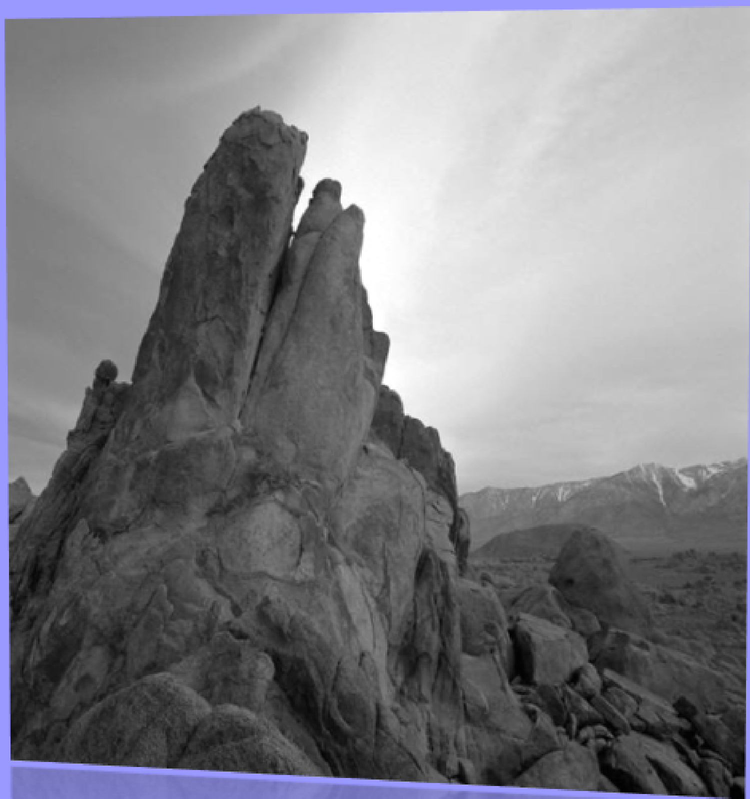


GRANITE LOAN SOLUTIONS

SUPPLEMENT TO OFFER DOCUMENT

This document describes the current opportunity with US residential mortgage assets and Granite's strategy and implementation plan to capitalize on this opportunity

CONTENTS

INTRODUCTION

The total outstanding balance of residential mortgage loans in the United States is approximately $14 trillion today, roughly equal to the GDP of the United States in 2009.

Historical low rates and relaxed underwriting guidelines by mortgage originators contributed to massive purchase and refinancing activity between late 2003 and early 2008. This led to unprecedented increase in home price, creating a huge global credit bubble. The bubble was precipitated by the rise of the exotic mortgage derivatives in the secondary markets. The total amount of mortgage-backed securities issued almost tripled between 1996 and 2007, to $7.3 trillion. Subprime and other less-than-prime mortgages represented an increasing percentage of these securities, rising from 5% in 2000 to 36% in 2007.

Deteriorating underwriting standards, inaccurate credit ratings and the subsequent failure of several MBS structures eventually resulted in the biggest credit crisis in America since the Great Depression of 1929. More than 23% of US home loans are classified as ‘underwater’ loans - these loans had outstanding balances that exceeded the market value of the underlying property. The national default and delinquency rate exceeded 10%. The steep increase in delinquency rates began in late 2007 and since then home prices have seen a devastating free-fall. Foreclosure activity on defaulted loans has also been steadily rising and several regulatory policies have been enforced to slow the ‘flooding’ of the real estate market with foreclosed property inventory – the fear being that excess supply of homes would further drive property prices down while demand continues to stay suppressed.

Figure 1: Foreclosure Activity

OPPORTUNITY

The current credit crisis in the United States has had a detrimental effect on both property prices as well as borrower creditworthiness across the nation. While this has put a lot of pressure on the liquidity in the markets and on consumer confidence, it has presented some very distinct opportunities for high net-worth and institutional investors. The opportunities have been accentuated due to severely under-priced assets and a weakened U.S. Dollar. Larger financial institutions have become overwhelmed with the volume of non-performing loans on their balance sheets and have begun to wind down their positions by resorting to fire-sales of these assets and corresponding write-downs in their balance sheets.

This process has also gained further momentum due to funding assistance from the Federal Reserve and US Treasury in order to support the overall economy.

