

In This Issue:

Feature Article: Eco Conscious Homes	p1
Dear Jon	p1
Investor Profile: Rick Harway	p1
Featured Loan: San Jose	p2
Company News	p2
Performance Report	p2



Dear Jon:

Q. I have been reading a lot in the papers about sub prime lending companies having difficulties. Are your lending guidelines similar to those of sub prime companies?

A. No. Sub prime lenders are very different than we are. First of all, the sub prime lenders cater to two types of customers – those with poor credit and those that need 100% financing. Stonecrest's loan customers have a wide variety of credit scores. The risk that we might be assuming with customers that have lower scores is offset by the equity in their property. We do not offer 100% financing, averaging about 54% loan to value in our portfolio. If we have to foreclose on a property, we will always have an equity cushion to protect our investment. Another difference is that sub prime companies only offer residential loans. We diversify with a good mix of both commercial and residential properties. The performance for these two categories often offset each other, lowering the risk profile of the fund. Finally, all of the sub prime companies bundle their loans sell them in bulk to Wall Street. Often, this means that the in-

cont. p2

The Green House Effect: Eco-Conscious Homes

Suzanne Johnson relishes the view from the living room of her \$1.6 million home nestled in the Sierra Nevada mountains. But it's not just the sight of snow capped peaks she enjoys. Her custom-built, energy-efficient house produces so much of its own electricity that the monthly energy bill runs under \$100, compared with as much as \$1,000 for neighbors using gas heating. "I get great enjoyment watching the propane trucks going up and down the hill this time of year," Ms. Johnson says.



The energy-saving technology in the retired Intel Corp. executive's 3,000-square-foot home includes photovoltaic solar panels that cover a third of the galvanized-aluminum roof. Laminated glass flooring in one area provides natural light to a downstairs room. Outside, 4-foot by 10-foot solar thermal panels sit on a terrace, helping supply hot water for the house, while the nearby 500-square-foot guest home features plants growing out of the sod on the "living roof."

After years on the fringe, green homes with solar panels, tankless water heaters and walls insulated with straw are increasingly moving to the mainstream. They are even becoming fixtures in new housing developments, not just in custom-built houses.

In California, Gov. Arnold Schwarzenegger's plan to help fund solar rooftops on a million new homes was approved by the state's Public Utilities Commission last year. Industry officials project as many as 50,000 solar homes a year will be built in the state by 2015, compared with about 1,000 projected for this year, accounting for roughly a quarter of California's annual rate of new-home construction. **S**

*By Jim Carlton
Excerpted from The Wall Street Journal Online, 1/29/07*

Investor Profile: Rick Harway

Rick Harway grew up in Southern California where his skills in water polo were responsible for him being recruited by the University of California at Santa Cruz. He completed an undergraduate degree in Psychology and then pursued a Masters in Social Work for one year. But things took a turn for him when he joined a friend who was working in the financial field. He has been involved in finance ever since.

During that period, Rick met Stonecrest's Jeff Morway, Jon Freeman, and Shafiq Taymuree and did his first real estate presentation – and closed his first loan with these men. His last position as an employee was as a senior Division Manager with Accredited Home Lenders, where he worked for 10 years. But Rick had the itch to own his own business and about 7 months ago, bought into the established company of Stonecreek Capital Mortgage,

cont. p2



Rick Harway (cont.)

a residential mortgage brokerage and bank, as part owner. He loves it and is very happy there.

Rick has been married for 13.5 years to Christina, his college sweetheart and best friend, and has two daughters, Ashley who is 8 years old, and Hailee who will turn 5 this April. They live in Carlsbad, California.

It was the diversification of the Private Capital Fund that originally caught Rick's eye. He also enjoys the stable returns. He says that communication is where Stonecrest really shines. He finds the statements, web site, and monthly newsletter informative and very easy to understand, "You can't work with a company that is more user-friendly and able to cater to investors of all shapes and sizes". **S**

Company News

Most of you know that the Private Capital Fund goes through an annual audit from Armanino McKenna LLP, an independent accounting organization that specializes in audits for our kind of fund. Our most recent audit was just finalized and took over two months to complete. Every loan was examined thoroughly. Our own internal accountants were buried under tons of work and the auditing firm worked onsite with them for a full week. The fund's guidelines appear in our offering circular that is filed with the Department of Corporations. Armanini McKenna confirms if we are meeting those stated guidelines. We are very happy but not surprised to say that Stonecrest and the Private Capital Fund passed with flying colors! **S**

Dear Jon: (cont.)

dividual transactions are not closely examined. There are many brokers that have found ways to create fraudulent documents to get their loans approved and these are then passed through to Wall Street. Stonecrest's loans are individually examined and all information is verified. In most cases, we speak with the client directly rather than relying solely on information supplied by the broker. Each transaction is independently reviewed during our annual audit to make sure we have properly accepted the loan. In summary, unlike sub prime companies, Stonecrest only accepts loans for properties that have adequate equity, diversifies by mixing residential with commercial loans, and uses independent sources to verify all pertinent loan data.

Have a question for Jon Freeman, Stonecrest's President? Please email it to Joan Verduzco, Fund Administrator, at jpverduzco@stonecrest.net. Please put 'Dear Jon' in your subject line. Both basic and complex questions are invited and all inquiries will receive a response from Stonecrest. **S**

Featured Loan: San Jose

Our featured loan this month is an apartment building located at 460 S. 4th Street in San Jose, California. This 28 unit single building is comprised of 8 studio units and 20 one bedroom, one bathroom apartments. This is a great location for a rental building because it is very near San Jose State University.



Our Loan was for \$1,440,000 on purchase price of \$2,400,000 giving it a 60% Loan to Value. The seller had some family medical issues and needed cash fast, so he priced the property very attractively. The buyer is a past client of ours who came to us for private financing because he needed to move quickly to take advantage of this great opportunity. When we did our own appraisal, the property was valued at \$2,750,000 – \$350,000 higher than the purchase price. This puts us at 52.36% loan to value (and it was a good deal for us at 60%!). **S**

Performance Report as of 2/28/07

Last Month's Return: 9.7% YTD: 9.5% Loans in default: 1

Number of loans: 44 (32 in 1st and 12 in 2nd position)

Gross loan portfolio dollars: \$16,281,800

Average loan to value on loans in the fund: 53.67%

Comments: As happened last December, we had another prepayment penalty hit the portfolio which resulted in a return slightly higher than usual.

Property Types

