PRIVATE PLACEMENT MEMORANDUM

AMERICAN HOMEOWNER PRESERVATION LLC

(a Delaware limited liability company)

Managing Member:

American Homeowner Preservation Management LLC
819 South Wabash Avenue, Suite 606
Chicago, Illinois 60605

Investment Manager:

AHP Capital Management LLC
819 South Wabash Avenue, Suite 606
Chicago, Illinois 60605

NEITHER THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE, NOR ANY OTHER REGULATORY OR SELF-REGULATORY AUTHORITY OR BODY, HAS PASSED UPON THE VALUE OF THE LIMITED LIABILIYTY COMPANY MEMBERSHIP INTERESTS DESCRIBED HEREIN, MADE ANY RECOMMENDATION AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THIS OFFERING OR THE QUALIFICATIONS OF THE MANAGING MEMBER, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM.

October 16, 2013

INTRODUCTION AND GENERAL INFORMATION

American Homeowner Preservation LLC (the "**Company**") is a recently-organized Delaware limited liability company whose investment objectives are to generate current income for its investors and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure to stay in their homes as well as facilitate dispositions that return vacant abandoned homes to service by investing indirectly in non-performing mortgage loans and the underlying real estate (in the event of foreclosures or other circumstances that result in possession of the underlying real estate).

American Homeowner Preservation Management LLC (the "**Managing Member**") is the Company's managing member and, in that capacity, has overall responsibility for managing and administering the business and affairs of the Company. The Managing Member has delegated responsibility and authority for making investment and trading decisions for the Company to AHP Capital Management LLC pursuant to an Investment Management Agreement dated October 16, 2013 (the "**IMA**").

The Company is offering its limited liability company membership interests ("**Interests**") by way of this Confidential Private Placement Memorandum (which, together with its exhibits, is referred to as the "**Memorandum**"). This Memorandum has been prepared for the exclusive purpose of assisting prospective investors in assessing the merits and risks of investing in the Company, and constitutes an offer to you only if the Managing Member has entered your name on the cover page hereof. In the absence of the Managing Member's express prior written consent, you may not copy, use or transmit this Memorandum or any data or information contained herein, in whole or in part, or permit such action by others for any purpose (except that if you are an authorized recipient of this Memorandum, you may provide copies of this Memorandum or portions hereof to your legal, tax, financial and other advisers for the purpose of assisting you in determining whether an investment in the Company is appropriate for you). You must promptly return this Memorandum and any other materials you receive relating to this offering to the Managing Member upon its request.

Prospective investors should not construe the contents of this Memorandum as legal, tax, financial or other advice or as a recommendation to subscribe for, purchase, hold or dispose of Interests. **Each prospective investor should consult his or her independent professional advisers in assessing the merits and risks of investing in the Company.** Prospective investors and their advisers must rely on their own examination of the Company, the Interests and the terms of this offering in assessing such merits and risks. In doing so, they should carefully review this Memorandum and consider the following:

An investment in the Company should be considered speculative and involves substantial risk due to, among other things, the nature of the Company's investment program, the expenses associated with such an investment and the illiquidity of Interests. No person should invest in the Company unless he or she has no immediate need for the capital invested and is fully able to bear the financial risk of such investment for indicated period of time and is fully able to sustain the possible loss of the entire amount invested. In light of this financial risk, a prospective investor should consider an investment in the Company as appropriate only for a limited portion of his or her overall portfolio.

The Company and the Managing Member urge prospective investors to carefully consider the special considerations and risk factors relating to an investment in the Company, as described in §6, "RISK FACTORS," and in other sections of this Memorandum, as well as the actual and potential conflicts of interest to which the Managing Member and its principals will be subject in managing the business and affairs of the Company and in making allocation and reallocation

decisions for it, as described in §7, "CONFLICTS OF INTEREST," and in other sections of this Memorandum.

This Memorandum summarizes certain provisions of the Company's governing documents and material agreements, as well as certain provisions of applicable statutes, rules and regulations. These summaries do not purport to describe or explain every provision of the Company's governing documents or material agreements or every provision of applicable statutes, rules or regulations, but only those provisions that the Managing Member believes are likely to be of greatest interest to prospective investors. Further, each summary is intended to be brief and does not purport to provide a detailed description or explanation of the limited topic it covers. This Memorandum is therefore qualified in its entirety by the full text of the Company's governing documents and material agreements, which prospective investors should read in their entirety for a more complete understanding of the Company and the Interests. Copies of the Company's Limited Liability Company Agreement (the "**LLC Agreement**") and the form of Subscription Agreement and Limited Power of Attorney (the "**Subscription Agreement**") pursuant to which investors become non-managing members of the Company ("**Members**") are attached to this Memorandum. Copies of the Company's other material agreements are available from the Managing Member upon request. The Company assumes that each prospective investor is familiar with applicable legal statutes, rules and regulations.

In addition, the Managing Member invites each prospective investor and its representatives to review any materials that are available to it relating to this offering. The Managing Member will afford each prospective investor and its representatives the opportunity to ask it questions regarding this offering and to obtain any additional information necessary to verify the accuracy of any representations or information set forth in this Memorandum to the extent the Managing Member possesses such information or can acquire and provide it without unreasonable effort or expense. Please direct any questions regarding this Memorandum to Jorge Newbery at (312) 386-5679. The Company has not authorized any person other than Mr. Newbery to give any information relating to this offering other than that contained in this Memorandum. Accordingly, any information given or representation made by any dealer, salesman or other person and (in either case) not contained herein should be regarded as unauthorized and should not be relied upon.

Neither the delivery of this Memorandum nor the offer, issue or sale of Interests shall, under any circumstances, constitute a representation that the information contained in this Memorandum is correct at any time subsequent to the date of this Memorandum.

"**Business Day**" as used in this Memorandum means any day that is not a Saturday or Sunday and is not a legal holiday or day on which banking institutions generally are authorized or obligated by law or regulations to remain closed in New York.

DIRECTORY

The Fund:
American Homeowner Preservation LLC:
c/o American Homeowner Preservation Management, LLC
53 W. Jackson Blvd. #1357
Chicago, Illinois 60604

The Managing Member:
American Homeowner Preservation Management, LLC
53 W. Jackson Blvd. #1357
Chicago, Illinois 60604
Telephone: (312) 386-5678
Facsimile: (513) 729-9720
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The Investment Manager:
AHP Capital Management, LLC
53 W. Jackson Blvd. #1357
Chicago, Illinois 60604
Telephone: (312) 386-5679
Facsimile: (513) 729-9720
Email: j.newbery@ahphelp.com

Tax Accountants:
SS&G, Inc.
32125 Solon Road
Cleveland, Ohio 44139
Telephone: (440) 248-8787
Email: jmckoski@ssandg.com

Administrator:
G&S Fund Services, LLC
114 West 47th Street, Suite 1725
New York, New York 10036
Attention: Joseph D. Goldstein
Telephone: (212) 584-6118
Facsimile: (801) 406-7867
E-mail: joe@gsfundservices.com

Legal Counsel to the Managing Member:
Fox, Swibel, Levin & Carroll, LLP
35 West Wacker Drive
Chicago, Illinois 60601

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§1. SUMMARY OF PRINCIPAL TERMS

This Summary of Principal Terms summarizes various features of the Company, some of which are discussed in greater detail in other sections of this Memorandum. This Summary is qualified in its entirety by those other sections.

In addition, this Memorandum summarizes certain provisions of the governing documents and contractual agreements relating to the Company, as well as certain provisions of applicable statutes, rules and regulations. These summaries are intended to be brief and do not purport to provide detailed descriptions or explanations of the topics they cover.

Moreover, this Memorandum does not summarize every provision of the governing documents and contractual agreements relating to the Company, but only those provisions that the Company believes are likely to be of greatest interest to prospective investors. This Memorandum is therefore qualified in its entirety by the full text of those documents and agreements, which you should read in their entirety for a more complete understanding of the Company and the Interests.

GENERAL

The Company

American Homeowner Preservation LLC (a Delaware limited liability company). The Company was organized on October 15, 2013 and has not yet commenced investing.

Investment Objectives and Strategy

The Company's investment objectives are to generate current income for its investors and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure to stay in their homes as well as facilitate dispositions that return vacant abandoned homes to service.

The Company will invest indirectly in non-performing mortgage loans and the underlying real estate (in the event of foreclosures or other circumstances that result in possession of the underlying real estate). Each Series will own all of the beneficial interests of a series of interests in American Homeowner Preservation Trust (the "**Trust**"), a Delaware statutory trust, that was established solely as the investment vehicle for the Company. U.S. Bank Trust National Association has been selected as the trustee of the Trust, and the Investment Manager has been appointed as the administrative trustee of the Trust with responsibility for the investment decisions made for the Trust.

THERE CAN BE NO ASSURANCE THAT THE COMPANY'S INVESTMENT STRATEGIES WILL BE SUCCESSFUL OR THAT THE COMPANY'S INVESTMENT OBJECTIVES WILL BE ACHIEVED. THE MANAGING MEMBER MAY CHANGE THE COMPANY'S INVESTMENT STRATEGIES AT ANY TIME.

See §3, "INVESTMENT OBJECTIVES AND STRATEGY."

The Managing Member

American Homeowner Preservation Management LLC (the "**Managing Member**"), a Delaware limited liability company, was organized on October 6, 2011. The Managing Member is currently exempt from

registration as an investment adviser both with the Securities and Exchange Commission (the "**SEC**") and the State of Illinois where it maintains its principal place of business.

In its capacity as the managing member of the Company, the Managing Member has overall responsibility for managing and administering the business and affairs of the Company. The Managing Member has delegated the responsibility and authority for making investment and trading decisions for the Company to AHP Capital Management LLC, an Ohio limited liability company (the "**Investment Manager**").

See §2, "MANAGEMENT – *The Managing Member*."

The Investment Manager

AHP Capital Management LLC (the "**Investment Manager**"), an Ohio limited liability company formed on July 14, 2011, has been appointed as the investment manager for the Fund and in that capacity provides investment advisory services to the Fund pursuant to the IMA. The Investment Manager is currently exempt from registration as an investment adviser with both the SEC and the State of Illinois.

See §2, "MANAGEMENT – *The Investment Manager*."

Risk and Risk Management

The Investment Manager uses what it considers to be seasoned investment research techniques and risk management strategies in investing and reinvesting the Company's assets. Nevertheless, an investment in the Company should be considered speculative and involves substantial risk. **There can be no guarantee that the Company will achieve its investment objectives or not sustain losses.** See §6, "RISK FACTORS."

THE OFFERING OF INTERESTS

The Interests

The Interests are being issued in multiple series (each, a "**Series**") and classes (each, a "**Class**"). Each Series will represent a separate pool of mortgages and, if applicable, real estate holdings (to the extent the Fund forecloses or otherwise takes possession of an underlying parcel of real estate). Each Series will issue four (4) Classes of Interests. Class A, Class B and Class C Interests (the "**Investor Classes**") will be available to investors, and Class M Interests will generally be held by the Managing Member or one or more of its affiliates.

Classes of Interests

The Investor Class Interests will be entitled to a fixed investment return (the "**Preferred Return**") plus a return of capital within a specified time frame as described in a supplement for the relevant Series of Interests (each, a "**Supplement**"). In addition, the Managing Member will use its commercially reasonable effort to ensure that each Series is composed of the various Classes of Interest in the proportions provided in the relevant Supplement.

Based on the Investment Manager's projections for the assets it expects to purchase, it is likely that the return of capital for each Class of Interests will occur prior to the stated maturity date.

The Class M Interests, which will generally be held by the Managing Member or one or more of its affiliates, shall be entitled to any residual value in the assets of each Series.

Qualified Investors

You may not invest in the Company unless you are an "accredited investor" as defined in Rule 501(a) of Regulation D ("**Regulation D**") under the Securities Act of 1933, as amended (the "**Securities Act**"). The Subscription Agreement contains concise descriptions of the types of investors that qualify as "accredited investors." Because the Company will rely on the recently-adopted provisions of Rule 506(c) under the Securities Act of 1934, as amended (the "**Securities Act**"), the Managing Member is required receive and maintain documentary evidence to verify each investor's accredited investor status.

