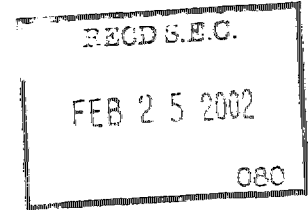




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UNITED STATES  
SECURITIES -AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 1A / A**



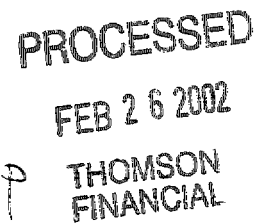
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**REGULATION A OFFERING STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**ROYCE MORTGAGE INVESTMENT FUND, LIMITED  
PARTNERSHIP**

**A Nevada Limited Partnership  
1281 Terminal Way, Suite 201  
Reno, Nevada 89502  
Telephone: (775) 322-5797**

**John F. Royce, Agent for Service of Process  
1281 Terminal Way, Suite 201  
Reno, Nevada 89502  
Telephone: (775) 322-5797**



**Primary Standard Industrial I.R.S. Employer  
Classification Code Number: 6162 ID Number: 88-0381166**

THIS OFFERING STATEMENT SHALL ONLY BECOME QUALIFIED UPON ORDER OF THE COMMISSION, UNLESS A SUBSEQUENT AMENDMENT IS FILED INDICATING THE INTENTION TO BECOME QUALIFIED BY OPERATION OF THE TERMS OF REGULATION A.

## PART I – NOTIFICATION

### ITEM 1. Significant Parties

- a. The Issuer is a limited partnership and has no directors.
- b. The Issuer is a limited partnership and has no officers.
- c. The Issuer is a limited partnership and Royce Capital Group, a Nevada corporation is its sole general partner. The address of Royce Capital Group is 1281 Terminal Way, Suite 201, Reno, Nevada 89502, and its telephone number is (775) 322-5797. The officers of Royce Capital Group are John F. Royce, President, Treasurer, and Director, whose business address is 1281 Terminal Way, Suite 201, Reno, Nevada, 89502, and whose residence address is 5405 Mountain Meadows Lane, Reno, Nevada 89511, and George R. Kucera, Secretary, whose business address is 1281 Terminal Way, Suite 201, Reno, Nevada 89502, and whose residence address is 5321 Desert Peach Drive, Sparks, Nevada 89436. The beneficial owners of 5 percent of any class of equity of the general partner are: John F. Royce, whose business address is 1281 Terminal Way, Suite 201, Reno, Nevada 89502, and whose residence address is 5405 Mountain Meadows Lane, Reno, Nevada 89511; and Charles Royce, whose business address is 1414 Avenue of the Americas, New York, New York and whose residence address is 8 Sound Shore Road, Greenwich, CT 06830.
- d. There are the following record owners of 5 percent or more of any class of the Issuer's equity securities. Limited partners: Cynthia Davis Living Trust, 2465 Telluride Drive, Reno, NV 89511; Jean Murray, 865 Coloma Drive, Carson City, NV 89705; David B. Burlingame, June B Burlingame, 4465 Boca Way, #215, Reno, NV 89502; Eddie Mayo and Jocelyn Helzer, 115 South. Deer Run Road, Carson City, NV 89701. General Partner: Royce Capital Group, 1281 Terminal Way, Suite 201, Reno, NV 89502. The following beneficial owners have trust accounts with Pensco Trust Company, and are beneficial owners of 5 percent or more of the Issuer's equity securities: Pensco Trust Company fbo Jocelyn Helzer, 115 South Deer Run Road, Carson City, NV 89701.
- e. Beneficial owners are the same as record owners, except as above.
- f. Royce Capital Group, the General Partner is the promoter
- g. There are no affiliates of the Issuer other than the General Partner described above.
- h. Counsel to the Issuer with respect to the proposed offering is George R. Kucera, whose business address is 1281 Terminal Way, Suite 201, Reno, Nevada and whose residence address is 5321 Desert Peach Drive, Sparks, Nevada 89436.
- i. There are no underwriters with respect to the proposed offering.
- j. There are no directors of any underwriter with respect to the proposed offering.
- k. There are no officers of any underwriter with respect to the proposed offering.