The most telling effect of this crisis has been on the price of these loans. The larger institutions have been steadily strengthening their balance sheets by liquidating high-risk or written off loans at very deep discounts.

Banks that did not adequately put aside allowance for loan losses realized huge losses which ultimately resulted in the FDIC shutting them down due to insufficient capitalization. According to 2010 FDIC data, US banks’ provisions for loan loss reserves totaled $61.1 billion USD in the fourth quarter 2009 and despite this, the failed bank list was at 140 in 2009, 157 in 2010 and 39 so far in 2011 (in excess of 300 since the start of the credit crisis.)

On an average, performing loans are being offered at 60% to 75% of their outstanding balance while non-performing loans are being offered at 15% to 25% of the outstanding balance. The significant difference in pricing is due to the lack of cash flows in non-performing assets, higher cost of servicing them and the time/cost of liquidating these assets. While there are opportunities available in both the discounted performing loan and non-performing loan segments, the non-performing loan provides the acquirer with the multiple options to generate return on investments. The options are largely dependent on individual loan characteristics and can include a variety of loss mitigation scenarios including – Repayment plans, Loan Modification, Short Sale/Payoff, Note Sale, Deed-in-Lieu and Foreclosure/REO sale. Some workouts are "home retention: workouts and attempt to keep the borrowers in their homes, while other workouts are termed "disposition workouts" involving one or more asset liquidation strategies.

Each of these options offers the buyer of the loan portfolio the ability to pick an optimal strategy to either maximize returns or optimize turnaround of invested capital with targeted returns.

Figure 2: Distressed Loan Industry

MARKETPLACE RESPONSE

The arbitrage opportunity in the non-performing market segment has attracted a wide variety of buyers with different investment philosophies. Unlike managing performing loan assets, holding and managing non-performing loans requires special servicing capabilities and significant investment in personnel and infrastructure. Several private-equity funds across America have setup operations to acquire and manage these loans. The different strategies that these funds have employed to realize the returns can be categorized into:

RETENTION WORKOUTS

- Repayment plans: Repayment plans are used when a borrower may have temporarily lost the ability to make regular monthly payments on their mortgages (for example due to job loss). A repayment plan allows them to make a smaller additional monthly payment to catch up on their delinquency. Sometimes, repayment plans may also be used in conjunction with some sort of forbearance providing postponement of payments.

- Loan Modification: A loan modification is a permanent change in one or more of the terms of a mortgagor's loan, allowing the loan to be reinstated, and results in a payment the mortgagor can afford. A loan modification can involve a reduction of interest rate, extension of maturity or a reduction in outstanding principal balance (and sometimes a combination of some or all of these loan terms).

DISPOSITION WORKOUTS

- Short Sale: A short sale involves reaching an agreement with the borrower so that the property is sold to a third party for an amount that may be lesser than the unpaid principal on the loan. This typically happens when the borrower is unable to afford regular payments despite all efforts to restructure the loan.

- Short Payoff: similar to a short sale, short payoff is a transaction in which the lender agrees to retire the outstanding debt for less than the full amount of what it is owed. The lender may accept a one-time cash payment and/or a new unsecured note.

- Note Sale: This involves the sale of the note or trust deed to a third party.

- Deed-in-Lieu: A Deed in lieu of foreclosure is a deed instrument in which a mortgagor (i.e. the borrower) conveys all interest in a real property to the mortgagee (i.e. the lender) to satisfy a loan that is in default and avoid foreclosure proceeding.

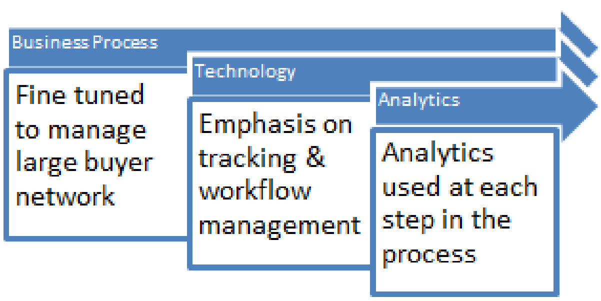
- Foreclosure: A legal process by which the lender or lien holder takes possession of a mortgaged property as a result of a mortgagor's failure to keep up on payments. Subsequently, the lender typically goes through a Real Estate Owned (REO) sale process which involves listing and selling the foreclosed property.