Minimum Capital Contribution

If you wish to become a Member, you must make an initial investment in a particular Series of the Company of at least $10,000 (and in $10,000 increments), although the Managing Member may from time to time in its sole discretion admit Members who invest less than that amount. The Managing Member may raise or lower the minimum investment from time to time, and accept investments below the established minimum, in its discretion.

Capital Sought

There is no minimum amount of capital that any particular Series must receive as a condition to commencing operations, and there is no maximum amount of capital that the Company or a particular Series may accept from investors.

Offering Periods

Each Series will have a limited offering period (each, an "**Offering Period**") that is expected to last no more than three (3) months for a particular Series. The Managing Member will determine the Offering Period for each Series based on the investor interest in investing in such Series.

Use of Proceeds

The Company will use the proceeds of the continuous offering of the Interests to invest and reinvest its assets in accordance with its investment objectives and to pay Company expenses. See §4, "EXPENSES, MANAGEMENT FEES AND INCENTIVE ALLOCATIONS." To the extent the Company's assets are not used for these purposes, the Investment Manager will generally invest them in high quality short-term instruments, such as U.S. government securities or shares of "money market" mutual funds that earn interest at competitive rates.

Subscription Procedures

If you wish to become a Member, you must complete and execute a Subscription Agreement. A Subscription Agreement may be completed online, or may be returned by email, fax or mail to the Company in care of the Managing Member at the Managing Member's address set forth on

the cover page of this Memorandum. A copy of the Subscription Agreement is attached to this Memorandum as an exhibit, and an "execution ready" copy of that document accompanies this Memorandum.

If the Company, in the Managing Member's discretion, accepts your Subscription Agreement (whether in respect of the full subscription amount or only part thereof), you must transmit your subscription funds to the Company by ACH, wire transfer or check in accordance with the Managing Member's instructions no later than seven (7) calendar days before the relevant Investment Date (subject to waiver by the Managing Member in its discretion). Any interest earned on your subscription funds before the relevant Investment Date will be credited to the Company.

Your execution of a Subscription Agreement constitutes a binding offer to purchase the Interest subscribed for thereunder and an agreement to hold your offer open until your subscription is accepted (in whole or in part) or rejected by the Company. Your execution of the Subscription Agreement and its acceptance by the Company together constitute your agreement to be bound by the terms of the Subscription Agreement and the LLC Agreement. The Managing Member, on behalf of the Company, reserves the right to accept or reject your Subscription Agreement, and any additional capital contribution you may wish to make to the Company, in whole or in part, in its discretion.

EXPENSES, MANAGEMENT FEES AND PERFORMANCE COMPENSATION

Expenses

The Company generally will bear all costs and expenses associated with the offering of Interests and its ongoing operations, except as otherwise described in this Memorandum.

The Company's ongoing operational costs and expenses consist primarily of: (i) costs and expenses incurred in connection with the ongoing offer and sale of Interests; (ii) Management Fees (discussed below); (iii) costs and expenses incurred by the Managing Member or Investment Manager in connection with investigating investment opportunities for the Company and reviewing the continuing suitability of the Company's investments in light of the Company's investment objectives; (iv) costs and expenses incurred in connection with the investment and reinvestment of the Company's assets, including commissions, mark-ups, mark-downs and spreads, and related clearing and settlement charges; (v) custodial, administrative, legal, accounting, auditing, record-keeping, appraisal, tax form preparation, compliance and consulting costs and expenses (including costs and expenses associated with obtaining systems and other information designed to facilitate Company accounting or record-keeping, including related hardware and software); (vi) fees, costs and expenses of third-party service providers that provide such services (including fees, costs and expenses of attorneys retained by the Managing Member or the Investment Manager to represent the Managing Member or Investment

Manager, as applicable, in connection with the business and affairs of the Company, to the extent such fees, costs and expenses relate to advice provided to the Managing Member or Investment Manager by such attorneys with respect to such business and affairs); (vii) insurance costs and expenses; (viii) bank service fees; (ix) costs and expenses associated with preparing investor communications; (x) printing and mailing costs and expenses; (xi) fees and taxes imposed by any governmental entity or self-regulatory organization, including licensing, filing, registration and exemption fees and withholding, transfer and franchise taxes; (xii) the Company's indemnification obligations under the LLC Agreement, the IMA and other agreements to which the Company may be a party; and (xiii) extraordinary costs and expenses, if any. To the extent any of the expenses described above apply only to one or more Series, those expenses will be charged only against the applicable Series. For a more complete description of the expenses of the Fund, see §4, "EXPENSES AND MANAGEMENT – *Expenses*."

Management Fees

The Company ordinarily will pay the Managing Member a monthly management fee (the "**Management Fee**"), in arrears, in an amount equal to 0.1667% of the NAV of each Capital Account, determined as of the end of each month (approximately 2% annually).

For a more complete description of the Management Fees, see §4, "EXPENSES AND MANAGEMENT – *Management Fees*."

Performance-Based Compensation

There is no incentive allocation *per se*. However, since the Class M Interests are entitled to any residual value in the assets held by each Series, the holder(s) of the Class M Interests are effectively receiving performance-based compensation.

Sales Charges

Investors will not owe any sales charges to the Managing Member, the Company or any placement agent retained by the Managing Member or the Company in connection with the purchase of Interests, and the Company will not expend its own funds for the purpose of compensating placement agents. The Managing Member, however, may enter into agreements with placement agents and agree to compensate them at its own expense on a basis that is fully disclosed to affected investors. In addition, an investor that has engaged its own agent to identify potential investments for such investor may owe a sales charge to that agent in connection with such investor's purchase of an Interest.

LIQUIDITY: DISTRIBUTIONS AND TRANSFERS

Distributions

The Company will generally distribute any net income it receives to the relevant Members of each Series promptly after receipt of such income, subject to any reserves or Company expenses as reasonably determined by the Managing Member. The Company shall make all such distributions to the Members of the relevant Series in the following order of priority (generally payment of the preferred return of each Class of Interests and then return of invested capital) and among them in

accordance with their proportionate ownership of a particular Class of Interests:

1. the Class A Preferred Return for a particular Series as of the relevant distribution date;

2. the Class B Preferred Return for a particular Series as of the relevant distribution date;

3. the Class C Preferred Return for a particular Series as of the relevant distribution date;

4. to the Class A Members of a particular Series as a return of invested capital;

5. to the Class B Members of a particular Series as a return of invested capital; and

6. to the Class C Members of a particular Series as a return of invested capital.

Compulsory Withdrawals. The Managing Member may require any Class A, Class B or Class C Member to withdraw with or without notice (and receive any payments such Member would be entitled as of such date including a full return of capital) to such Member for certain tax and regulatory reasons.

The Company may pay distribution or withdrawal proceeds in cash, "in kind" or a combination of the two. However, the Managing Member expects that all payments to Members will be in cash absent extremely unusual circumstances.

See Article VI of the LLC Agreement for a more complete description of the provisions governing distributions and withdrawals, including the limited circumstances under which the Managing Member may temporarily suspend distributions and distribution payments and require Members to withdraw.

Transfers

The Company has not registered or qualified the Interests for offer or sale under the Securities Act or the securities laws of any state or any other jurisdiction. The Company is offering and selling Interests by way of a "private placement" exempt from the registration requirements of the Securities Act and applicable state securities laws pursuant to Rule 506 of Regulation D and comparable state law exemptions. Investors may not transfer their Interests except in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act and other applicable securities laws.

Investors who wish to transfer their Interests must also comply with the restrictions on and conditions applicable to transfer set forth in the LLC Agreement. Among other things, an investor may not transfer an Interest

without the Managing Member's consent, which the Managing Member may withhold in its discretion.

Interests will not be listed on any exchange, and no public or liquid market for Interests otherwise exists or is likely to develop.

Accordingly, an investor will generally not be able to liquidate its Interest in the event of a financial emergency or use its Interest as collateral for a loan.

For a more complete description of the restrictions on transfers of Interests, see Section 5.7 of the LLC Agreement.

OTHER

Limited Liability

A Member generally will have no liability for the Company's debts or obligations beyond the amount of its invested capital plus, under certain circumstances, the amounts of any distributions from the Company.

Tax Considerations

The Company intends to be treated as a partnership (not as an association taxable as a corporation or as a "publicly traded partnership" taxable as a corporation) for federal income tax purposes and, therefore, does not expect to be subject to federal income tax. All items of the Company's income, gain, deduction, loss and credit will pass through to its investors for federal income tax purposes, and investors will be subject to income tax each year on their respective allocable shares of the Company's income or gains.

The federal income tax consequences of an investment in the Company are complex. A majority of the Company's taxable income is expected to consist of interest income and short-term capital gain. There are certain limitations on the deductibility of Company losses by investors as well as limitations on deductions for certain expenses. In addition, the Company and its investors may be subject to state and local taxes.

Potential investors should carefully review §8, "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS," for a summary of certain material U.S. federal income tax principles and tax risks that are likely to apply to the Company and the Members.

Fiscal Year; Accounting Matters

The Company's fiscal year will be the calendar year, unless the Managing Member determines otherwise. The Company will keep its financial books under the accrual method of accounting, and, as to matters not specifically described herein or in the LLC Agreement, in accordance with generally accepted accounting principles consistently applied.

Reports

As soon as reasonably practicable after the end of each calendar quarter, the Company will provide to each Member a report reflecting the amounts and character (namely, preferred return or return of capital) of

payments made during the prior calendar quarter and the amount of unreturned invested capital as of the end of such calendar quarter.

As soon as practicable after the end of each calendar year, the Company will provide each Member with such tax information and schedules as are necessary to enable such Member to prepare its federal income tax return.

Tax Accountants — The Managing Member has selected SS&G, Inc. to provide tax accounting services to the Company. The Managing Member reserves the right to change its selection of tax accountants for the Company without the consent of the Members.

Administrator — The Managing Member has selected G&S Fund Services, LLC as the Company's administrator (the "**Administrator**"). The Administrator is responsible for the Company's non-investment activities, such as processing additions and distributions of capital and maintaining the Company's records. The Managing Member reserves the right to change its selection of administrators for the Company, without the consent of, but upon notice to, the Members.

Counsel — Fox, Swibel, Levin & Carroll, LLP ("**Fox Swibel**"), Chicago, Illinois, has assisted the Managing Member in the preparation of this Memorandum and has advised and may continue to advise the Managing Member regarding its duties and responsibilities to the Company (and the Members). Fox Swibel has not represented the Company (or the Members) in organizing the Company or negotiating its business terms or in connection with the offering of Interests. The statements made in this Memorandum are those of the Company and the Managing Member and not of Fox Swibel. The Company does not anticipate that it will engage separate counsel in connection with the organization or general operation of the Company.

§2. MANAGEMENT

The Managing Member

American Homeowner Preservation Management, LLC (the "**Managing Member**"), a Delaware limited liability company, was formed on October 6, 2011 and is the managing member of the Company. Its principal business offices (and those of the Company) are located at 819 South Wabash Avenue, Suite 606, Chicago, Illinois 60605. The Managing Member is responsible for the overall management of the Company's affairs and has control over the day-to-day operations and activities of the Company. The Managing Member has delegated all investment management responsibilities to the Investment Manager.

Subject only to the provisions of the LLC Agreement and the requirements of applicable law, the Managing Member shall possess full and exclusive right, power and authority to manage and conduct the business and affairs of the Company. In managing and conducting the business and affairs of the Company, the Managing Member may, among other things, cause the Company to take such actions as

the Managing Member reasonably determines in good faith to be necessary, appropriate, advisable, incidental or convenient to effect the formation of the Company, promote or conduct the Company's business or achieve the Company's objectives. See the LLC Agreement for a complete description of the powers of the Managing Member and the limitations on those powers.

The Investment Manager

AHP Capital Management, LLC (the "**Investment Manager**"), an Ohio limited liability company, has been appointed as the investment manager of the Company, pursuant to an Investment Management Agreement (the "**IMA**"), and in that capacity has discretionary investment authority over the Company's assets. The Investment Manager is responsible for investing the capital and resources of the Company and monitoring such investments, as necessary, in order to achieve the Company's investment objective. The Investment Manager is currently exempt from registration as an investment adviser with the SEC and the State of Illinois where it maintains its principal place of business.