- l. There are no general partners of any underwriter with respect to the proposed offering.
- m. There is no counsel to any underwriter with respect to the proposed offering.

ITEM 2. Application of Rule 262

- a. No person identified in the response to Item 1, above, is subject to any of the disqualification provisions set forth in Rule 262.
- b. N/A

ITEM 3. Affiliate Sales

The following description does not apply to the Issuer: "The Issuer has not had a net income from operations of the character in which the Issuer intends to engage for at least one of its two last fiscal years."

ITEM 4. Jurisdictions in Which Securities Are to be Offered.

- a. The jurisdictions in which the securities are to be offered by underwriters, dealers, or salespersons are NONE.
- b. The jurisdictions in which the securities are to be offered other than by underwriters, dealers, or salesman are Nevada and California. The securities will be registered or will be exempt from registration before they are offered in the foregoing jurisdictions. The securities are to be sold by the officers of the General Partner of the Issuer through direct solicitations, including mailings, internet solicitations, telephone solicitations, and face to face meetings with prospective investors.

ITEM 5. Unregistered Securities Issued or Sold Within One Year

- a. There are unregistered securities issued by the Issuer, or any of its predecessors or affiliated issuers within one year prior to the filing of this Form 1-A, as Units were issued to existing Partners in the Issuer in lieu of cash distributions of profit. The amount of Units distributed to existing Partners within the last year was 59,478. The total number of Limited Partnership Units in the Partnership was 501,159 as of the end of 2001 and the total Units in the Partnership as of such date was 675,828.
- b. N/A
- c. N/A

ITEM 6. Other Present or Proposed Offerings

The Issuer and any of its affiliates is not currently offering nor contemplating the offering of any securities in addition to those covered by this Form 1-A.

ITEM 7. Marketing Arrangements.

- a. Arrangements known to the Issuer or to any person named in response to Item 1 above or to any selling securityholder in the offering covered by this Form 1-A for any of the following purposes are:
  - (1) To limit or restrict the sale of other securities of the same class as those to be offered for this period of distribution: NONE
  - (2) To stabilize the market for any of the securities to be offered: NONE
  - (3) For withholding commissions, or otherwise to hold each underwriter or dealer responsible for the distribution of its participation: NONE.
- b. There are no underwriters that intend to confirm sales to any accounts over which such underwriter exercises discretionary authority, and the estimate of the amount of such securities so intended to be confirmed is ZERO. There are no underwriters.

**ITEM 8. Relationship with Issuer of Experts Named in Offering Statement**

No expert named in the offering statement as having prepared or certified any part thereof was employed for such purpose on a contingent basis and, at the time of the preparation or certification, or at any time thereafter, had a material interest in the Issuer or any of its parents or subsidiaries, or was connected with the Issuer or any subsidiaries as a promoter, underwriter, voting trustee, director, officer or employee, except for George R. Kucera, who prepared and wrote the two opinion letters attached to the Offering Circular. Mr. Kucera is an independent attorney, consulting for Royce Capital Group, the General Partner of the Issuer, and is the Secretary and General Counsel of the General Partner.

**ITEM 9. Use of a Solicitation of Interest Document.**

No publication authorized by Rule 254 was used prior to the filing of this notification.

**////// NOTHING FOLLOWS ON THIS PAGE//////**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 1-A OFFERING CIRCULAR  
UNDER THE SECURITIES ACT OF 1933**

**ROYCE MORTGAGE INVESTMENT FUND, LIMITED PARTNERSHIP,  
ISSUER**

**1281 Terminal Way, Suite 201**

**Reno, Nevada 89502**

**Telephone: (775) 322-5797**

Date of this Circular: February 5 2002

This Offering Shall Close On February 5, 2004

Securities to be Issued: Up To \$5,000,000 of Limited Partnership Interests ["Units"] at \$1.00 per Interest, with a Minimum Purchase of \$10,000 per interest holder. There is no minimum number of Units that must be sold as part of this offering. Subscriber's funds will be placed in an interest-bearing account, until accepted by the General Partner. All interest accruing to the subscriber during this period, not to exceed sixty (60) days will be used to purchase additional Units for the subscriber. The Limited Partnership Interests ["Units"] have no vote in the Partnership except for exceptional circumstances, and Units are not freely transferable by the subscriber without the consent of the General Partner..