  Foreclosure and redemption timelines are different from state to state and can range from a few months to 2+ years.

Loan modifications help in turning non-performing loans into re-performing loans. Since modified loans generally provide ongoing cash-flows, their value goes up over time. However, loan modifications require extensive efforts to contact borrowers, negotiate new terms and subsequently track and monitor ongoing performance. Funds that have followed loan modification strategies predominantly have had to invest heavily in personnel and infrastructure. Further, there is also the continued the risk of a modified borrower re-defaulting on the loan. Funds growing too quickly without building the necessary platforms and processes for managing and liquidating these assets have ended up with high operational overheads and less than estimated margins/returns.

Granite has identified that with precise strategies, policies and systems the market opportunity in the non-performing loan space can be controlled and harnessed. In order to aggressively pursue this opportunity, Granite is investing in:

a. Highly experienced asset management team
b. Efficient business processes and
c. State of the art information systems
d. Portfolio analytics at each step of the process.



GRANITE LOAN SOLUTIONS

Talk about GLS and Granite Investment Group…ask Nicole for 1 paragraph on both.

GRANITE BUSINESS STRATEGY

The non-performing loan industry is highly fragmented. There are a few large players at the national level and several smaller players dispersed all across the country. Smaller players typically purchase based on specific loan and property criteria (for example, a buyer only interested in California, Arizona and Nevada). The smaller players are generally unable to acquire product directly from the larger banks as the banks have stringent qualification requirements (including demonstrating financial strength with proof of funds or audited financial statements). Banks are also less inclined to work with smaller players interested in only in specific subsets of loan products.

This creates an opportunity for a mid-sized firm to play the role of a liquidator – to purchase in bulk and liquidate in smaller pools or in individual assets. Granite is looking at a strategy that includes playing the role of a liquidator, in addition to other strategies that may yield favorable investor returns.

Given the current market conditions, Granite feels that a combination of loan modifications and note sales will provide favorable returns while minimizing risk. Should market conditions change in the future or specific loans offer better alternatives, Granite will also look into Short Sale, Short Payoff, Deed-in-Lieu and Foreclosure options.

In order to create an efficient note sale model, Granite is looking to differentiate itself in the marketplace by creating a credible and qualified list of institutional and retail buyers, and a network of brokers. By doing so, Granite will be able to segment large pools into a combination of smaller pools and individual assets that can be distributed to the smaller players. The general high-level process consists of four steps

PRE-BID ANALYSIS

When a pool becomes available for bidding (either through direct bank relationships, syndicate relationships or broker relationships), Granite performs preliminary analysis on the pool and provides an indicative bid on the pool.

ACQUISITION

If Granite moves to the next phase, a detailed due-diligence is performed. This process involves analyzing the loan pool in greater detail and could involve procuring AVM (automated valuations) or BPO (broker price opinion), establishing occupancy status, doing title verification, performing loan-file review and so on. Once the due-diligence is completed, Granite takes assignment of the notes and the loans are boarded into the sub-servicer's system.

MANAGEMENT

This process involves identifying loans that Granite might want to retain in its portfolio to improve the note's value through a loss mitigation workout such as Loan Modification. Modified loans become cash-flow producing loans and over a period of time, the value of these re-performing loans goes up.

LIQUIDATION

This process involves dividing up the pool into smaller pools based on outstanding balance, geography, or other characteristics and selling them to buyers in smaller chunks.

The process of liquidation stars with creating a qualified buyer list and will involve the following steps:

- Lead generation: The process of generating buyer leads.
- Lead qualification: The process of qualifying a lead based on Granite's selection criteria
- Lead approval: The process of approving a lead as a pool-level or asset-level principal or broker.

<u>Lead Generation:</u>

A lead is defined as a potential buyer of residential mortgage notes. Leads are generated from a variety of sources.

- Webinars: Webinars are conducted on a periodic basis and attendee information is logged into the lead database.
- Personal contacts: Some leads are also generated through personal contacts and relationships.
- Other marketing: These sources may include conferences, publications, PR, internet marketing and so on.
- Lead purchase: Qualified leads may also be purchased as necessary.

