage Loan as and when due, the Fund will risk payment default. Leverage Loans will, in most cases, be made at an adjustable interest rate similar to the adjustable rate payable on the Credit Line. Most Fund loans, however, will be made at a fixed rate of interest. If the Adjustable Rate payable on the credit line increases to a rate greater than the fixed rate of interest being earned on the Fund’s loan portfolio the Fund may suffer losses and the loss of income may cause a default under the loan agreement. Restricting the Fund’s lending by the Leverage Limitation will reduce, but not eliminate this risk. The Credit Line loan agreement also requires mandatory prepayments or the pledge of additional collateral if total advances under the Credit Line exceed the value of the collateral securing the Credit Line, determined in accordance with the methodology outlined in the Credit Line loan agreement (a “**Borrowing Base Deficiency**”). If a Borrowing Base Deficiency occurs and the Fund is unable to make the resulting mandatory prepayment or pledge the necessary additional collateral, the Fund will also be at risk for a payment default.

(b) **Covenant Default.** Other events of default that may occur include the failure of the Fund to observe any of the covenants contained in the Existing Credit Line agreement or any other Leverage Loan agreement entered into by the Fund. Covenant defaults under the Existing Credit Line agreement may include: (i) the bankruptcy or insolvency of the Fund or Manager, (ii) failure of the Fund or Manager to deliver financial statements in accordance with the loan documents; (iii) the occurrence of a Borrowing Base Deficiency without cure; (iv) changes in control of the Manager or other material changes to the structure of the Fund or the Manager without Lender consent; (v) the creation of an impermissible lien or encumbrance on assets pledged to secure the Existing Credit Line; (vi) breach of special purpose entity provisions contained in the loan documents; or (vii) breach of any other affirmative or negative covenants specified in the loan documents governing the Existing Credit Line.

In the event the Fund obtains Leverage Loans in addition to or in replacement of the Existing Credit Line, it will be at risk of breaching similar covenants and any other covenants applicable thereto. Thus, the Fund is at risk of losing the pledged portion of its loan portfolio on the occurrence of many events that do not directly relate to the

ability of the Fund to service the third party loans and some of which are not within the control of the Fund or its Members.

### ***Fund Distributions***

Use of the Line of Credit by the Fund will result in interest charges, fees and costs and other debt service obligations which will reduce Fund income and the amount of cash available for quarterly distributions to the Members. Moreover, Members have no right to withdraw their capital from the Fund if such withdrawal would result in a default or additional fees under the Credit Line loan documents. (See "Summary of the Operating Agreement – Withdrawal from Fund.")

### **Leverage Limitation**

Given the additional risks related to the use of leverage, the Manager has agreed that at no time shall the Fund close any Leverage Loan or make any draw under any Leverage Loan (including the Credit Line) if immediately following the closing of such loan, or making such draw, the aggregate outstanding balance of all debt secured by the Fund's loan portfolio would exceed 65% of the aggregate principal amount of all Fund loans at the time the loan is closed or the draw is made (the "**Leverage Limitation**"). This Leverage Limitation does not apply to any unsecured debt or debt secured by non-loan assets of the Fund or the Funding SPE including, without limitation, loans secured by any real estate acquired through foreclosure, deed in lieu of foreclosure or otherwise. The Manager will be free to incur such debt without reference to the Leverage Limitation and the principal amount of any such debt will be excluded from the calculation of the 65% Leverage Limitation threshold referenced above.

### **Unrelated Business Taxable Income**

The use of leverage will also create unrelated business taxable income which may be taxable to ERISA plans or otherwise tax exempt qualified pension and profit sharing plans. (See "Federal and State Income Tax Considerations – Unrelated Business Taxable Income.")

### **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 or profit-sharing plans and Individual Retirement Accounts, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Interests 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 Interests is a "prudent" investment under this rule, fiduciaries should consider all of the risk factors set forth herein. 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 the Fund insofar as the diversification requirements of ERISA are concerned. An investment in the Fund is relatively illiquid, and fiduciaries must not rely on an ability to convert an investment in the Fund 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.

The Manager may at any time decline to sell Interests to ERISA plan investors if, immediately after any such sale, ERISA plan investors would own more than 25% of outstanding Interests in the Fund. The Manager may do this if the Manager determines, in its sole discretion, that such a limitation is appropriate to avoid the application of ERISA's Plan Asset Regulations to the Fund's operations.