The Managing Member may replace the Investment Manager from time-to-time in its discretion, or appoint itself as the investment manager.

Background of Management

Jorge Newbery is the sole principal and owner of Neighborhoods United LLC, which owns both the Managing Member and the Investment Manager. The Managing Member and the Investment Manager may each employ additional personnel in the future. Mr. Newbery has served in such capacity since 2009. Previously, he was President of Budget Real Estate Inc. from 1995 to 2008 where he brokered over 1000 troubled Department of Housing and Urban Development real estate owned ("**REO**") properties and acquired, renovated, and operated over 220 distressed multi-family, single-family, and commercial properties. Before this, from 1992 to 1995, Mr. Newbery also co-founded and operated a mortgage company, Sunset Mortgage, which specialized in obtaining loans for homeowners faced with challenging credit hurdles.

Exculpation and Indemnification of the Managing Member

The LLC Agreement provides that to the extent the Managing Member has duties (including fiduciary duties) and liabilities relating thereto to the Company or any Member, the Managing Member shall not be liable for monetary or other damages to the Company or such Member for the Managing Member's good faith reliance on the provisions of the LLC Agreement or for: (A) losses sustained or liabilities incurred by the Company or such Member as a result of errors in judgment on the part of the Managing Member, or any act or omission of the Managing Member, if such losses or liabilities were not the result of the Managing Member's willful misfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, its duties under the LLC Agreement; (B) errors in judgment on the part of any person, or any act or omission of any person, selected by the Managing Member to perform services for or otherwise transact business with the Company, provided that, in selecting such person, the Managing Member acted without willful misfeasance, bad faith or gross negligence; or (C) circumstances beyond the Managing Member's control, including the bankruptcy, insolvency or suspension of normal business activities of any broker-dealer, bank or other financial institution holding assets of the Company.

The LLC Agreement further provides that to the extent any affiliate of the Managing Member, or any shareholder, partner, member, director, officer, employee or agent of the Managing Member or of any of its affiliates, has duties (including fiduciary duties) and liabilities relating thereto to the Company or any Member, such person shall not be liable for monetary or other damages to the Company or such

Member for such person's good faith reliance on the provisions of the LLC Agreement or for losses sustained or liabilities incurred by the Company or such Member as a result of errors in judgment on the part of such person, or any act or omission of such person, if such losses or liabilities were not the result of such person's willful misfeasance or bad faith.

Pursuant to the LLC Agreement, the Company will, to the fullest extent permitted by law, indemnify each Managing Member Associate – *i.e.*, the Managing Member, each of its affiliates and each shareholder, partner, member, director, officer, employee or agent of the Managing Member or of any of its affiliates – from and against any and all Losses (defined below), except to the extent that it is determined (in a judgment or order not subject to further appeal or discretionary review by a court, governmental body or agency or self-regulatory organization having jurisdiction to render or issue such judgment or order) that an act or omission of such Managing Member Associate was material to the matter giving rise to such Losses and that such Managing Member Associate is not entitled to be exculpated from such Losses as described above. "**Losses**" include any and all losses, claims, damages, liabilities, expenses (including reasonable legal fees and expenses), judgments, fines, amounts paid in settlement and other amounts actually and reasonably paid or incurred by a Managing Member Associate in connection with any and all proceedings that relate, directly or indirectly, to acts or omissions (or alleged acts or omissions) of such Managing Member Associate in connection with the Managing Member's role as the Company's managing member and in which such Managing Member Associate may be involved, or is threatened to be involved, as a party, witness or otherwise, whether or not the same shall proceed to judgment or be settled or otherwise be brought to a conclusion.

Notwithstanding the foregoing, no exculpation or indemnification of a Managing Member Associate shall be permitted to the extent such exculpation or indemnification would be inconsistent with the requirements of federal or state securities laws or other applicable law.

The Investment Management Agreement

The IMA provides that to the extent the Investment Manager has duties (including fiduciary duties) and liabilities relating thereto to the Company, any Series or any Member, the Investment Manager shall not be liable for monetary or other damages to the Company, any Series or such Member for the Investment Manager's good faith reliance on the provisions of the IMA or for: (A) losses sustained or liabilities incurred by the Company, a Series or a Member as a result of errors in judgment on the part of the Investment Manager, or any act or omission of the Investment Manager, if such losses or liabilities were not the result of the Investment Manager's willful misfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, its duties under the IMA; (B) errors in judgment on the part of any person, or any act or omission of any person, selected by the Investment Manager to perform services for or otherwise transact business with the Company or a Series, provided that, in selecting such person, the Investment Manager acted without willful misfeasance, bad faith or gross negligence; or (C) circumstances beyond the Investment Manager's control, including the bankruptcy, insolvency or suspension of normal business activities of any bank or other financial institution holding assets of the Company or a Series.

The IMA further provides that to the extent any affiliate of the Investment Manager, or any shareholder, partner, member, director, officer, employee or agent of the Investment Manager or of any of its affiliates ("**Investment Manager Associate**"), has duties (including fiduciary duties) and liabilities relating thereto to the Company, a Series or any Member, such person shall not be liable for monetary or other damages to the Company, such Series or such Member for such person's good faith reliance on the provisions of the IMA or for losses sustained or liabilities incurred by the Company, such Series or such Member as a result of errors in judgment on the part of such person, or any act or omission of such person, if such losses or liabilities were not the result of such person's willful misfeasance or bad faith.

Pursuant to the IMA, the Company and each Series will, to the fullest extent permitted by law, indemnify each Investment Manager Associate from and against any and all Losses, except to the extent that it is determined (in a judgment or order not subject to further appeal or discretionary review by a court, governmental body or agency or self-regulatory organization having jurisdiction to render or issue such judgment or order) that an act or omission of such Investment Manager Associate was material to the matter giving rise to such Losses and that such Investment Manager Associate is not entitled to be exculpated from such Losses as described above.

Notwithstanding the foregoing, no exculpation or indemnification of an Investment Manager Associate shall be permitted to the extent such exculpation or indemnification would be inconsistent with the requirements of federal or state securities laws or other applicable law.

§3. INVESTMENT OBJECTIVES AND STRATEGY

Investment Objectives

The Company's investment objectives are to generate current income and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure to stay in their homes as well as facilitate dispositions which return vacant abandoned homes to service. The Company will pursue these objectives by capitalizing on dislocations made available by the current state of the residential (and possibly commercial) real estate market in the United States. The Company attempts to take advantage of investment opportunities that it believes are available, primarily in the residential real estate market, for the acquisition of distressed mortgage loans at substantial discounts to current market values. The Company then seeks consensual, borrower-directed resolutions that benefit both the Company and the borrower. **However, no assurance can be given that the Company will achieve its investment objectives or that it will not sustain losses.**

Investment Strategy

The Company will invest substantially all of each Series' assets into a series of beneficial interests of American Homeowner Preservation Trust, a Delaware Statutory Trust established solely as an investment vehicle for the Company (the "**Trust**"). U.S. Bank Trust National Association has been selected as the trustee for the Trust, and the Investment Manager is the administrative trustee of the Trust and is responsible for the investment activities of the Trust. The Company has elected to structure its investment program through the Trust to address certain state licensing and registration requirements applicable to the mortgage loan industry.

The Investment Manager believes current market conditions provide unique opportunities to acquire distressed residential mortgage loans at significant discounts to their unpaid principal balances and, more importantly, to their current and future market values. Market prices of residential mortgage loans and real estate have declined significantly during the current economic downturn due, in large part, to increasing rates of borrower defaults and falling values of real estate collateral. Many depository institutions and other holders of portfolios of sub-performing or non-performing mortgage loans in the United States are under financial duress and may be motivated to sell these assets directly or through government programs. In addition, government-related agencies acting as receivers, such as the Federal Deposit Insurance Corporation ("**FDIC**"), have acquired and are expected to continue to acquire significant portfolios of troubled loans from failed depository institutions. In addition to sellers who may be under duress, many sellers prioritize their non-performing loan portfolios and look to sell the smallest,

most distressed loans to other investors willing to take on the resolution. The Company generally invests in lower dollar value notes.

The size of the non-performing and sub-performing residential mortgage loan market has grown considerably in the last few years, and the Investment Manager believes that it may likely continue to grow. The Investment Manager believes that more than $566 billion of residential mortgage loans are troubled or at significant risk of default in their present state.

The Company intends to indirectly invest primarily in pools of U.S. single-family residential mortgages (secured by one (1) to four (4) family homes) and, although not a primary focus of the investment strategy, on occasion directly acquiring real estate owned by other lenders as well as U.S. multi-family mortgages (secured by more than four (4) family homes) and commercial loans, obtained on the secondary market. The Company, either directly or indirectly through its affiliates and other service providers, will service the loans in its portfolio as required, and dispose of such assets using various exit options and strategies designed to realize amounts above their original costs. The Company expects to realize returns from principal and interest payments of its portfolio assets wherever possible and gains upon their ultimate disposition or repayment.

The Investment Manager has significant experience with primarily lower dollar-value distressed mortgage loans, generally on residential properties worth less than $100,000 in current market value. The Investment Manager believes it is one of only a few national, institutional quality buyers (with committed capital) for these lower dollar-value assets, and it seeks to acquire assets that are too small and too distressed to be a high priority for larger banks, hedge funds or other large buyers. The Company targets the acquisition of these assets at distressed values, and then seeks consensual resolutions with homeowners using its proprietary American Homeowner Preservation Program (the "**Program**").

Rather than seeking 100% of the amounts owed under a given mortgage loan, or even 100% of the current market value of the underlying property, the Program is primarily structured to achieve quick and consensual resolutions by sharing the potential gains in the resolution with the borrower. Under the Program currently offered by the Managing Member through the Company, the borrower is provided with three primary options to choose from:

- a discounted payoff option, which results in a material discount for the homeowner to both the amounts owed under the loan and the current market value of the home and the forgiveness/settlement of all prior claims. These discounted amounts have averaged approximately 60% less than prior mortgage balances;

- a materially modified mortgage loan, which often results in monthly payments that are less than comparable market rents, along with debt forgiveness incentives intended to entice the homeowner to pay off the mortgage loan as soon as practicable. Monthly payments have averaged approximately 40% less than the borrower's prior mortgage payments and are typically less than amount of rental payments for similar housing; or

- a cash incentive to the extent that the borrower would rather leave both the property and the underlying liabilities behind. In this scenario, the borrower signs over the deed to the home in lieu of any foreclosure action against the borrower.

The Program uses consistent formulas based on market valuation to determine the specific terms of each option offered to the borrower. The resolution of each loan is directed by the responses and preferences of the borrower. If the borrower cannot be located or is unresponsive, the Company will

commence foreclosure actions. In the past, commencing legal action has often resulted in the borrower ultimately responding and agreeing to a consensual resolution.

The Company believes that it has a substantial opportunity to maximize value by acquiring portfolio assets that are of low priority for other owners and then seeking consensual, borrower-directed resolutions that help to transform the borrowers' financial lives and also accelerate the pace of resolution while reducing legal and foreclosure expense. The Company believes it has a competitive advantage given substantial experience in asset due diligence, pricing, sourcing, resolution and disposition strategies.

Over time, the Investment Manager may reevaluate its investment strategy as real estate market conditions change with a view toward maximizing the returns from the Company's investment portfolio and identifying dislocations in the mortgage and real estate markets.

§4. EXPENSES, MANAGEMENT FEES AND INCENTIVE ALLOCATIONS

General

The Company will pay such costs and expenses as the Managing Member reasonably determines in good faith to be necessary, appropriate, advisable, incidental or convenient to effect the Company's formation, promote or conduct the Company's business or achieve the Company's objectives. It is expected that the Company will bear all costs and expenses associated with its organization, the offering of Interests and its ongoing operations, except as otherwise described below. The Managing Member, however, may not cause the Company to compensate the Managing Member or its related persons except upon terms and conditions comparable to those that would be negotiated on an "arm's length" basis between unaffiliated parties for the type of service or transaction in question. For purposes of the foregoing, it shall conclusively be presumed that fees, allocations and expenses described in this Memorandum meet that standard.