<u>Lead Qualification:</u>

Leads are required to sign a non-disclosure agreement, a background information release and an application for becoming an approved buyer. Once leads are qualified they become approved buyers.

<u>Lead Approval:</u>

Approved leads (or buyers) will be classified into:

- Institutional Buyers: Institutional buyers are medium to large size entities. Institutional buyers will be further classified to reflect their size, assets under management (AUM) and so on.
- Retail Buyers: Retail buyers are individual buyers or small entities that typically invest in smaller pools or individual assets. Retail buyers will be further classified to reflect their size, investment experience, number of loans in portfolio and so on.
- Institutional Brokers: Institutional brokers (example Investment Banks and other financial institutions) are medium to large size entities that act as buy-side representatives on a variety of transactions. Institutional brokers typically work with institutional and high net-worth retail buyers and help facilitate acquisition of assets. Institutional brokers will be further sub-classified to reflect their size and clientele.

- Retail Brokers: Retail brokers are individuals or small entities that have relationships with high net-worth individuals and retail investors and help facilitate the purchase of small pools or one off assets. Retail brokers will also be further classified to reflect size and clientele.

  During this process we also collect investment criteria for each buyer. This allows us to send pools and assets to a targeted list of buyers. Granite has already obtained over 3,000 leads and is currently in the process of qualifying and categorizing them.

  Loans that meet Granite's criteria for modification will be targeted for loan modifications. Modified loans provide ongoing cash-flows and their value also goes up over time. Modified loans may be targeted for note sale in the future, when market conditions are favorable to realizing higher gains.

IMPLEMENTATION PLAN

MANAGEMENT TEAM

Granite's management team is composed of very experienced professionals with extensive expertise in real estate syndication. Additionally Granite is utilizing specialized consulting firms to provide extensive experience related to residential loan fund management. Granite's experience and deep knowledge of the domain will be applied strategically and operationally to ensure that the investor's interests are protected.

ALLEN BOERNER

Mr. Boerner is the Chief Executive Officer of Granite Investment Group. Mr. Boerner has been involved in equity capital formation and investment, specializing in real estate for over twenty five years. During this period he acquired property and raised in excess of 350 million dollars in funding for real estate investments representing over 2.8 billion dollars in asset values. Furthermore, in 1977 Mr. Boerner formed his own real estate company in Southern California, specializing in brokerage, management, and syndication of investment income properties. In December 1995, Mr. Boerner formed Granite Investment Group to capitalize on the opportunities in the Southern California marketplace.

JOHN HELLER

Mr. Heller is the President of Granite Investment Group. Mr. Heller has had extensive experience in real estate income property transactions over the past twenty five years. Mr. Heller formerly served as Vice President for Commercial Real Estate Owned Department of the largest thrift in the U.S., where he was responsible for directing the asset management activities for the commercial REO portfolio. Prior to that, Mr. Heller was associated with a full service real estate brokerage, management, and syndication firm located in Southern California where he was involved in the acquisition, financing, and disposition of income real estate properties.

JEFF MERRICK

Mr. Merrick is the Vice President of the Alternative Investments Division of Granite Investment Group. Mr. Merrick has had extensive experience in ownership and management of Mortgage and Real Estate related companies. Mr. Merrick formerly served as president for an asset management company, which focused on distressed note pool acquisitions, management, and liquidation. Mr. Merrick was instrumental in developing the necessary key relationships, raising capital and designing the company's analysis and due diligence processes. Mr. Merrick formed two successful mortgage and real estate companies and operated those companies from 1992 until 2007. Over the last 10 years he has also been involved in many residential and land development amongst various other investment projects.

SCOTT RICKARD

Mr. Rickard is the Chief Investment Officer for Granite Investment Group. Mr. Rickard has extensive experience in the management of real estate related companies. Mr. Rickard formerly served as president for one of the nation's largest brokerage networks, which included over 4,000 licensed brokers, with offices in 120 cities and 5 countries. Prior to that, Mr. Rickard was associated with a full service real estate brokerage, management, and syndication firm located in Southern California where he was involved in marketing and capital procurement. In the early days of his career, Mr. Rickard was a Certified Public Accounting and worked with Arthur Andersen & Company. Mr. Rickard maintains a FINRA Series 7 License with Carolina Financial Securities.