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 Fund's assets based upon, among other things,

outstanding mortgage investments, it may not be possible to value the Interests adequately from year to year, because there will be no market for them.

## USE OF PROCEEDS

The proceeds from the sale of Interests offered hereby will be used to invest in loans, to create reserves for Fund operations, to pay ongoing operating expenses and for other proper Fund purposes. The maximum offering amount of \$15,000,000 was reached and increased by the Manager to the maximum offering amount of \$50,000,000 in mid-2018 and now increased to \$100,000,000. The following table sets forth Manager estimates as to how the proceeds of the Fund's offering of Interests will be utilized by the Fund assuming the Fund will sell Interests in the full amount of the current maximum offering.

*Use of Proceeds – Maximum Offering \$100,000,000*

<b>Maximum Offering</b>		
	<i>Dollar Amount</i>	<i>Offering %</i>
Gross Proceeds	\$100,000,000.00	100.00%
<i>Less:</i>		
Offering & Syndication Expenses	\$250,000.00	0.50%
Cash Reserves <sup>[1]</sup>	\$750,000.00	1.50%
<b><i>Cash Available for Investment &amp; Operations:</i></b>	<b>\$99,000,000.00</b>	<b>98.00%</b>

The above information is provided for illustrative purposes, only, and actual amounts will vary. The gross proceeds indicated also reflects to proceeds of the offering of Interests, only, without reference to debt capital attributable to any leverage utilized by the Fund. Debt capital will increase the overall cash available for investment and operations but also involves additional risks. (See "Leveraging the Portfolio.")

## FEDERAL INCOME TAX CONSEQUENCES

The Tax Cuts and Jobs Act of 2017 ("TCJA") signed into law on December 22, 2017 made significant amendments to the Internal Revenue Code ("IRC") which will affect how individuals and businesses will be taxed beginning in the 2018 taxable year. The following is a summary of certain relevant federal income tax considerations believed to be relevant to an investment in the Fund, but does not purport to cover all of the potential tax considerations applicable to any specific purchaser, nor does it purport to be a definitive statement regarding the effect the TCJA may have on the tax obligations or deductions of any Member or the Fund. *The tax consequences of an investment in Interests under the TCJA or otherwise are complex and subject to change and regulatory guidance regarding the application of the TCJA to specific situations continues to impact the application of the TCJA. Moreover, pursuant to the terms of the TCJA many provisions of the TCJA applicable to individuals will expire January 1, 2026 unless extended by Congress. Prospective investors are urged to consult with and rely only upon their own tax advisors for advice on these and other tax matters with specific reference to their own tax situation, application of the TCJA and potential changes in applicable law in the future.* The Fund will not seek, and therefore will not obtain, an opinion of counsel as to any tax consequences intended to result from an investment in the Fund.

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[1] Cash reserves may be established in such amounts as the Manager deems appropriate to meet unexpected cash needs of the Fund. The total amount of reserves may be greater or less than indicated in this table, depending on Fund expenses and the future needs perceived by the Manager.

## Taxation of Undistributed Fund Income (Individual Investors)

Under the laws pertaining to federal income taxation of limited liability companies that are treated as partnerships, no federal income tax is paid by the Fund as an entity. Each individual Member reports on his or her federal income tax return his or her distributive share of Fund income, gains, losses, deductions and credits, whether or not any actual distribution is made to such Member during a taxable year. Each individual Member may deduct his or her distributive share of Fund losses, if any, to the extent of the tax basis of his or her Interests at the end of the Fund year in which the losses occurred. The characterization of an item of profit or loss will usually be the same

for a Member as it was for the Fund. *Since individual Members will be required to include Fund income in their personal income without regard to whether there are distributions of Fund income, such investors will be liable for federal and state income taxes on Fund income even though they have received no cash distributions from the Fund with which to pay such taxes.*

### **Distributions of Income**

To the extent cash distributions exceed the current and accumulated earnings and profits of the Fund, they will constitute a return of capital, and each Member will be required to reduce the tax basis of his or her Interests by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Interests. 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 Interests.