Operating Costs and Expenses

The Company's direct operational costs and expenses may include, without limitation: (i) costs and expenses incurred in connection with the ongoing offer and sale of Interests; (ii) Management Fees (discussed below); (iii) costs and expenses incurred by the Managing Member or Investment Manager in connection with investigating investment opportunities for the Company and reviewing the continuing suitability of the Company's investments in light of the Company's investment objectives; (iv) costs and expenses incurred in connection with the investment and reinvestment of the Company's assets, including commissions, mark-ups, mark-downs and spreads, and related clearing and settlement charges; (v) custodial, administrative, legal, accounting, auditing, record-keeping, appraisal, tax form preparation, compliance and consulting costs and expenses (including costs and expenses associated with obtaining systems and other information designed to facilitate Company accounting or record-keeping, including related hardware and software); (vi) fees, costs and expenses of third-party service providers that provide such services (including fees, costs and expenses of attorneys retained by the Managing Member or the Investment Manager to represent the Managing Member or Investment Manager, as applicable, in connection with the business and affairs of the Company, to the extent such fees, costs and expenses relate to advice provided to the Managing Member or Investment Manager by such attorneys with respect to such business and affairs); (vii) insurance costs and expenses; (viii) bank service fees; (ix) costs and expenses associated with preparing investor communications; (x) printing and mailing costs and expenses; (xi) fees and taxes imposed by any governmental entity or self-regulatory organization,

including licensing, filing, registration and exemption fees and withholding, transfer and franchise taxes; (xii) the Company's indemnification obligations under the LLC Agreement, the IMA and other agreements to which the Company may be a party; and (xiii) extraordinary costs and expenses, if any. To the extent any of the expenses described above apply only to one or more Series, those expenses will be charged only against the applicable Series.

The Managing Member's Overhead Expenses

The Managing Member is responsible for all salaries, bonuses and employee benefit expenses of its related persons who are involved in the management and conduct of the business and affairs of the Company (as well as related overhead, including office space and equipment, utilities, telephone and telecopier expenses, and other similar items), except that, as described above, the Company will bear: (i) costs and expenses incurred by the Managing Member in connection with investigating investment opportunities for the Company and reviewing the continuing suitability of the Company's investments in light of the Company's investment objectives; (ii) costs and expenses associated with obtaining systems and other information designed to facilitate Company accounting or record-keeping, including related hardware and software; and (iii) fees, costs and expenses of attorneys retained by the Managing Member to represent the Managing Member in connection with the business and affairs of the Company, to the extent such fees, costs and expenses relate to advice provided to the Managing Member by such attorneys with respect to such business and affairs.

Management Fees

The Company ordinarily will pay the Managing Member a monthly Management Fee, in arrears, in an amount equal to 0.1667% of the NAV of each Capital Account, determined as of the end of each month (approximately 2% annually).

Performance-Based Compensation

There is no incentive allocation *per se* for the Company. However, since the Class M Interests are entitled to any residual value in the assets held by each Series, the holder(s) of the Class M Interests are effectively receiving performance-based compensation with respect to an investor's investment in a particular Series.

§5. DISTIBUTIONS

Distributions

The Company will generally distribute any net income it receives to the relevant Members of each Series promptly after receipt of such income, subject to any reserves or Company expenses as reasonably determined by the Managing Member. The Company shall make all such distributions to the Members of the relevant Series in the following order of priority (generally payment of the preferred return of each Class of Interests and then return of invested capital) and among them in accordance with their proportionate ownership of a particular Class of Interests:

1. the Class A Preferred Return for a particular Series as of the relevant distribution date;

2. the Class B Preferred Return for a particular Series as of the relevant distribution date;

3. the Class C Preferred Return for a particular Series as of the relevant distribution date;

4. to the Class A Members of a particular Series as a return of invested capital;

5. to the Class B Members of a particular Series as a return of invested capital; and

6. to the Class C Members of a particular Series as a return of invested capital.

Compulsory Withdrawals

The Managing Member may at any time require any Class A, Class B or Class C Member to withdraw from the Company with or without notice to such Member if: (a) the Managing Member determines that such Member made a material misrepresentation to the Company in connection with acquiring its Interest; (b) a legal or similar proceeding is commenced or threatened against the Company or any other Member arising out of, or relating to, such Member's investment in the Company; (c) such Member transferred its Interest (or any interest therein) in violation of the LLC Agreement or in a manner that has resulted in (or, in the Managing Member's judgment, is likely to result in) an adverse regulatory effect (determined by the Managing Member in its reasonable discretion); or (d) such Member's continuing ownership of an Interest (or interest therein) has resulted in or is likely to result in an adverse regulatory effect (determined by the Managing Member in its reasonable discretion).

The Managing Member may establish (and increase or decrease from time to time) such reserves for the Company for: (a) estimated accrued costs or expenses and (b) contingent, unknown or unfixed debts, liabilities or obligations of the Company, even if such reserves are not required by generally accepted accounting principles. The existence of any such reserve at the time a Member withdraws or is required to withdraw capital from a Capital Account would reduce the available balance of such Capital Account by the amount of its allocable share of such reserve. In addition, any such reserve, to the extent reversed, will be allocated among the Capital Accounts of the persons who are Members at the time of such reversal in the manner provided in the LLC Agreement, unless the Managing Member, in its discretion, determines to allocate such reversal among the Capital Accounts of those persons who were Members at the time such reserve was established or increased, as the case may be. As a result, it is possible that a Member who withdraws or is required to withdraw the entire balance of a Capital Account at a time when a reserve exists will not receive any amount from such reserve if it should later be reversed.

The Managing Member may withhold and pay over to the Internal Revenue Service ("**IRS**") or any other taxing authority, pursuant to Sections 1441, 1442, 1445, 1446 or 1471 of the Internal Revenue Code of 1986, as amended (the "**Code**"), and any other provisions of the Code or of state, local or foreign law, the amounts the Company may be required to withhold under those provisions or may be required to pay to any federal, state, local or foreign taxing authority relating to a Member. The amount of any taxes withheld and paid by the Company relating to a Member shall be deemed to constitute a distribution to such Member and, if withheld and paid in connection with a capital withdrawal by such Member, shall reduce (on a dollar for dollar basis) the amount the Company would otherwise pay directly to such Member in connection with such withdrawal.

Suspension of Withdrawals and Withdrawal Payments

The Managing Member may cause the Company to suspend distribution payments for the whole or part of any period during which the Managing Member determines that: (a) making such payments would violate Delaware law or have a material adverse effect on the Members generally; (b) sufficient funds are not available to the Company to make such payments because of a default or delay by any bank,

broker or other person holding assets of the Company in making payments to the Company. In addition, the Managing Member may cause the Company to suspend payments due to Members in connection with distributions to the extent reasonably necessary to enable the Company to effect the orderly liquidation of assets necessary to effect such withdrawals or make such payments.

The Managing Member may make "in kind" distributions (or a combination of cash and "in kind" distributions) where it believes the circumstances warrant. Securities distributed "in kind" may not be readily marketable or saleable and may have to be held by the Members who receive them for an indefinite period of time.

§6. RISK FACTORS

In considering an investment in the Company, prospective investors should be aware of certain special considerations and risk factors, which include, but are not limited to, the following:

- **General Investment Risk, *i.e.,* the risk of deterioration in the financial markets in general;**
- **Strategy Risk, *i.e.*, the risk of failure of the Investment Manager's investment strategy;**
- **Institutional Risk, *i.e.,* the risk that the Company could incur losses due to: (i) the failure of counterparties to perform their contractual commitments to the Company; (ii) the financial difficulty of brokerage firms, banks or other financial institutions that hold assets of the Company;**
- **Company Structure Risk, *i.e.*, the special considerations and risks arising from the operation of certain provisions of the LLC Agreement;**
- **Operational Risk, *i.e.,* the special considerations and risks arising from the day-to-day management of a pooled investment vehicle like the Company; and**
- **Tax Risk, *i.e.,* the special considerations and risks arising from the operation of an investment vehicle treated as a partnership for U.S. federal tax purposes.**

Certain special considerations and risk factors that fall under these general categories are described below. Others are referred to elsewhere in this Memorandum and will not be repeated here. Prospective investors should therefore read this entire Memorandum before subscribing for Interests. In addition, the inclusion of specific special considerations and risk factors in this Memorandum should not be construed to imply they are described in complete detail, or that there are not other special considerations or risk factors that apply to an investment in the Company.

GENERAL INVESTMENT RISK

All investments in securities and other financial instruments involve substantial risk of volatility (potentially resulting in rapid declines in market prices and significant losses) arising from any number of factors that are beyond the control of the Investment Manager, such as: changing market sentiment; changes in industrial conditions, competition and technology; changes in inflation, exchange or interest rates; changing domestic or international economic or political conditions or events; changes in tax laws

and governmental regulation; and changes in trade, fiscal, monetary or exchange control programs or policies of governments or their agencies (including their central banks). Changes such as these, as well as innumerable other factors, are often unpredictable and unforeseeable, rendering it difficult or impossible to predict or foresee future market movements. Unexpected volatility or illiquidity in the markets in which the Company holds positions could impair its ability to achieve its objectives and cause it to incur losses.

The tragic events of September 11, 2001 had an immediate material and adverse effect on the financial markets in general and investment in securities in particular. If there are further such events, there are numerous ways in which they could have a substantial negative impact on any investment fund, including sharp adverse changes in volatility and liquidity.

The global financial markets recently experienced a period of unprecedented disruption and stress. Markets previously thought to be uncorrelated have been shown to be correlated, credit markets have in some cases ceased functioning, many markets have experienced record levels of volatility and governments have intervened in extraordinary and unpredictable ways, at times on an emergency basis, to the detriment of certain market participants. It is impossible to predict what ongoing impact these events will have on the Company and on the Investment Manager. Many private investment funds suffered significant losses, particularly during the third and fourth quarters of 2008, and many private investment funds suspended or limited redemptions, restructured or liquidated.

Although the Investment Manager believes that the Company's investment program should mitigate the risk of loss through a careful selection and monitoring of investments, an investment in the Company is nevertheless subject to loss, including possible loss of the entire amount invested. No guarantee or representation is made that the Company will be successful, and the Company's investment results may vary substantially over time.

STRATEGY RISK

Mortgage Loan Investments

The success of the investment positions established for the Company by the Investment Manager will depend in large part on the Investment Manager's ability to accurately assess the fundamental value of those positions. An accurate assessment of fundamental value depends on a complex analysis of a number of financial and legal factors. No assurance can be given that the Investment Manager will be in a position to assess the nature and magnitude of all material factors having a bearing on the value of the Company's investment positions, or that the Investment Manager will accurately assess the impact of all factors of which it is aware.

Default Risk

Notwithstanding the Investment Manager's underwriting process and negotiation with borrowers to maximize value to the Company, one or more borrowers may default on their obligations to the Company after agreeing to an adjusted mortgage which could result in losses to the Company. This risk is mitigated by the fact that the Company can foreclose on the defaulted loan to take possession of the underlying real estate which will generally be worth more than the amount paid for the loan by the Company, but the foreclosure process may result in cash flow issues which could delay the payments due to investors.

"Uninvested" Capital

The Managing Member may from time to time invest Company assets in high quality short-term instruments such as U.S. Treasury securities and shares of "money market" mutual funds because suitable investments for the Company are not then available. It is not possible to determine or even estimate the degree to which the Company's assets will be "uninvested" from time to time, but the percentage of Company assets invested in short-term instruments may be high from time to time. Such periods of "uninvestment" are likely to have a negative impact on the Company's rate of return.

Illiquid Investments

The instruments in which the Company will invest are generally illiquid and no broad exposure market exists where these types of assets are regularly traded. This lack of depth could be a disadvantage to the Company in the event that the Investment Manager determines that reselling the Company's investment positions is desirable.