JACK RICE

Mr. Rice is the Chief Financial Officer for Granite Investment Group. Mr. Rice has over 20 years of financial experience in the real estate industry. Prior to joining the company, Mr. Rice was the Chief Financial Officer for Fowler Flanagan Partners, a privately capitalized real estate investment firm focused on the acquisition of multifamily, industrial and office properties in selected markets throughout the United States. Mr. Rice was the Vice President of Accounting for Western National Group (WNG), an owner/operator of over 30,000 multifamily units. Previous to WNG, he was Controller for Santa Anita Realty Enterprises, a real estate investment trust with real estate holdings ranging from office buildings and regional malls to the Santa Anita Racetrack. In the early days of his career, Mr. Rice obtained his public accounting experience with Peat Marwick Mitchell & Company.

JOE MCKEEVER

Mr. McKeever is the General Counsel for Granite Investment Group. Mr. McKeever has over 29 years of experience as a practicing attorney. Prior to joining the company, Mr. McKeever was an associate and then partner for 11 years with the firm of Allen Matkins Leck Gamble Mallory & Natsis, LLP, a well-known Los Angeles-based law firm specializing in real estate transactions of all kinds. Mr. McKeever's practice consisted of both equity and loan transactions, title, partnerships and joint ventures, with an emphasis on real estate development. Thereafter, Mr. McKeever was Investment Counsel with the Newport Beach-based Pacific Life Insurance Company for 10 years, where he specialized in multi-state equity and loan transactions, FNMA loan pool financing, loan servicing, loan workouts and foreclosures, and supervision of outside counsel in real estate related litigation. Mr. McKeever also has experience in commercial and business litigation. He obtained his J.D. from the University of Kansas and is a member of the California Bar Association.

KEY RELATIONSHIPS

Success in the non-performing loan industry requires massive investments in people, process and technology. Unless there are economies of scale, these costs tend to become prohibitive at smaller shops. Several funds made the mistake of growing too fast and have struggled to manage large portfolios without adequate processes. While Granite is making investments in the right people, processes and simple technology solutions, it is also looking to outsource several activities to key strategic vendors and partners. This model allows us to keep fixed costs low and manage as much as possible through variable costs.

LCAP ADVISORS

LCAP Advisors is a California based financial advisory firm specializing in Portfolio Risk Assessment and Investment Banking services.

ANAND NARAYANAN, LCAP ADVISORS

Mr. Narayanan specializes in risk management, analytics and valuation of fixed income assets including residential, commercial and consumer loans and leases. Previously Mr. Narayanan was co-founder and managing partner of 14e Capital Advisors, a boutique financial engineering firm that offered portfolio risk assessment to financial institutions. Mr. Narayanan has also worked as Capital Markets consultant at a leading Mortgage Company and was a JSDA licensed trader at Lehman Brothers in Japan. Mr. Narayanan is also a regular speaker at national mortgage conferences and is also has been member of the faculty with Mortgage Banker Association. Mr. Narayanan has an MBA from Indian Institute of Management and UCLA, Anderson School of Management and has 15 years industry experience.

SANJAY RAGHAVAN, LCAP ADVISORS

Mr. Raghavan specializes in valuation and risk management of fixed income assets including residential, commercial and consumer loans and leases. Previously, Mr. Raghavan was co-founder and managing partner of 14e Capital Advisors, a boutique financial engineering firm that offered portfolio risk assessment to financial institutions. Mr. Raghavan has also worked as a consultant at a top Mortgage Company, in their special servicing division. Mr. Raghavan is a regular speaker at national mortgage conferences. Mr. Raghavan has an MBA from The Wharton School, University of Pennsylvania and has 15 years industry experience.

Pre-bid Analysis

LCAP's services can be used during pre-bid stage to perform loan-level risk analysis based on loss severity projection at an MSA or zip-code level. This information is used to arrive at price and yield combinations based on different assumptions. The data is used to validate pricing for indicative bids.

In addition, if two or more funds are involved in the acquisition of a pool, LCAP's models can also help tranche the pool into smaller components catering to different overall and fund-level constraints.