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

The Fund has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the Fund 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 Members that 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. The Fund intends to invest in loans and hold Fund 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 the Fund’s investment objectives. It is possible that, in so doing, the Fund 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 Members of the Fund.

### **Tax Returns**

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

### **Character of Income**

The Fund 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 the Fund is deemed to be engaged in the trade or business of lending money, its income allocable to that business will generally be characterized as non-passive 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 share that is allocable to the Fund’s mortgage lending business) will be treated as passive activity losses. If the Fund 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, the Fund’s income will not be passive income against which passive losses from other sources may be offset.

### **Unrelated Business Taxable Income**

Interests 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 Memorandum. (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 Interests may be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the Fund. Although interest

income (which will constitute the primary source of Fund income) 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 the Fund’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.”) The Fund 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.

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 the Fund 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 the Fund.

The trustee of any trust that purchases Interests in the Fund 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 the Fund’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. The Fund 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 non-judicial 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 21 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 21 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 lien or 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 available) 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. The Fund 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 non-judicial trustee's sale. It is anticipated that all of the Fund's loans will be enforced by means of a non-judicial 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**

The Fund's forms of promissory notes and deeds of trust, like those of most lenders, contain "due-on-sale" clauses permitting the Fund 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:

(1) Due-on-Sale. Due-on-sale clauses contained in mortgage loan documents executed by the Fund are enforceable in accordance with their terms. However, acquisition of a property by the Fund by foreclosure on one of its junior loans would also constitute a "sale" of the property, and would entitle a senior lienholder to accelerate its loan against the Fund. 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, the Fund 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.

(2) 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. Although most of the Fund's second mortgages will be on properties that qualify for the protection afforded by federal law, some loans may be secured by apartment buildings or other commercial properties. Junior mortgage loans made by the Fund may trigger acceleration of senior liens on such properties if the senior loans contain due-on-encumbrance clauses, although both the number of such instances and the actual likelihood of acceleration is anticipated to be minor. Failure of a borrower to pay off the accelerated senior loan would be an event of default and subject the Fund (as junior lienholder) to the attendant risks. (See "Special Considerations in Connection with Junior Encumbrances.")

## **SUMMARY OF OPERATING AGREEMENT**

The following is a summary of the Operating Agreement for the Fund dated as of October 6, 2014 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 Memorandum.

## **Rights and Liabilities of Members**

The rights, duties and powers of Members are governed by the Operating Agreement and the California Revised Uniform Limited Liability Company Act codified in the California Corporations Code, Section 17701.01 *et*

*seq.* as amended (the “Act”) and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to such Agreement and Act.

Investors who become Members in the Fund in the manner set forth herein will not be responsible for the obligations of the Fund 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 the Fund except that Members representing a more than 50% of the total outstanding Interests (a “**Majority Interest**”) may approve or disapprove any of the following matters: (1) any material change in the purpose of the Fund; (2) merger or consolidation of the Fund with one or more other entities; and (3) amendment of the Operating Agreement (other than certain express amendments reserved to the Manager itself). Removal of the Manager requires the affirmative consent of Members representing 75% of the outstanding Interests (a “**Super-Majority Interest**”). In addition, upon the cessation of the Manager for any reason (such as the removal or resignation of the Manager), a Majority Interest of the Members may elect a replacement manager to continue the business of the Fund. A Majority Interest is also required to call a meeting of the Fund Members and meetings may only be called to address matters for which the Members are entitled to vote under the Operating Agreement.

Each Member has the right, upon reasonable request, to inspect and copy the Fund’s books and records for purposes reasonably related to the interest of that person as a Member. Pursuant to the terms of the Operating Agreement, however, each Member must acknowledge the confidential proprietary nature of the information and must agree not to disclose or make such confidential information available to any third party without the express written consent of the Manager.

### **Capital Contributions**

Capital contributions by the Members may be made as Cash Subscriptions or, to the extent approved by the Manager, Loan Subscriptions. (See “Terms of the Offering – Subscription Agreements; Admission to the Fund.”) The initial minimum purchase of Interests for cash is \$500,000; however the Manager may in its discretion accept subscriptions from investors in lesser amounts. For purposes of meeting this minimum investment requirement, a person may cumulate Interests he or she purchases individually with Interests purchased by his or her spouse. To purchase Interests an investor must deliver to the Fund a Subscription Agreement in the form attached to this Memorandum as Exhibit B, together with (1) in the case of Cash Subscriptions, his, her or its cash contribution; and (2) in the case of Loan Subscriptions, all information and documentation relating to Proposed Loan requested by the Manager. (See “Terms of the Offering – Subscription Agreements; Admission to the Fund.”)