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF OR GIVE ITS APPROVAL TO ANY SECURITIES OFFERED OR THE TERMS OF THE OFFERING, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE COMMISSION; HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.

	Price to Public	Underwriting discount and Commissions	Proceeds to Issuer or Other Persons
Per Unit	\$1.00	\$0	\$1.00
Total Minimum	\$10,000	\$0	\$10,000.00
Total Maximum	\$5,000,000	\$0	\$5,000,000.00

Approximate Date of Proposed Sale to the Public: March 1, 2002

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## **SUMMARY INFORMATION, RISK FACTORS, AND DILUTION**

### **Summary Information**

Royce Mortgage Investment Fund, Limited Partnership, referred to in this document as "Issuer", is a Nevada limited partnership. It was formed on February 1, 1997, under the name D.F. Capital, L.P., and its name was changed to the current name in July 2001. The General Partner of the Issuer is Royce Capital Group, a Nevada corporation. . Management of the General Partner has cumulatively over 100 years of real estate experience. The General Partner has been in the trust deed business since the inception of some of its subsidiaries in 1986.

The management of Royce Capital Group controls the day to day operations and business decisions of the Issuer. The management of Royce Capital Group anticipates that it will spend less than 20% of its time managing the Issuer. The General Partner is the owner of 28% of the Issuer's capital, and the returns to the General Partner, both of and on its capital invested in the Issuer, are subordinate to the returns to the Limited Partners.

The Issuer was formed to invest in promissory notes, which are secured by first and second deeds of trust on residential and/or commercial real estate, primarily in California and Nevada. The real estate may be either owner-occupied or non-owner occupied. Specific information concerning the current size of the Issuer, the current investments of the Issuer, the past performance of the Issuer, and the definitions of some of the terms in this Offering Circular will be found elsewhere in this Offering Circular. The offering is intended to provide cash flow from interest income, or equity appreciation, as well as preservation of capital for the limited partners.

The Issuer intends to offer up to 5,000,000 limited partnership interests in the partnership for an offering price of One Dollar (\$1.00) per limited partnership interest. Each limited partnership interest is called a "Unit", or, collectively in this document, "securities", and each Unit is equal to all other Units in the Issuer, whether offered under this document or currently existing. The purchaser of Units will purchase Units at the same price that every other Limited Partner has purchased Units for, whether such Limited Partner is currently in the Partnership or purchases pursuant to this offering. No person or entity has been offered, and no person or entity will be offered, Units for any price other than One Dollar (\$1.00) per Unit.

The purchaser of Units through this offering becomes a Limited Partner in the Issuer, with an ownership interest in the total assets of the Issuer. The percentage of ownership interest owned by each Limited Partner in the Issuer is determined by dividing the number of Units owned by each Limited Partner by the total number of Units then issued by the Issuer. There is a minimum purchase of Ten Thousand (10,000) Units per



new investor under this offering. The Issuer intends to use the proceeds from the sale of Units from this offering to invest in additional promissory notes, also secured by deeds of trust as described above, either by purchasing existing notes or by making new loans to borrowers. The issuance of the additional Units through this offering will not dilute the Units held by current Limited Partners since each Unit is valued at One Dollar (\$1.00), and additional Units sold through this offering increase the value of the Issuer's assets.