Acquisition

LCAP's services can be used during due diligence phase to conduct detailed analysis of the portfolio. Based on availability of current property valuation LCAP will fine tune loss severity assumptions. In addition, LCAP can run scenarios based on fund strategy and project out returns based on assumptions of loan modifications, note sale or other workout options as required.

Management

Re-performing loans produce cash-flows and their intrinsic value goes up as a result. LCAP's analysis looks at cash-flow projections. It also evaluates change in loss severity over time to project out profits from note sale.

Liquidation

During the liquidation process, LCAP's tranching model converts buyer criteria into constraints which are modeled into simultaneous equations. The constraints are then solved for using an optimizer solution to come up with smaller pools. The goal of constraint optimization is to find optimized (or close to optimized) solutions.

FCI LENDER SERVICES

FCI Lender Services ("FCI") will be the servicer for the Fund on the basis of their vast experience in servicing troubled mortgages nationwide. FCI is staffed by experts in skip trace, hard collection, loan workout, loan modification, foreclosure, and property sale and has more than $1 billion currently under management. FCI has established an outstanding industry reputation and high degree of trust in its ability to service and collect loans and process private and institutional foreclosures over the past twenty-nine years.

NOTE VALUATIONS

Ezra/Jeff

IAG

Ezra/Jeff

FIRST AMERICAN CORELOGIC

A subsidiary of First American, CoreLogic combines financial, property and consumer information, analytics and business intelligence to provide custom solutions in the residential mortgage space.

Granite uses CoreLogic for obtaining current property valuations.

RISK FACTORS

RISKS RELATING TO FUND

- Limited Operating History
- High Risk Investment
- Tapes purchased on an "as-is" basis
- Limited Due Diligence on tapes
- No assurance of performance expectations
- Indemnification
- Liability of Fund and Managers

RISKS RELATING TO INTERESTS

- No rights to control Fund Operations
- Investments are medium term
- No market for Fund Interests
- Potential inability to return Invested Capital
- Periodic cash distributions not guaranteed
- Foreign Exchange Risk
- Tax liability may exceed Distributions

RISKS RELATING TO MANAGER AND KEY PERSONNEL

- Reliance on Manager
- Discretion of Manager for use of proceeds
- Reliance on Business Partners

- Other Activities
- Conflict of Interest

RISKS RELATING TO FUND INVESTMENTS AND OPERATIONS

- Uncertainty regarding number of pools/assets that may be acquired
- Lack of Diversification

REAL ESTATE RISKS

- Real Estate Investments
- Illiquid Investments
- Potential liability relating to Environmental matters

MARKET RISKS

- Competition in the space could drive up acquisition price
- Difficulty in locating suitable investments
- Further weakening in the economy could have more adverse impact on loan performance

REGULATORY RISKS

- Favorable resolution of loans subject to changes in federal and state law

WHAT DOES THIS MEAN TO INVESTORS

APPENDIX - FINANCIALS

APPENDIX – FREQUENTLY ASKED QUESTIONS

1. *Will all of the loans to be purchased truly be non-performing loans? If so, please provide your definition of that term.*
   All loans will be purchased as non-performing loans (meaning the mortgagor is delinquent on regular payments). The levels of delinquency can range from as little as 30 days to 2+ years.
2. *What is the expected principal balance of the loans to be purchased (provide a range)?*
   In general, expected principal balance on the purchased loans can vary from $20,000 to $250,000. If a good opportunity presents itself, Granite may at its discretion also purchase assets with higher loan balances.
3. *What is a typical discount for loans in the pool?*
   This will vary based on two primary factors:
   a. Severity of delinquency: Higher delinquency loans are considered higher risk loans and are therefore available at steeper discounts.

   b. Loan to Value: Higher loan to value assets are considered higher risk loans and are therefore available at steeper discounts.

   In general, our range should fall between 10% - 25% of the unpaid balance (UPB). However this is based on demand-supply characteristics and is likely to change as market conditions change.

4. *Are all of the sellers of the loans expected to be financial institutions?*
   Granite will look at multiple channels for acquiring mortgage assets. Although the primary source of assets is expected to be banks, the sellers can include but will not be restricted to banks, thrifts, credit unions, institutional and retail private equity funds, family Offices, hedge funds and other sources.