The Manager or an affiliate thereof will be the Initial Member of the Fund and will make the Initial Member Contribution to the Fund by assigning loans to the Fund with an aggregate Par Value of \$300,000. The Restricted Capital Account credit received by the Initial Member in exchange for the Initial Member Contribution shall only be repaid to the Initial Member following dissolution of the Fund and only after the other Members, including the Manager with respect to any Additional Manager Contributions, have received the full return of their invested capital and payment of all accrued Member Preferred Returns. (See the subsections entitled, “Profits and Losses” and “Cash Distributions to the Members,” below.)

The Manager or its affiliates may also make Additional Manager Contributions either in cash or by assigning one or more loans to the Fund in exchange for a capital account credit and the issuance of Interests in an amount equal to the Par Value of each such loan. Additional Manager Contributions made to the Fund (if any) shall not be subject to the Dissolution Subordination Provisions and shall be entitled to the same distribution rights as each other Member.

### **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 the Fund including the sole authority to: (1) identify loans to be made or purchased by the Fund; (2) negotiate and determine the terms and conditions applicable to the Credit Line or any other Leverage Loan; (3) monitor and assess loan portfolio performance and set the Fund’s accounting procedures; (4) oversee loan servicing

and make loan enforcement decisions; (5) manage and sell any properties acquired by the Fund through foreclosure; and (6) otherwise direct the day-to-day operations of the Fund.

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 the Fund and is granted the special power of attorney of each Member 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**

Fund profits and losses will be determined by the Manager on a quarterly basis. The Manager has agreed certain Dissolution Subordination Provisions provided in the Operating Agreement which provide that, upon dissolution of the Fund, the return of the Restricted Capital Balance to the Initial Member shall be subordinated to the full repayment of the Member's invested capital and all accrued but unpaid Member Preferred Return payable thereon. Consequently, the profit and loss allocation provisions set forth in the Operating Agreement (and the distribution provisions discussed below) differ based upon whether the Fund is engaged in its usual business operations or has commenced dissolution and liquidation of the Fund's assets.

#### ***Pre-Dissolution Allocations***

Prior to an event of dissolution, Fund profits, after deduction of

all Fund expenses (including the Asset Management Fee and other fees and compensation to the Manager), will be allocated (i) first, 100% to the Members (further allocated among the Members in accordance with their respective percentage interests) until each Member has been allocated profits equal to their respective Member Preferred Returns; and (ii) thereafter, 50% to the Members (further allocated among the Members in accordance with their percentage interests) and 50% to the Manager.

Prior to an event of dissolution, losses incurred in any quarter (if any) will be allocated among the Members in accordance with their respective percentage interests (i.e., each Member's capital account balance relative to the capital account balances of all Members, including the Restricted Capital Balance held by the Initial Member).

#### ***Allocations Following Dissolution***

Following an event of dissolution and during the wind-up period provided for in the Operating Agreement, profits will be allocated among the Members, the Initial Member and the Manager as follows:

(1) first, to all Members, other than the Initial Member, in accordance with their relative capital account balances, without reference to the Restricted Capital Balance, until such Members have been allocated profits equal to their accrued Member Preferred Returns;

(2) second, to the Initial Member until the Initial Member has received profit allocations equal to the accrued Member Preferred Return payable on the Restricted Capital Balance; and

(3) thereafter, 50% to the Members, including the Initial Member (and further allocated among such Members in accordance with their relative capital account balances); and (2) 50% to the Manager.

Following an event of dissolution and during the wind-up period provided for in the Operating Agreement losses will be allocated among the Members, the Initial Member and the Manager as follows:

(1) first, to the Initial Member to the extent of the positive Restricted Capital Balance until the Restricted Capital Balance is reduced to zero;

(2) Second, to the Members, other than the Initial Member, based upon the relative positive capital account balances of such Members (excluding the Restricted Capital Balance) until such capital accounts are reduced to zero; and

(3) Thereafter, remaining Losses (if any) shall be allocated to the Members (including the Initial Member) in accordance with their relative capital account balances as of the date of dissolution.