COMPANY STRUCTURE RISK

Dependence on the Investment Manager and its Principal

The Investment Manager will make all investment and trading decisions for the Company. No Member, in its capacity as such, may take part in the management or conduct of the business or affairs of the Company or transact any business in the name of or otherwise for or on behalf of the Company. As a result, the success of the Company will depend to a great extent on the investment skills of the Investment Manager's principal. The Company could be adversely affected if, because of illness, resignation or other factors, such person's services were not available for any significant period of time.

Exculpation and Indemnification

The LLC Agreement provides that the Managing Member shall not be liable for monetary or other damages to the Company or any Member for: (i) losses sustained or liabilities incurred by the Company or such Member, except to the extent that it is Judicially Determined (as defined in the LLC Agreement) that an act or omission of the Managing Member was material to the matter giving rise to such losses or liabilities and that such act or omission constituted criminal wrongdoing, willful misfeasance, bad faith or gross negligence on the part of the Managing Member; (ii) losses sustained or liabilities incurred by the Company or such Member arising from or otherwise relating to any act or omission of any person selected by the Managing Member to perform services for or otherwise transact business with the Company, except to the extent that it is Judicially Determined that the Managing Member's selection of such person involved criminal wrongdoing, willful misfeasance, bad faith or gross negligence on the part of the Managing Member and was material to the matter giving rise to such losses or liabilities; or (iii) circumstances beyond the Managing Member's control, including changes in tax or other laws, rules or regulations or the bankruptcy, insolvency or suspension of normal business activities of any broker-dealer, bank or other financial institution that holds the Company's assets.

The LLC Agreement also provides that no member, partner, shareholder, other beneficial owner, manager, director, officer, employee or agent of the Managing Member or of any affiliate of the Managing Member shall be liable for monetary or other damages to the Company or any Member for losses sustained or liabilities incurred by the Company or such Member, except to the extent that it is Judicially Determined that an act or omission of such person was material to the matter giving rise to such losses or liabilities and that such act or omission constituted criminal wrongdoing, willful misfeasance or bad faith on the part of such person.

Finally, the LLC Agreement provides that the Company shall, to the fullest extent permitted by law, indemnify each "**Managing Member Associate**" – *i.e.*, the Managing Member, each of its affiliates, and each member, partner, shareholder, other beneficial owner, manager, director, officer, employee or agent of the Managing Member or of any affiliate of the Managing Member – against any and all losses, damages, liabilities, costs, expenses (including reasonable legal and expert witness fees and related costs and expenses), judgments, fines, amounts paid in settlement, and other amounts (including costs and expenses associated with investigation or preparation), actually and reasonably paid or incurred by such Managing Member Associate in connection with any and all legal or similar proceedings that arise from or relate, directly or indirectly, to any act or omission (or alleged act or omission) of such Managing Member Associate in connection with the LLC Agreement or the business or affairs of the Company and in which such Managing Member Associate may be involved, or is threatened to be involved, as a defendant, witness, deponent or otherwise (but not as a plaintiff, unless the Managing Member agrees otherwise in its sole and absolute discretion), whether or not the same shall proceed to judgment or be settled or otherwise be brought to a conclusion, except to the extent that it is Judicially Determined that such Managing Member Associate is not entitled to be exculpated in respect of such act or omission as provided above.

The foregoing provisions could make it difficult for the Company or a Member to recover funds from a Managing Member Associate in the event that a Member or Members believe that such Managing Member Associate has breached a duty to the Company. The Company may (but is not required to) obtain insurance to cover its indemnification obligations under the LLC Agreement. Such insurance, if obtained, may result in substantial costs to the Company. If such insurance is not obtained and the Company's indemnification obligations under the LLC Agreement should be substantial, the return to investors will be adversely affected.

Notwithstanding the foregoing, no exculpation or indemnification of a Managing Member Associate shall be permitted under the LLC Agreement to the extent such exculpation or indemnification would be inconsistent with the requirements of federal or state securities laws or other applicable law.

The IMA has comparable provisions for the benefit of the Investment Manager.

Withholding of Distributions

Under certain circumstances, the Managing Member may find it necessary to establish a reserve for contingent liabilities and withhold a certain portion of such Member's distributions. In addition, at any given time, the Company may not generate sufficient cash flow or be able to liquidate sufficient assets to make required distributions to the Members or to satisfy all of its obligations upon dissolution.

Limited Voting Rights

Members will not have the right to vote on any matter affecting the Company except for: (a) transactions in which the admission of an additional managing member to the Company would result in an "assignment" of the LLC Agreement within the meaning of the Investment Advisers Act of 1940, as amended (the **"Advisers Act"**) (see Section 3.3(b) of the LLC Agreement); (b) certain amendments to the LLC Agreement (see "Amendment of LPA," below); and (c) the appointment of the liquidating trustee of the Company in certain limited circumstances (see Sections 11.2(a) of the LLC Agreement). No Member or Members, individually or collectively, shall have any right, power or authority to remove or expel the Managing Member of the Company, to cause the Managing Member to withdraw from the Company, to appoint a successor Managing Member in the event of the withdrawal or bankruptcy of the Managing Member or otherwise, or to terminate the Company, unless such right, power or authority is conferred on it or them by law.

Amendment of LLC Agreement and Certificate of Organization

The Managing Member may amend the LLC Agreement and the Certificate of Organization of the Company (the "**Certificate**") without Member approval for (among other things):

- certain tax and regulatory purposes (provided that the Managing Member takes such measures as are reasonably necessary to prevent such an amendment from having a material adverse effect on the Company or the Members generally);

- certain ministerial purposes; and

- such other purposes as the Managing Member may determine to be necessary, appropriate, advisable, incidental or convenient to the management and conduct of the business and affairs of the Company, provided that, in the Managing Member's judgment, no amendment for any such other purpose has or could reasonably be expected to have a materially adverse effect on the Company or the Members generally.

In no event, however, may the Managing Member effect any amendment that would: (i) require a Member to pay any sum of money whatsoever in respect of such Member's Interest, whether in the form of a Capital Contribution, a loan or otherwise, other than that which such Member has agreed to pay by way of such Member's Subscription Agreement, the LLC Agreement or another agreement executed and delivered by such Member; (ii) materially reduce the increases and decreases of Net Assets or the amount of distributions to which such Member is entitled under the LLC Agreement, without the consent of such Member; or (iii) modify the limited liability of a Member, without the consent of such Member.

The Managing Member may amend the LLC Agreement or the Certificate in a manner that materially adversely affects or could reasonably be expected to have a material adverse effect on the Company or the Members generally if the Managing Member gives written notice to the Members, at least thirty calendar days prior to the implementation of such amendment, setting forth, in reasonable detail, all material facts relating to such amendment, and obtains the consent of the Members to such amendment prior to the implementation thereof. In situations where the Managing Member is required to obtain the consent of Members to an amendment to the LLC Agreement, the Managing Member may obtain such consent by way of "negative consent." Under this procedure, the Managing Member would inform Members of the proposed amendment no later than thirty calendar days prior to the implementation of the amendment, and the amendment would be deemed to be approved if a 67% majority in interest of the Members who are not affiliated with the Managing Member fail to object to such amendment within that time frame. For this purpose, a Member who has a right to redeem its entire interest in the Company prior to the proposed implementation of such amendment would automatically be deemed not to have objected to such amendment.

The Managing Member may also use the "negative consent" procedure for other purposes, such as obtaining consent to: (i) actions and practices involving actual or potential conflicts between the interests of the Managing Member or any of its related parties, on the one hand, and the Company or the Members, on the other hand, and (ii) the admission of an additional managing member in situations where the admission of an additional managing member would result in a change in the actual control or management of the Company.

The Managing Member may not amend the LLC Agreement or the Certificate in a manner that has or could reasonably be expected to have a material adverse effect on one or more specific Members without the consent of the affected Members.

The LLC Agreement or the Certificate may not be amended without the consent of the Managing Member.

Withdrawal of the Managing Member

The Managing Member may withdraw as the Company's managing member upon giving not less than ninety calendar days prior written notice to the Members (or not less than forty-five calendar days prior written notice in the event the Managing Member has caused the Company to admit one or more additional managing member s in connection with such withdrawal).

Confidentiality

Members generally will be required to keep confidential all matters relating to the Company and its business and affairs (including communications from the Managing Member). The exceptions to this general rule of confidentiality are described in Section 8.6(b) of the LLC Agreement. Members will also be required to acknowledge and keep confidential any Proprietary Information of the Company and to consent to injunctive relief to ensure its compliance with such obligations. The name "American Homeowner Preservation" and any use thereof belongs to the Managing Member and is licensed to the Company and the Members will disclaim expressly any interest therein.

OPERATIONAL RISK

Lack of Operating History

The Company has been established in connection with this offering and has no operating history. The successful past performance of other accounts managed by the Managing Member or its sole principal does not necessarily indicate that the Company will be successful.

Absence of Registrations

The Company is offering Interests to investors pursuant to the exemption from registration under the Securities Act provided by Regulation D. In addition, the Company will rely on the "exclusion" from the definition of "investment company" for certain "private" investment companies provided by Section 3(c)(1) of the Investment Company Act of 1940 ("**ICA**"). As a result, Members will not be afforded the protections that registration under the Securities Act and the ICA might provide.

There is no market for Interests and none is expected ever to develop. Consequently, the Members may not be able to liquidate their investment, or securities distributed to them in kind, in the event of an emergency or for any other reason. Interests may not be pledged as collateral for loans.

The LLC Agreement limits (i) the transferability of Interests and (ii) restricts the times at which the Members may withdraw funds from the Company. Notwithstanding the Members limited ability to exercise withdrawal rights, there is no guarantee that the Company will have sufficient cash available to make cash distributions in respect to such withdrawals.

The Managing Member is not currently registered as an investment adviser under the Advisers Act or under any state securities laws. As an exempt adviser, the Managing Member is subject only to limited regulation under the Advisers Act. As a result, Members will not be afforded the protections that registration of the Managing Member under the Advisers Act might provide.

TAX RISKS

Audits

There can be no assurance that the Company's tax returns will not be audited by the IRS or by the states and that adjustments to such returns will not be made as a result of such an audit. If an audit results in an adjustment, Members may be required to file amended returns (which may themselves be audited) and to pay back taxes, plus interest, which would not be reimbursed through distributions by the Company.

Investments Not Tax-Driven

A substantial portion of the Company's income is expected to constitute income in the form of interest or short-term capital gain. Furthermore, the Managing Member's trading decisions will be based primarily on economic, and not tax, considerations. This could result, from time to time, in adverse tax consequences to Members.

§7. CONFLICTS OF INTEREST

Because of the Managing Member's role as sponsor and organizer of the Company, the terms of the LLC Agreement were not the result of arm's-length negotiation between the Managing Member, on the one hand, and the Company, on the other hand.

In addition, the Managing Member and its related persons will be subject to significant conflicts of interest in managing the business and affairs of the Company and in making investment and trading decisions for the Company. Certain of these conflicts are described elsewhere in this Memorandum and will not be repeated here. Others are described below. While the conflicts described in this Memorandum are fairly typical of "hedge fund" managers, the Managing Member wishes to call your attention to them.

Neither the Managing Member nor any other Managing Member Associate is required to devote its full time or any material portion of its time to the business and affairs of the Company. The Managing Member, however, is required to devote so much of its time to the business and affairs of the Company as the Managing Member shall reasonably determine in good faith to be necessary to achieve the Company's objectives. The Managing Member and its related persons may become involved in other business ventures, including other investment funds whose investment objectives, strategies and policies are the same as or similar to those of the Company (or different from those of the Company). The Company will not share in the risks or rewards of such other ventures, and such other ventures will compete with the Company for the time and attention of the Managing Member and its related persons and might create additional conflicts of interest, as described below.

The Managing Member and its related persons may invest and trade in securities and other financial instruments for the accounts of clients other than the Company and for their own accounts, even if such securities and other financial instruments are the same as or similar to those in which the Company invests and trades, and even if such trades compete with, occur ahead of or are opposite those of the Company. They will not, however, knowingly trade for the accounts of clients other than the Company or for their own accounts in a manner that is detrimental to the Company, nor will they seek to profit from their knowledge that the Company intends to engage in particular transactions.