5. *Will all of the loans be first deeds of trust, or will there be seconds as well?*
   All loans acquired will be 1st trust deeds

6. *How will you handle title insurance for the loans?*
   All loans will be purchased with Title insurance in place.

7. *Are there any circumstances you can reasonably foresee in which you would actually hold onto the loan and foreclose on the property?*
   At this time the focus is going to be on establishing a buyer network and conducting periodic note sales. Although Foreclosure is not being considered currently, the fund will keep all options open to obtain favorable outcomes for the liquidation/disposition of the assets.

8. *Can you provide two or three paragraphs on the process of buying the loans?*
   a. *How do you find out about the pools that are available?*
      We are building direct relationships with banks that are periodically selling note pools. We also have relationships with many private equity groups that buy and trade notes with banks and these companies frequently take down assets in partnership with other buyers.
   b. *How does the bidding process work?*
      The bidding process differs from seller to seller. This varies with the different sellers and seller types.

      The typical due diligence process may look something like this:
      Day 1: Note tape distributed to potential buyers
      Day 4: Indicative bids submitted by interested buyers
      Day 6: Indicative bid winners are acknowledged and allowed access to proceed with Due Diligence process
      Day 7-19: Due Diligence
      Day 20: Final Bid Due
      Day 22: Winning bidder in Contract
      Day 26: Close sale

   c. *How do you do diligence on the loans available for sale?*

This process varies a bit depending on seller processes. Generally speaking, our Due diligence is based on a proprietary model called VOTT (based on value, occupancy, title and taxes).

We perform two levels of Due Diligence.

Pre-bid phase

The pool is analyzed during pre-bid stage to arrive at indicative bid based on perceived risk and comparable yield requirements.

This analysis involves comparing Metropolitan Statistical Area (MSA) or zip code level trend in property prices against every loan in the pool to arrive at potential return on investment under different scenarios. The yield requirements are used to arrive at an indicative price for the pool.

Acquisition phase

Detailed due diligence is conducted during this phase. This allows us to see what the potential worst and best case outcomes would be given the cost of acquisition, project costs, investor returns and potential exit strategies.

Value Analysis: In this phase we use a third party service company called Note Valuations (NV) to establish value. This company contacts and deals with two local realtors on each of the assets. Both Realtors drive the properties to obtain condition and possible occupancy information. Subsequently the realtors work up a CMA (current market analysis report) and deliver it for underwriting and final delivery to us. We ultimately receive two values - 30 Day fire sale and current market value.

Occupancy Analysis: We use a company called IAG which calls the utility companies on all assets to establish current occupancy status.

Title Analysis: This is done to establish property profiles with Lawyers Title to see the outstanding liens and to ascertain lien position.

Tax Analysis: We also use IAG to obtain current tax information. They contact the county assessors on all assets and obtain current taxes and owed balances.

In addition, prior to closing, we also order Broker Price Opinion (BPO) on all properties through First American CoreLogic and O&E reports from the title company (O&E reports provide in-depth title reports showing all chain of title, Current liens, including judgments, and Jr. liens).

d. *Who is on the diligence team? Which Granite entity are they employed by, and what is the contractual and economic relationship between that entity and the Fund?*

The management team at Granite Loan Solutions manages the Due Diligence activities. Vendors and strategic partners assist with specific activities.

- LCAP Advisors: Analytics services during pre-bid, acquisition, management and liquidation stages.
- Note Valuations: 30 day fire sale and fair market value (FMV) of properties
- IAG: Current occupancy Status and tax information on the properties
- Others: For Broker Price Opinion (BPO), title and other services.

9. *Can you purchase only part of a pool?*

When major banks put out pools for sale, they typically only allow the buyer to reject 10-20% of the pool. This is generally because the loans do not comply with certain representations or warranties.

When we purchase pools in partnership with other funds, we can carve out portions of the pool each buyer will purchase based on high-level investment criteria.

When we purchase in the secondary market (non-bank traders) we may have leeway to purchase loans that meet our specific investment criteria. However buyers generally pay a premium for the ability to purchase specific loans from a pool. We will use this channel only under specific circumstances where the acquisition price falls within our investment parameters.