The Fund's net profits and losses will be calculated quarterly based upon the information available to the Manager at the time such calculations are made. Quarterly profit and loss calculations will not be reconciled until the end of each year in connection with the Fund's annual audit and may require adjustment in light of events occurring in subsequent quarters (e.g., unanticipated recognition of loan losses or receipt of unanticipated income). Upon transfer of Fund Interests (if permitted under the Operating Agreement and applicable law), profit and loss will be allocated to the transferee beginning with the next succeeding calendar quarter.

### **Cash Distributions to the Members**

#### ***Operating Cash Flow Distributions***

Upon subscription for Interests, an investor must elect whether to receive quarterly cash distributions from the Fund or to allow his or her earnings (i.e., profits) to compound for the term of the Fund. Investors who elect to change this election must give the Manager 60 days' prior written notice. Earnings allocable to investors who elect to compound their earnings will be retained by the Fund for making or investing in further mortgage loans or other proper Fund purposes. The earnings from these further loans will be allocated among all investors; however, investors who compound will be credited with an increasingly larger proportionate share of such earnings than investors who receive quarterly distributions, since their capital accounts (upon which their profit shares are based) will increase over time. Cash available for distribution will be determined by computing the Fund's net income during the calendar quarter on the accrual basis in accordance with GAAP. (See the "Profits and Losses" subsection, above).

Thirty days after the end of each calendar Quarter, the Fund will distribute to Members receiving quarterly distributions an amount of cash equal to their proportionate share of the Fund's accrued net income during such quarter. Accrued net income means the excess of accrued income from operations and investment of, or the sale or refinancing or other disposition of, Fund assets during such calendar quarter less the accrued operating expenses of the Fund during such quarter, including any reductions for impaired loans and loan loss reserves or other deductions as the Manager may deem appropriate, all determined in accordance with GAAP. To the extent the Fund has no accrued net income in a quarter, no distributions will be made. Cash available for distribution shall be distributed only to those Members who elect to receive such distributions in an amount equal to their respective allocable shares of Fund profits during such quarter, and the balance of Fund income will be credited to the capital accounts of Members who elected to compound earnings.

Quarterly cash distributions will necessarily be based upon the Manager's good faith estimate of Fund net income during the preceding quarter, but such estimates are unaudited until after the end of each calendar year and are subject to subsequent adjustment. It is also possible that the Fund will incur losses in quarters following quarters in which distributions are made. Therefore, quarterly distributions remain subject to subsequent recharacterization as a return of capital instead of being a share of Fund earnings.

#### ***Cash Distributions upon Dissolution***

Following dissolution, distributions will be made to all Members whether or not such Members elected to receive distributions prior to dissolution in the following order of priority:

(1) First, to the payment of all outstanding debt and expenses to third parties;

(2) Second, to the payment of the expenses of liquidation and to the payment of, or creation of a reserve for creditors (other than Members or the Manager);

(3) Third, to claims of Members and the Manager for loans, advances and other sums due and payable by the Fund, including payment of the Asset Management Fee;

(4) Fourth, to the Members, other than the Initial Member, in accordance with the Members' relative capital account balances, determined without reference to the Restricted Capital Balance, until each such Member has received distributions equal to their accrued but unpaid Member Preferred Return;

(5) Fifth, to the Members, other than the Initial Member, in accordance with such Members' relative capital accounts until their capital accounts have been reduced to zero;

(6) Sixth, to the Initial Member until the Initial Member has received distributions equal to the accrued and unpaid Member Preferred Return due on the Restricted Capital Balance;

(7) Seventh, to the Initial Member until the Restricted Capital Balance has been reduced to zero; and

(8) Thereafter, 50% to the Members, including the Initial Member, in accordance with their relative capital account balances (including the Restricted Capital Balance) as of the date of dissolution; and 50% to the Manager.