The Managing Member might have an incentive to favor one or more of its other clients over the Company (for example, with regard to the selection of particular investments) because those clients might pay the Managing Member more for its services than the Company. The Managing Member and its related persons will act in a fair and reasonable manner in allocating suitable investment opportunities among their client and proprietary accounts. No assurance can be given, however, that (i) the Company will participate in all investment opportunities in which other client or proprietary accounts of such persons participate, (ii) particular investment opportunities allocated to client or proprietary accounts other than the Company will not outperform investment opportunities allocated to the Company, or (iii) equality of treatment between the Company, on the one hand, and other client and proprietary accounts of such persons, on the other hand, will otherwise be assured.

Subject to the considerations set forth above, in investing and trading for client and proprietary accounts other than the Company, the Managing Member and its related persons may make use of information obtained by them in the course of investing and trading for the Company, and they will have no obligation to compensate the Company in any respect for their receipt of such information or to account to the Company for any profits earned from their use of such information.

The Managing Member is not required to combine or arrange the orders of the Company with the orders of any other client, or any proprietary account, of any Managing Member Associate.

The trading records of the Managing Member and its related persons will not be available for inspection by Members.

The Managing Member may from time to time engage placement agents to assist it in marketing Interests. If you acquire an Interest through a placement agent retained by the Managing Member, you should not view any recommendation of such agent as being disinterested, as the agent will generally be paid for the introduction out of the fees the Managing Member receives from the Company. Also, you should regard such a placement agent as having an incentive to recommend that you remain an investor in the Company, since the agent will generally be paid a portion of the Managing Member's fees for all periods during which you remain an investor.

The Managing Member has fiduciary duties to the Company to exercise good faith and fairness in all its dealings with it and will take such duties into account in dealing with all actual and potential conflicts of interest. If a Member believes that the Managing Member has violated its fiduciary duties, it may seek legal relief under applicable law, for itself and other similarly situated Members, or on behalf of the Company. However, it may be difficult for Members to obtain relief because of the changing nature of the law in this area, the vagueness of standards defining required conduct, the broad discretion given the Managing Member under the LLC Agreement, and the broad exculpatory and indemnification provisions therein.

§8. CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

IRS CIRCULAR 230 DISCLOSURE

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, PLEASE NOTE THAT ANY TAX ADVICE CONTAINED IN THIS MEMORANDUM WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER THE CODE. TAX ADVICE CONTAINED

IN THIS MEMORANDUM WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE INTERESTS. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Introduction

The following is a summary of certain material federal income tax consequences of acquiring, holding and disposing of Interests. Because the federal income tax consequences of investing in the Company varies from investor to investor depending on each investor's unique federal income tax circumstances, this summary does not attempt to discuss all of the federal income tax consequences of such an investment. Among other things, except in certain limited cases, this summary does not purport to deal with persons in special situations (such as financial institutions, non-U.S. persons, insurance companies, entities exempt from federal income tax, regulated investment companies, dealers in commodities and securities and pass through entities). Further, to the limited extent this summary discusses possible foreign, state and local income tax consequences, it does so in a very general manner. Finally, this summary does not purport to discuss federal tax consequences (such as estate and gift tax consequences) other than those arising under the federal income tax. ***You are therefore urged to consult your tax advisers to determine the federal, state, local and foreign tax consequences of acquiring, holding and disposing of an Interest.***

The following summary is based upon the Code, as well as administrative regulations and rulings and judicial decisions thereunder, as of the date hereof, all of which are subject to change at any time (possibly on a retroactive basis). Accordingly, no assurance can be given that the tax consequences to the Company or its investors will continue to be as described herein.

The Company has not sought or obtained a ruling from the IRS (or any other federal, state, local or foreign governmental agency) or an opinion of legal counsel as to any specific federal, state, local or foreign tax matter that may affect it. Accordingly, although this summary is considered to be a correct interpretation of applicable law, no assurance can be given that a court or taxing authority will agree with such interpretation or with the tax positions taken by the Company.

This summary relates solely to U.S. investors. A U.S. investor for purposes of this discussion is a person who is a citizen or a resident alien of the United States; a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any political subdivision thereof; an estate whose income is subject to U.S. federal income tax regardless of its source; and a trust if: (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

Partnership Status

Under current law, the Company is initially classified as a partnership, and not as an association taxable as a corporation, for federal income tax purposes.

A publicly traded partnership (a "**PTP**") is generally treated as a corporation for federal income tax purposes. If the Company were treated as a PTP, the Members would not be treated as partners for federal income tax purposes, and income or loss of the Company would not be passed through to the Members. Instead, the Company would be subject to federal income tax on its income at the rates applicable to corporations. Accordingly, status of the Company as a PTP would materially reduce the after-tax return to a Member from its investment in the Company.

However, a partnership that otherwise would constitute a PTP taxable as a corporation generally will not be taxable as a corporation under an exception which is applicable if at least 90% of the gross income of the partnership for a taxable year consists of certain categories of income (the "**Qualified Income Categories**"). The Qualified Income Categories consist of income and gains from the buying and selling of commodities held as capital assets or futures, forwards, or options with respect to such commodities (where such activity is a principal activity of the partnership); dividends; interest (to the extent such interest is neither derived from the "conduct of a financial or insurance business" nor based upon "income or profits" of any person); certain capital gains; gain from the sale or other disposition of real property; income inclusions in respect of a controlled foreign corporation (a "**CFC**") (at least to the extent such inclusion is matched by a distribution out of earnings and profits in the taxable year of inclusion); income inclusions with respect to a passive foreign investment company (a "**PFIC**") (at least to the extent of those required income inclusions where the PFIC is treated as a qualified electing fund ("**QEF**") where such inclusion is matched by a distribution out of earnings and profits in the taxable year of inclusion); and certain other qualifying income.

In general, the income that the Company receives from its investments should be expected to fit within one or more of the Qualified Income Categories. However, it is possible that gains or income recognized by the Company with respect to the acquisition, ownership and disposition of distressed loans may not fit within any of the Qualified Income Categories. This treatment would result if the Company were considered to acquire the distressed loans or other assets for the purpose of resale to customers or if the activities of one or more affiliates of the Managing Member or Investment Manager with respect to the disposition or leasing of real estate are attributed to the Company. Moreover, such treatment could also result if certain activities of the Company with respect to distressed loans, such as entering into a modification of the loans that constitutes a deemed reissuance of such security or acquiring a loan as the controlling creditor for purposes of renegotiating the terms of the loan, were viewed as the active conduct of a trade or business by the Company. However, the Managing Member and the Investment Manager intend to operate the Company in a manner that will comply with the above exception for qualified income. To the extent that such exception is not available, the Company may also rely upon other safe harbors from PTP status provided under Treasury Regulations to the extent available. However, the continued availability of these safe harbors cannot be known at present, and there is no assurance that the Company would qualify under any such safe harbors.

The discussion set forth in the following paragraphs assumes that the Company will be taxed as a partnership (and not a PTP taxable as a corporation) for federal income tax purposes.

Taxation of Members

As a partnership, the Company is not itself subject to U.S. federal income tax but will file an annual partnership information return with the IRS. Each Member is required to report separately on his or her income tax return his or her distributive share of the Company's net long-term capital gain or loss, net short-term capital gain or loss, net ordinary income, deductions and credits. The Company may utilize a variety of investment and trading strategies which produce both short-term and long-term capital gain (or loss), as well as ordinary income (or loss). The Company will send annually to each Member a Schedule k-1 showing his or her distributive share of the Company items of income, gain, loss deduction or credit.

Each Member that is subject to U.S. federal income taxes (a "**U.S. Member**") will be liable for taxes on its distributive share of Company income regardless of whether the Company has made any distributions to the Members.

Allocations of the items of income, gain, loss, deductions and credits of the Company will be made in accordance with the LLC Agreement the Company. Such allocations are intended to have "substantial economic effect." If an allocation to a Member does not have substantial economic effect, such Member's distributive share of profit or loss for tax purposes will be determined in accordance with such Member's interest in the Company, taking into account all facts and circumstances. Consequently, if the IRS were to successfully challenge the allocations set forth in the LLC Agreement, the Members may be allocated different amounts of income, gain, loss, deductions or credits than initially reported to such Members.

Upon any redemption of the Interest of a U.S. Member, the Company may specially allocate separate Company items of income, gain, loss and deduction to a redeeming U.S. Member to the extent necessary such that the U.S. Member would have an adjusted tax basis in its Interest equal to the redemption payment. The Managing Member generally retains sole discretion in determining the character of any such items specially allocated to a particular redeeming U.S. Member. Although the Managing Member believes that these special allocations will be respected for federal income tax purposes, there are no assurances that such allocations could not be successfully challenged. If successfully challenged, a Member's allocable share of Company taxable income and loss may be affected.

To the extent that these special allocations are not made, or are made but successfully challenged, for U.S. federal income tax purposes, the U.S. Member would not have an adjusted tax basis in its Interest equal to the redemption payment. In that case, cash paid as part of a redemption to a U.S. Member in excess of the adjusted tax basis of its Interest will be treated as an amount received on the sale or exchange of its Interest and will generally be taxable as capital gain. Further, in that case, a U.S. Member may not recognize a loss upon a partial redemption of its Interest or partial withdrawal of its capital in the Company, and may only recognize a loss upon a complete withdrawal or the redemption or termination of its entire Interest in the Company after the U.S. Member has received all distributions and payments in respect of such complete withdrawal, redemption, or termination. In such case, the Member generally would recognize a capital loss to the extent of any remaining tax basis in its Interest.

Any capital gain or loss so recognized by a U.S. Member upon redemption (or upon a distribution, withdrawal, termination or other disposition) of its Interest generally would be long-term capital gain or loss to the extent of the portion of the Member's Interest that is held for more than twelve months, and short-term capital gain or loss to the extent of the portion of the Member's Interest that is held for twelve months or less. For this purpose, a Member would begin a new holding period in a portion of its Interests each time it makes an additional investment in the Company. Cash distributed (including with respect to partial withdrawals and partial redemption payments) to a U.S. Member in excess of the adjusted tax basis of its Interest will be treated as an amount received on the sale or exchange of its Interest and will generally be taxable as capital gain. An in-kind distribution of property other than cash generally will not result in taxable income or loss to any Member.

Where the Company makes a distribution that constitutes a "substantial basis reduction" distribution (*e.g.*, the complete redemption of a Member's Interest where the Member recognizes a tax loss in excess of $250,000), the Company is generally required to adjust its tax basis in its assets in respect of all Members. (The Company also is required to adjust its tax basis in its assets in respect of a transferee Member in the case of a sale or exchange of an Interest, or a transfer upon death, when there exists "substantial built-in loss" (*i.e.*, in excess of $250,000) in respect of Company property immediately after the transfer.) For this reason, the Company will require (i) a Member who receives a distribution from the Company in connection with a complete withdrawal, (ii) a transferee of an Interest (including a transferee in case of death), and (iii) any other Member in appropriate circumstances to provide the Company with information regarding its adjusted tax basis in its Interest.

Allocations

Under the LLC Agreement, the Company's net capital appreciation or net capital depreciation for each accounting period is allocated among the Members without regard to the amount of income, gain or loss actually recognized by the Company for federal income tax purposes. The LLC Agreement provides that items of the Company's income, gain, loss, deduction and credit actually recognized by the Company during a fiscal year generally are to be allocated for federal income tax purposes among the Members pursuant to the principles of Treasury Regulations issued under Sections 704(b) and 704(c) of the Code. Under these principles, income, gain, loss, deduction and credit are generally allocated among the Members as of the end of the Company's taxable year, based upon the amounts of the Company's net capital appreciation or net capital depreciation that have been allocated to such Members for the current and prior fiscal years, in a manner designed to eliminate "book/tax disparities" in respect of such Member's Interests.

Investors are urged to review Article VII of the LLC Agreement for a more complete description of the manner in which the Company will allocate its income, gain and losses for book and federal income tax purposes.