10. *Since the loans will be held for such a short time, what role does the servicer play? What does the servicer charge?*

The servicer plays an important role in the management of the acquired loan portfolios. Our servicer is licensed in all states giving them the right to conduct sub-servicing and special loan servicing activities such as collections, skip tracing and campaigns (calls, door knocks and letters). In addition, they send out monthly statements, receive payments (from re-performing borrowers) and make remittances.

While we have some of these rights as the owners of the debt, we use the servicer to conduct most of this work. Once borrower contact has been made we typically instruct the servicer to live transfer the call to our office so we can handle the negotiations for loan modifications.

11. *Can you provide two or three paragraphs on the process of selling the loans? How will you divide a pool up into smaller pools?*

The sale process starts with identifying a list of qualified buyers and their investment criteria. Some of these criteria may be hard criteria (for example, a buyer only buys California, Arizona or Nevada loans) whereas other criteria may be soft criteria (such as a preference to purchase loans with outstanding balances in the $50,000 - $100,000 range).

When we have a pool of loans we are ready to accept bids on, we run the pool through LCAP Advisors's "tranching model". LCAP's tranching model converts buyer criteria into constraints which are modeled into simultaneous equations. The constraints are then solved for using an optimizer solution to come up with smaller pools. The goal of constraint optimization is to find optimized (or close to optimized) solutions.

To illustrate with an example, let us assume that a pool has 10 loans, of which 5 loans are in California, 6 loans are owner occupied, 8 loans are collateralized by single family residence (SFR) and 4 loans have outstanding balances between $50,000 and $100,000. If we have 20 buyers who want to bid on different pieces of the pools, we can quickly see how it becomes extremely difficult to solve this problem in a sequential fashion. Although there are no guarantees that bidders will get exactly what they are looking for, we can apply some of the broad-based hard constraints into the optimizing solution to come up with a smaller pool that will better meet the bidder's criteria than the original larger pool itself. This process allows us to become a better and more efficient liquidator in the market, allowing us to charge a premium.

12. *Who are your buyers?*

We currently have a database of close to 3000 leads comprising of institutional and retail buyers and brokers. We will constantly be updating this list and also adding performance metrics based on our experience with them.

Leads will be continually be generated through a variety of sources including webinars, conferences, PR, internet marketing and so on.

Our team also brings with it an extensive database of leads. Our team members have worked at large non-performing loan funds previously and have several qualified buyers with whom they have prior relationships.

13. *Will there be a bidding process for loans sold by Granite?*

Yes, Granite will follow a first-price sealed bid auction format to accept bids on pools put out for sale. Bidders submit indicative bids based on their own assessment of the pool's value and willingness to pay. Unlike an English auction format, the bids are not open or called, so bidders do not engage in competition based on relative prices.

If the indicative bids meet Granite's reservation price, the top bidders will be given access to the loan files to perform detailed due diligence. After the due diligence process is completed, the bidders will have the opportunity to present a final bid. If the final bid is acceptable, Granite will go into contract for the sale of assets.

14. *How often will you sell a pool of loans?*

We currently plan to put out loan pools for sale once a month. Our goal is to liquidate loans within 90-120 days. However depending specific circumstances, this number can be much lower than 90 days (for example, with simultaneous closing, forward commitments or pre-sold loans) to greater than 120 days (for example, sale of re-performing loans, or specific hard to sell non-performing assets).

15. *How do you know that there will be regular demand for the loans?*

In the current market, non-performing loans are available at very deep discounts to their outstanding balance. At these discounted rates, the purchase price to collateral value ratio becomes very favorable for generating attractive returns to investors. We are therefore likely to see high demand for this asset class for the next few years.

16. *Can you provide a paragraph on the process of restructuring/amending the loans that are eligible for this treatment? How does this process enhance their value?*

The process of restructuring begins with evaluating acquired loans to pick out loans with highest probability of doing modifications. For example, loans with owner occupied properties are good candidates.

The next step is to establish borrower contact. This is done through skip tracing, door knocks and call/mail campaigns. Once borrower contact is established, Granite can use a variety of loan modification alternatives such as reducing interest rate, extending maturity or forgiving part of the outstanding principal balance, to make regular payments affordable for the borrower.

Modified loans provide monthly cash-flows which increases their value. Also, once seasoned, note sale of re-performing loans produce higher returns.