### **Capital Account Maintenance**

The Manager will establish a capital account for each Member which will, upon admission to the Fund, be credited with the amount paid by such Member for the purchase of Interests. Thereafter, Members' capital account balance will be increased on a monthly basis by: (i) the Members' pro rata share of any net income earned by the Fund in such quarter; and (ii) any additional capital contributions made by the Members during such quarter through the purchase of additional Interests. Members' capital account balance will be reduced on a quarterly basis by (i) the amount of cash distributions made to the Members (but only in the case of Members electing quarterly income distributions); and (ii) the amount of any withdrawal distributions made to the Members in such quarter (if any). In the event any interest in the Fund is transferred (if permitted by the terms hereof), the transferee shall succeed to the capital account of the transferor to the extent it relates to the transferred interest.

The Fund will also establish a capital account for the Manager which will be credited with the Manager's share of profits earned each quarter and reduced by the amount of profits distributed to the Manager after retention of any Performance Capital. In the event Fund profits for any calendar year are insufficient to pay the full Member Preferred Return payable to all Members, the Manager shall be deemed to waive its right to any Performance Capital held in the Manager Capital Account as of December 31<sup>st</sup> of such year. In such event, any amount of Performance Capital held in the Manager Capital Account will be reallocated to the Members as Member Allocations and shall reduce the Manager Capital Account accordingly (but not below zero).

### **Meetings**

The Manager, or Members representing a Majority Interest of the outstanding Interests, may call a meeting of the Fund; however, Members may call meetings only for the purpose of addressing matters for which the Members are entitled to vote. Unless the notice otherwise specifies, all meetings will be held at the office of the Fund. Members may vote in person or by proxy at the Fund meeting.

### **Accounting and Reports**

The Manager will cause to be prepared and furnished to the Members quarterly status reports and an annual report of the Fund's operations. Annual financial information for the Fund will be audited by an independent certified public accounting firm selected by the Manager except that: (i) audited financial statements will not be obtained for the Fund's first fiscal year ending December 31, 2014; (ii) following dissolution of the Fund and during the wind down of Fund's operations, the Fund is not required to incur the expense of the annual audit in any year that the aggregate book value of the Fund's assets is less than \$5,000,000 (determined as of December 31<sup>st</sup> of such year); and (iii) the Manager may terminate the annual audit requirement with the affirmative vote of a majority interest of the Members.

The Members will also be furnished with 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 Members may inspect the books and records of the Fund at any reasonable times and upon reasonable prior notice to the Manager.

### **Amendment of the Agreement**

The Operating Agreement may be amended by the Manager alone (with respect to certain matters), or upon the vote of Members holding a majority of the outstanding membership interests.

### **Withdrawal from Fund**

A Member has no right to withdraw from the Fund or to obtain the return of all or any portion of his or her invested capital (or reinvested earnings with respect thereto) for at least one year after the date such Interests are purchased (the “**Holding Period**”). After one year, and subject to the limitations described below, Members may request withdrawal of all or part of their capital accounts from the Fund by giving at least 90 days’ written notice to the Manager. A Member’s capital account will then be paid in four quarterly installments beginning 10 days after the last day of the calendar quarter that ends after expiration of both the Holding Period and the 90-day period after the notice of withdrawal was given (subject to the limitations described below).

The amount that a withdrawing Member will receive from the Fund is based on the withdrawing Member’s capital account. A capital account is a sum calculated for tax and accounting purposes and, because there is no public market for Interests, may be greater than or less than the fair market value of such investor’s membership Interest in the Fund. The fair market value of a Member’s interest in the Fund will generally be irrelevant in determining amounts to be paid upon withdrawal, except to the extent that the current fair market value of the Fund’s loan portfolio is realized by sales of existing loans (which sales are not required to be made).

The Fund will not establish a reserve from which to fund withdrawals of Member capital accounts and such withdrawals are subject to the availability of cash in any calendar quarter to make withdrawal distributions. For this purpose, the Fund is deemed to have “**Cash Available for Withdrawals**” during a calendar quarter only after (1) all current Fund expenses have been paid (including compensation to the Manager and its affiliates as described in this Memorandum); (2) adequate reserves have been established for anticipated Fund operating costs and other expenses and advances to protect and preserve the Fund’s investments in loans (such as enforcement costs and protective advances to senior lienholders); and (3) adequate provision has been made for the payment of all quarterly cash distributions owing to Members who elected to receive such distributions. Moreover, the Manager may, in its sole discretion, withhold up to 50% of the Fund’s Cash Available for Withdrawals in any calendar quarter in order to fund new loan investments or otherwise preserve Fund liquidity for the benefit of the non-withdrawing Members (“**New Investment Reserves**”).