The IRS could disagree with the Company's methods of allocating income, gain and losses for federal income tax purposes, which could cause investors to recognize more or less income, gain or loss than originally allocated to them for federal income tax purposes.

Income or Loss on Sale of Assets. Generally, the gains and losses realized by the Company on the sale of portfolio assets should be characterized primarily as capital gains or losses, except in respect of loans, to the extent of any accrued market discount not previously included in the income of the Company and any amount realized attributable to accrued but unpaid interest. See "Phantom Income and Related Considerations" below. Generally, capital assets must be held for more than twelve months for the gain from the sale of the capital assets to qualify as long-term capital gains. Gains or losses on sales of capital assets that are held for twelve months or less are treated as short-term gains or losses and are taxed at ordinary income rates. Company income may also include ordinary income, including from interest and rental income.

Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 39.6% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than twelve months) of individuals is 20%. These rates are subject to change by new legislation at any time.

Also, recently enacted legislation imposes a tax of 3.8% on the "net investment income" of certain individuals, trusts and estates for taxable years beginning after December 31, 2012. Among other items, "net investment income" generally includes gross income from interest and dividends and net gain attributable to the disposition of certain property, less certain deductions. Prospective Members should consult their tax advisors concerning the possible implications of this legislation in their particular circumstances.

Phantom Income and Related Considerations. Generally, the modification of a debt instrument (including a change in the yield, an addition, deletion or alteration of a put option, a call option or a conversion right) will be treated as a "deemed exchange" of the debt instrument for a "new" modified debt instrument for U.S. federal income tax purposes if such modification is "significant" within the meaning of the Treasury Regulations promulgated under Section 1001 of the Code (the "Section 1001 Regulations"). Such a deemed exchange would be a taxable event, unless a non-recognition provision of the Code were to apply. Under the Section 1001 Regulations, the modification of a debt instrument is

generally significant if, based on all the facts and circumstances and taking into account all modifications of the debt instrument collectively, the legal rights or obligations that are altered and the degree to which they are altered are economically significant.

The Company expects to modify the terms of the loans it acquires, which will result in a deemed exchange of the loan for the modified loan if such modification is significant within the meaning of the Section 1001 Regulations. The Company will generally realize gain on such deemed exchange in an amount equal to the difference between (i) the issue price of the modified loan, as described below, and (ii) the Company's adjusted tax basis in the loan it purchased. Although the Company intends to purchase outstanding loans as a pool, it will allocate the aggregate purchase price among the various loans based upon relative fair market values in order to calculate the cost basis for each loan for federal income tax purposes. Any gain recognized in a taxable deemed exchange generally will be capital gain, and will be short-term capital gain if the Company has owned the loan for one year or less at the time of the modification.

Pursuant to recently issued Treasury Regulations, the "issue price" of the modified loan will depend on whether either the modified loan or the initial loan is "publicly traded". It is expected that none of the loans acquired by the Company will be publicly traded because each of the loans acquired will have an outstanding principal amount of $100 million or less. Therefore, the issue price of the modified loan will be equal to its stated principal amount. Because the Company will acquire each loan for less than its stated principal amount, it will realize tax gain that exceeds its economic gain upon each significant modification. While that noneconomic tax gain may be offset by a tax loss on the subsequent sale of the modified loan, there may be timing mismatches or character differences between the gain and the loss. To the extent permitted, the Company intends to report gain from a deemed exchange of a loan on the installment method, which should mitigate or eliminate the effect of the timing mismatch. However, the tax consequences of a modification of a loan are heavily dependent on the facts and circumstances surrounding the modification.

It is likely that the loans (including modified loans) owned by the Company will provide for interest payments at a stated rate that will not be paid by borrowers who are under economic distress. As a general rule, such interest is required to be accrued and included in taxable income by the Company with respect to each loan unless the Company has determined, with reasonable certainty, that such interest will never be paid by the borrower. Given the deep discount at which the Company will acquire distressed loans, the Company intends to take the position that unpaid interest on each loan is not required to be accrued as taxable income. The IRS imposes a strict reading of the requirement that nonaccrual of taxable income is only permissible if there is certainty that the interest will never be paid and, therefore, may disagree with the Company's nonaccrual of unpaid interest income. If the IRS position to that effect was successful, the Company would recognize taxable income, with no corresponding receipt of cash, with respect to the unpaid stated interest.

To the extent the Company recovers any principal payment with respect to a loan, it intends to treat the amount received first as a return of its tax basis in the loan (*i.e.*, its purchase price) with any additional amount being treated as gain realized on the disposition of the loan. No portion of a principal payment will be treated as ordinary income attributable to either accrued and unpaid interest income or accrued market discount. It is possible that the IRS may disagree with such treatment and require that amounts received with respect to each loan be allocated first to unpaid stated interest that has accrued since the Company acquired the loan, then to accrued market discount, and lastly to recovery of the Company's tax basis in the loan. If that position by the IRS was successful, the Company would recognize a larger amount of taxable income, substantially all of which would be ordinary income (rather than capital gain), at an earlier point in time. Although the Company would realize a subsequent tax loss

on its unrecovered tax basis in the loan, the loss may not be recognized until a subsequent tax year and would be a capital loss, rather than an ordinary loss, for federal income tax purposes.

If the Company were to foreclose on a property securing a loan (or acquire the property through a deed-in-lieu of foreclosure transaction), it would recognize taxable gain on the disposition of the loan equal to the difference between the fair market value of the property on the date of foreclosure and the Company's tax basis in the loan. The Company would not receive any cash with respect to the property until it sold or leased the property. However, as described in this Memorandum, the Managing Member may direct an affiliated entity to acquire in its own name title to any property securing a loan owned by the Company that is subject to foreclosure (or deed-in-lieu of foreclosure). That affiliate would be required to pay to the Company any amounts received by such affiliate with respect to the leasing or sale of the property as amounts due with respect to the mortgage loans securing such property, including any amounts owed in arrears. The payments received by the Company from such affiliate would be treated for federal income tax purposes as payments with respect to the related mortgage loan and reported as described above. The IRS may take the position that the activities of the Managing Member's affiliates with respect to the property securing a mortgage loan owned by the Company should be attributed to the Company. If that position was successful, the Company would recognize gain on the foreclosure without the receipt of cash, as described above.

Potential Members are urged to consult their tax advisors regarding the possibility that the Company may recognize "phantom income" with respect to the ownership, modification or disposition of loans, or properties securing loans, or other adverse federal income tax consequences related thereto.

Deductions of Losses and Expenses

Tax Basis and Amount at Risk

For federal income tax purposes, an investor may deduct losses and expenses allocated to it by the Company only to the extent of its adjusted tax basis in its Interest (or, in the case of individuals, certain non-corporate taxpayers and certain closely-held corporations, the lesser of such investor's adjusted tax basis in its Interest or its "amount at risk" with respect to such Interest) as of the end of the Company's taxable year in which such losses occur or such expenses are incurred.

Generally, an investor's adjusted tax basis in an Interest is the amount paid for such Interest, reduced (but not below zero) by such investor's share of the Company's distributions, losses and expenses, and increased by such investor's share of the Company's liabilities, if any, and income and gain as determined for federal income tax purposes, including capital gains, with such reductions and increases made at the end of the Company's taxable year. (Tax basis is also important because gain or loss on cash distributions or partial or complete withdrawals from the Company is measured by reference to the adjusted tax basis of the investor's Interest, as discussed below).

Generally, an investor's "amount at risk" with respect to an Interest includes such investor's (1) cash contributions to the Company; (2) the adjusted basis of other property contributed by such investor to the Company; and (3) amounts borrowed for the purchase of an Interest or for use by or in the Company for which such investor is personally liable or which are secured by property of such investor (not otherwise used by the Company) to the extent of the fair market value of the encumbered property. The "amount at risk" is increased by any income and gain (as determined for federal income tax purposes) derived by such investor from the Company, and is decreased by any losses (as determined for federal income tax purposes) derived by such investor from the Company and the amounts of any withdrawals or other distributions received by such investor from the Company. For purposes of the foregoing, "loss" derived by an investor from the Company is defined as the excess of allowable

deductions for a taxable year allocated to such investor by the Company over the amount of income actually received or accrued by such investor during that year from the Company. Disallowed loss that is suspended in any taxable year may be deducted in later years to the extent that the investor's amount at risk increases.

It is possible that an investor may be at risk with respect to its Interest in an amount that is less than its tax basis in such Interest.

In addition to the limitations discussed above, net capital losses are deductible by noncorporate taxpayers only to the extent of capital gains for the taxable year plus $3,000. Because of that limitation, an investor's distributive share of the Company's net capital losses is not likely to materially reduce the federal income tax on such investor's ordinary income.

Syndication and Organization Expenses

Neither the Company nor its investors will be entitled to any deduction for syndication expenses (*i.e.*, amounts paid or incurred in connection with offering and selling Interests, which may include amounts paid to agents to identify prospective investors in the Company). The IRS could take the position that if the Managing Member should pay agents to identify prospective investors in the Company, a portion of the Management Fees and Incentive Allocations payable to the Managing Member constitutes non-deductible syndication expense in the hands of the investors.

Organizational expenses of the Company are currently deductible up to $5,000, provided that the amount that is deductible is reduced (but not below zero) by the amount by which the organization expenses exceed $50,000. Any amount that is not currently deductible may be deducted for federal income tax purposes over a 15 year period.

Deductibility of Investment Expenditures by Noncorporate Investors

The Code provides that, in the case of a non-corporate taxpayer who itemizes deductions when computing taxable income, expenses incurred for the purpose of producing income (including investment management fees) generally must be aggregated with certain other "miscellaneous itemized deductions" and may be deducted only to the extent such aggregate expenses exceed 2% of such taxpayer's adjusted gross income. Further, such expenses are not deductible by a noncorporate investor in calculating his alternative minimum tax liability. In addition, the Code further limits the deductibility of investment expenses of an individual with an adjusted gross income in excess of a specified amount . Additionally, business expenses allocable to exempt interest income are not deductible.

These limitations should not apply to a noncorporate investor's share of the Company's expenses so long as the Company is engaged in a trade or business, as defined by the Code. Specifically, the Code provides that expenses incurred in connection with a trade or business may be deducted in full against gross income, and thus, so long as the Company is treated for tax purposes as being engaged in a trade or business, the expenses incurred will be fully deductible against the income earned at the Company level, with the benefit of this deduction flowing through to the Company's investors and not being subject to the limitations at the investor level.

The Company expects to take the position that it is engaged in a trade or business under the Code; however, there can be no assurance that the Company will be able to take that position in any given tax year, that the IRS would agree with this position or that this position would be upheld in court. If the IRS or a court should determine that the Company is not engaged in a trade or business, the IRS may assert the position that an investor's allocable share of the Management Fees and other Company expenses paid

to the Managing Member are investment expenses, subject to the limitations described above. The IRS might also contend that an investor's allocable share of the Incentive Allocations made to the Managing Member is investment expense subject to the limitations described above.

Passive Activity Loss Rules

In the case of investors that are individuals, estates, trusts, certain closely-held corporations or personal service corporations, Section 469 of the Code generally restricts the deductibility of losses and credits from a "passive activity" against certain income that is not derived from a passive activity. For federal income tax purposes, such passive losses and credits are deductible by an investor only against such investor's passive income. Pursuant to Temporary Regulations issued by the Treasury Department, income or loss from the Company's investment and trading activity generally will not be considered income or loss from a passive activity. As a result, the deduction by an investor of his share of losses or deductions of the Company should not be restricted by Section 469 of the Code. At the same time, an investor should not be able to offset losses or deductions from "passive activities" against its allocable share of the income or gain of the Company.

Tax Consequences of Distributions

For purposes of distributions from an investor's Account in the Company, its Interest is not divided into separate interests. Rather, an investor's Interest is "singular" even if the investor has made capital contributions to the Company at different times, and a distribution from an Account is treated for tax purposes as a distribution with respect to the entire related Interest. Thus, if an investor receives a distribution of some but not all of his Account, the full amount of each withdrawal or distribution will be taxable to the extent the amount of the withdrawal or distribution exceeds such investor's adjusted tax basis in such Interest. To the extent the amount of a distribution does not exceed an investor's tax basis in an Interest, such distribution generally is not reportable as taxable income but will reduce such tax basis, but not below zero. An investor generally will not recognize losses on distributions.

Because an investor's tax basis in its Interest is not increased by such investor's allocable share of the Company's income from investment activities until the end of the Company's taxable year, distributions during the taxable year could result in taxable gain to the investor even though no gain would result if the same withdrawals or distributions were made at the end of the taxable year. Furthermore, the share of the Company's income allocable to an investor at the end of the Company's taxable year would also be includible in such investor's taxable income and would increase such investor's tax basis in its remaining Interest as of the end of such taxable year.

An investor receiving a cash distribution from the Company in complete liquidation of his Interest generally will recognize capital gain or loss to the extent of the difference (if any) between the proceeds received by him and his adjusted tax basis in such Interest. Such capital gain or loss will be long-term, short-term or some combination of both, depending on the timing of such investor's capital contributions to the Company. Notwithstanding the foregoing, Section 751 of the Code provides that a withdrawing investor will recognize ordinary income to the extent the Company holds certain ordinary income items such as short-term obligations or market discount bonds, the interest on which has not been included in the Company's taxable income, regardless of whether the investor would otherwise recognize a gain on such withdrawal.

Tax Treatment of Portfolio Investments

Taxation of Securities Trading

The Company expects that it will act as a trader or investor, and not as a dealer. A trader or investor is a person who buys and sells securities for its own account. A dealer, on the other hand, purchases securities for resale to customers rather than for investment or speculation.

Generally, gains and losses realized by a trader or investor on the sale of securities are capital gains and losses and are taken into account only when realized. Thus, subject to the various exceptions summarized in the following paragraph and described more fully below, the Company ordinarily expects that the gains and losses from its securities trading typically will be treated as long-term or short-term capital gains and capital losses depending upon the length of time a particular investment position has been maintained. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment.

The maximum long-term capital gain rate is to be 20%. Net capital gain generally is the excess of net long-term capital gain (the net gain on capital assets held for more than 12 months) over net short-term capital loss (the net loss on capital assets held for 12 months or less). Net short-term capital gain (the net gain on assets held for 12 months or less) is subject to tax at the same rates as ordinary income.

Capital gains are subject to tax at the same rates as ordinary income for corporate taxpayers. Capital losses of corporate taxpayers are deductible only against capital gains and unused losses may be carried forward.

State and Local Taxes

Each investor may be required to file returns and pay state and local tax on such investor's share of the Company's income in the jurisdiction in which such investor is a resident and/or other jurisdictions in which income is earned by the Company. Certain of such taxes could, if applicable, have a significant effect on the amount of tax payable by an investor in respect of his investment in the Company. An investor may be entitled to a deduction or credit against tax owed to such investor's jurisdiction of residence for taxes paid to other states or jurisdictions in which such investor is not a resident. The Company may be subject to certain taxes in certain states or localities despite the fact that it is not subject to federal income tax.

Tax Elections

The Managing Member, in its sole discretion, may make any tax elections provided for in the Code on behalf of the Company. These elections include the election under Section 754 of the Code to adjust the tax basis of the Company's assets when Interests in the Company are transferred or when a holder of an Interest withdraws from the Company. The tax basis adjustment rules are mandatory when Interests are transferred to which there is a substantial built-in loss. A "substantial built-in loss" exists when the Company's adjusted basis in property exceeds by more than $250,000 the fair market value of such property. In lieu of the mandatory basis adjustment rules, special rules apply to electing investment partnerships and securitization partnerships.

Tax Audits

Adjustments in tax liability with respect to the Company's tax items generally will be made at the Company level in a single proceeding rather than in separate proceedings with each investor. In general,

the Managing Member will represent the Company as the "tax matters partner" during any audit and in any dispute with the IRS and may enter into a settlement agreement with the IRS that may be binding on you. Before settlement, however, an investor may file a statement with the IRS that the Managing Member does not have authority to bind such investor with respect to the Company.

The Managing Member has the authority to, and may, extend the period for the assessment of deficiencies or the claiming of refunds with respect to all investors in the Company. If an audit results in an adjustment, all investors may be required to pay additional tax, interest and possibly penalties. There can be no assurance that the tax return of the Company or any Company investor will not be audited by the IRS or that no adjustments to such returns will be made as a result of such an audit.

Withholding Taxes

The Company may be required, on behalf of an investor, to withhold and remit taxes to federal, state, local or other jurisdictions from such investor's allocable share of the Company's income. Withholding taxes may apply, for example, to persons who are subject to "back up" withholding or to nay Partner that is not a U.S investor. To the extent that the Company is subject to any taxes or fees that are based on the specific characteristics of one or more Members, such taxes or fees shall be specially allocated to such Member(s).

Disclosure of Tax Structure and Treatment

Notwithstanding anything to the contrary stated herein or in any other documents pertaining to an investment in the Company, an investor (and each employee, representative or other agent of an investor) may disclose to any and all persons, without limitation of any kind, the anticipated tax treatment and tax structure of the Company and transactions contemplated by the Company), and all materials of any kind (including opinions or other tax analyses) related to such tax treatment and tax structure, if any.

Tax Information Reporting

While the Company will attempt to provide annual tax information to the Partners on a timely basis, the Managing Member expects that information may not be available in sufficient time to permit the Company to distribute such information prior to April 15 of each year. As a result, the Company may not distribute such information to the Partners until after April 15, and the Partners may be required to obtain extensions of time for filing their income tax returns. To the extent practical, the Company expects to provide estimates of annual tax information to the Partners prior to April 15 of each year in order to assist the Partners in determining if any tax payments must be made on or prior to April 15 notwithstanding the extension of the filing deadline. U.S. Treasury regulations require taxpayers to make certain additional disclosures in connection with the filing of any tax return that reflects tax benefits from a "reportable transaction" as defined in the regulations, which include certain transactions that generate losses in excess of threshold amounts. To the extent that the Company engages in a "reportable transaction," Partners may be required to make certain disclosures in connection with their tax returns and may be subject to penalties if such disclosures are not made.

§9. SPECIAL CONSIDERATIONS FOR BENEFIT PLAN INVESTORS

This section summarizes certain consequences under the Employee Retirement Income Security Act of 1974 ("**ERISA**") and the Code that a fiduciary of an "employee benefit plan" as defined in and subject to ERISA or of a "plan" as defined in and subject to Section 4975 of the Code who has investment

discretion should consider before deciding to invest the plan's assets in an Interest (such "employee benefit plans" and "plans" being referred to herein as "**Plans**," and such fiduciaries with investment discretion being referred to herein as "**Plan Fiduciaries**").

This summary is based upon the applicable provisions of ERISA and the Code and the relevant regulations, rulings and opinions issued by the U.S. Department of Labor (the "**DOL**") and the IRS, and as subsequently modified by the Pension Protection Act of 2006. No assurance can be given that legislative or administrative changes or court decisions that may significantly modify the statements made herein will be not be forthcoming. Any such changes may or may not apply to transactions entered into prior to the date of their enactment. Further, this summary is not intended to be complete, but only to address certain questions under ERISA and the Code that are likely to be raised by the Plan Fiduciary's own counsel.

Considerations for Plan Fiduciaries

ERISA requires a Plan Fiduciary to consider, among other things, whether: (i) the Plan's investment in an Interest would be solely in the interest of the Plan's participants and beneficiaries and for the exclusive purpose of providing benefits to such participants and beneficiaries; (ii) would be a prudent investment for the Plan; (iii) the investments of the Plan, including the Plan's proposed investment in an Interest, are diversified so as to minimize the risks of large losses; and (iv) an investment in an Interest would comply with the documents of the Plan and related trust. A Plan Fiduciary should also consider the reasonableness of the compensation being paid to the Managing Member and other service providers (including, among other things, the level of each fee and the term of each relevant arrangement).

Consequences of Investments by Benefit Plan Investors

The Company may sell Interests to "**Benefit Plan Investors**," namely: (i) "employee benefit plans" as defined in ERISA, and which are subject to the ERISA fiduciary requirements, (ii) "plans" as defined in the Code, and which are subject to Section 4975 of the Code, and (iii) entities deemed for any purpose of ERISA or Section 4975 of the Code to hold assets of any "employee benefit plan" or "plan" due to investments made in such entity by such "employee benefit plans" and "plans." Benefit Plan Investors include, by way of example and not of limitation, corporate pension and profit sharing plans, "simplified employee pension plans," Keogh plans for self-employed individuals (including partners), individual retirement accounts and bank commingled trust funds or insurance company separate accounts for such plans and accounts.

The Company does not intend to permit Benefit Plan Investors to hold 25% or more of the Interests of any Series (generally excluding Interests of such class held by the Managing Member and any of its affiliates, other than affiliates that are Benefit Plan Investors).

If, however, through inadvertence or other factors, Benefit Plan Investors should hold 25% or more of the Interests of any Series, the Company's underlying assets would become "plan assets" under ERISA with respect to those investors that are Benefit Plan Investors subject to ERISA or the Code. (The 25% level is measured each time an Interest in a particular Series is purchased or redeemed.) This would cause the Managing Member to be a "fiduciary" within the meaning of ERISA and Section 4975 of the Code to the extent it manages or controls such "plan assets" within the meaning of ERISA and Section 4975 of the Code. Thus, a person considering investing in the Company should evaluate the "plan asset" consequences of an investment in an Interest, including the risk that unintended prohibited transaction or fiduciary duty delegation consequences may arise under ERISA or the Code. Whether or not the Company's underlying assets are "plan assets" under ERISA, these persons should consult with their counsel as to the ERISA consequences of an investment in an Interest by a Benefit Plan Investor.

Benefit Plan Investors should be aware that, although it is not currently expected that the Company will incur debt with respect to its investment activities, the use of leverage by the Company is not prohibited. As a result, a portion of the Company's income may be treated as "unrelated business taxable income." An investment in the Company therefore may not be suitable for Benefit Plan Investors, which should consult their tax, legal and financial advisers regarding the tax considerations involved in an investment in the Company.

The person having investment discretion over the assets of a Benefit Plan Investor should consult with its own legal counsel and other advisors as to the propriety of an investment in an Interest in light of the circumstances of such Benefit Plan Investor. The Company's acceptance of a subscription by a Benefit Plan Investor is in no respect a representation by the Company or any other party that an investment in an Interest is appropriate for or meets the relevant legal requirements governing such Benefit Plan Investor.

Exhibit A

FORM OF LIMITED LIABILITY COMPANY AGREEMENT OF AMERICAN HOWMEOWNER PRESERVATION LLC

Exhibit B

FORM OF SUBSCRIPTION AGREEMENT AND LIMITED POWER OF ATTORNEY – AMERICAN HOWMEOWNER PRESERVATION LLC

Exhibit C

PRIVACY POLICIES

Financial institutions like AHP Capital Management LLC are required to provide privacy policy notices to their clients. We believe that protecting the privacy of your nonpublic personal information ("personal information") is of the utmost importance. Personal information is nonpublic information about you that is personally identifiable and that we obtain in connection with providing a financial product or service to you. For example, personal information includes information regarding your account balance and investment activity. This notice describes the personal information that we collect about you, and our treatment of that information.

We collect personal information about you from the following sources:

(i) Information we receive from you on fund subscription documents and related forms (for example, name, address, Social Security number, birth date, assets, income, and investment experience).

(ii) Information about your transactions with us, our affiliates, or others (for example, account activity and balances).

- We do not disclose any personal information we collect, as described above, about our customers or former customers to anyone other than in connection with the administration, processing and servicing of customer accounts or to our accountants, attorneys and auditors, or otherwise as permitted by law.

- We restrict access to personal information we collect about you to our personnel who need to know that information in order to provide products or services to you. We maintain physical, electronic and procedural controls in keeping with federal standards to safeguard your nonpublic personal information.

- We reserve the right to change this notice, and to apply changes to information previously collected, as permitted by law. We will inform you of any changes as required by law.

If you have any questions or concerns regarding this policy please contact Jorge Newbery at (312) 386-5679.