If at any time the Fund 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, the Fund is not required to liquidate any Fund loans prior to maturity for the purpose of liquidating the capital accounts of withdrawing Members. In such circumstances, the Fund is merely required to distribute that portion of the Cash Available for Withdrawals remaining in such quarter (after deduction of any New Investment Reserves) to all withdrawing Members pro rata based upon the relative amounts being withdrawn.

Notwithstanding the foregoing, the Manager reserves the right to utilize all Cash Available for Withdrawals to liquidate the capital accounts of deceased Members and ERISA plan investors, in whole or in part, before satisfying outstanding withdrawal requests from any other Members. The Manager also reserves the right, at any time, to liquidate the capital accounts of ERISA 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.

Notwithstanding anything to the contrary stated above, at the discretion of the Manager: (1) distributions of capital accounts to any withdrawing Member in any calendar quarter may be limited to 25% of a Member’s capital account balance as of the last day of the calendar quarter in which the Member’s withdrawal request becomes effective; and (2) aggregate withdrawals during any single calendar year may be limited to not more than 20% of the total Fund capital accounts outstanding at the beginning of such calendar year. Additionally, no Member has the

right to withdrawal from the Fund if such withdrawal would cause a default or trigger an additional fee under any Leverage Loan terms, including the Credit Line loan documents. (See "Leveraging the Portfolio.")

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

The Fund may be dissolved upon: (1) the election of the Manager; or (2) the entry of a decree of judicial dissolution. Upon dissolution of the Fund, outstanding withdrawal requests will no longer be paid to withdrawing Members based upon their withdrawal requests, but instead all Members will participate in the Fund's liquidating distributions in proportion to their capital accounts.

Upon dissolution and termination of the Fund, a five-year winding-up period is provided for liquidating the Fund's loan portfolio and distributing cash to Members. Due to high prevailing interest rates or other factors, the Fund 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 the Fund prior to any such liquidation will not be exposed to this risk.

### **Term of Fund**

The Fund will continue indefinitely until dissolved and terminated (as described above).

### **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 an Interest in this offering and a transferee may not become a substituted Member without the consent of the Manager. 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.

### **Winding Up**

Upon dissolution of the Fund, the Manager will wind up the Fund's affairs as follows: (1) no new loans will be made or purchased; and (2) the Manager or its successor will liquidate the Fund's remaining assets as promptly as is consistent with obtaining the fair current value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan. All funds received by the Fund shall be applied and promptly distributed in accordance with the Act and the Operating Agreement.

In the event the Fund dissolves at a time when there are outstanding unfulfilled withdrawal requests, such withdrawal requests will be of no further force or effect and all Members will thereafter be entitled to receive their pro rata portion of all remaining liquidating distributions of the Fund in accordance with their respective outstanding capital account balances.

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

The Manager, upon the prior written consent of a majority interest of the Members, will have the right to merge the Fund with one or more other business entities (of which the Manager may be a sponsor or co-sponsor).

### **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 Interests will be offered and sold by the Fund, with respect to which no commissions or fees will 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. Currently the Manager does not intend to structure any commission as payable by the investors referred by broker-dealers, but such agreements may be entered into in the future. There is no firm commitment to purchase any Interests, and there is no assurance that the maximum amount of this offering will be received.

### **LEGAL MATTERS**

The Manager has retained Hanson Bridgett LLP of San Francisco, California to advise it in connection with the preparation of this Memorandum and the Operating Agreement, as well as the offer and sale of the Interests offered hereby. Hanson Bridgett LLP 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 Interests offered hereby. Investors purchasing Interests 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 the Fund or the Manager necessary to verify the accuracy of the information contained in this Memorandum, 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 the Fund, and all other documents or instruments relating to the operation and business of the Fund and material to this offering and the transactions contemplated and described in this Memorandum.

**EXHIBIT A**  
**OPERATING AGREEMENT**

16278832.1

15356007.1

**EXHIBIT B**  
**SUBSCRIPTION AGREEMENT**

16278832.1

15299852.2

**EXHIBIT C**  
**FINANCIAL STATEMENTS**

16278832.1

15299852.2