Funds received from subscribers to this offering will be placed in an interest bearing subscription account until the subscriber is accepted as a Limited Partner by the General Partner. At that time, the subscription funds and the then accrued interest will be paid to the Partnership in exchange for a number of Units at \$1.00 per Unit. Under no circumstances will funds be held in the subscription account longer than sixty (60) days before they are either paid to the Partnership or returned to the subscriber. There are no arrangements for the return of funds to any subscriber if the full amount of 5,000,000 Units being offered through this Offering Circular are not sold.

There will be no commissions paid to anyone as a result of Units purchased through this Offering Circular, and all funds received by the Issuer will be invested in additional promissory notes as described above. This offering will expire on November 1, 2003, and shall not be extended.

The Partnership and the General Partner represent that the Partnership will not engage in a 'roll-up' transaction in which the Issuer is merged with another partnership or converted into another entity at any time during the life of the Issuer.

Investors who desire to purchase Units in the Partnership must meet certain eligibility standards. These eligibility standards are designed to aid the General Partner in determining whether an investment in the Partnership is suitable or appropriate for particular investors. The Partnership and the General Partner will not consider the representations made by an investor, with respect to that investor's eligibility standards, as being binding upon the investor or as creating any liability on the part of the investor to the Partnership or the General Partner. The Partnership shall not assert any representations made by any investor, with respect to the eligibility standards as a defense in any subsequent litigation. **NO REPRESENTATIONS MADE BY THE INVESTOR TO THE GENERAL PARTNER, OR THE PARTNERSHIP, WITH RESPECT TO THE INVESTOR'S ABILITY TO MEET THE ELIGIBILITY STANDARDS, WAIVES ANY RIGHTS THAT THE INVESTOR MAY HAVE UNDER THE FEDERAL SECURITIES LAWS.**

### **Risk Factors**

Because the Issuer invests in loans secured by real estate, it is subject to the risks usually associated with real estate financing. Those risks are:

## **1. RISKS OF DEFAULT BY BORROWERS.**

If a borrower, whose note is owned by the Issuer, defaults, the Issuer may have to foreclose on the property(ies) and own them. Foreclosure can be a time consuming and expensive exercise, and will require the expenditure of funds by the Issuer. The Issuer may have to expend funds to operate and/or sell the properties so foreclosed on, and the return to the Issuer on the operations and/or sales of such properties may be less than anticipated had the note not gone into default.

If the note is a junior note [that is, there is another lender who has a security interest in the property secured by the Issuer's asset which is superior to the interest owned by the Issuer], the Issuer may have to expend partnership funds to pay off, or currently maintain, the superior security interest in order to protect the Issuer's investment. In such an event, the return to the Issuer may be substantially less than anticipated from such investment.

## **2. RISKS OF LARGE LOANS.**

Currently, the loans owned by the Issuer average \$33,399, as of October 8, 2001. The Issuer intends to use the additional capital raised by this offering to invest in loans which are larger than the present current average. This investment strategy may decrease the loan diversification within the partnership loan portfolio, and may increase the risk from such loans defaulting.

## **3. APPRAISAL RISKS**

Before the Issuer invests in a note secured by a deed of trust, it generally obtains an appraisal from a certified and unaffiliated appraiser. There is a risk that the appraisal is incorrect and that the loan to value ratio is too high, thus increasing the risks of default by the borrower.

## **4. RISKS OF DECLINES IN VALUES OF SECURED PROPERTIES.**

The Issuer generally uses loan to value ratios, based on the appraisals from unaffiliated parties, to determine the maximum amount loaned to each borrower when buying or originating loans. See the table in the business portion of this circular. The values of properties can decline after a loan is granted, and may not be accurate after a property may be foreclosed upon, resulting in losses to the partnership.

## **5. RISK OF INABILITY TO MEET PAST PERFORMANCE OF ISSUER**

The Limited Partnership [Issuer] has been in existence since February 1, 1997, and has an operating history. It has been profitable to date, and always met preferred returns to Limited Partners. See the financial

statements as part of this document. No assurances can be given that the future business endeavors of the Issuer will meet the Issuer's expectations or that the Issuer will continue to be able to operate profitably.

#### **6. LACK OF LIQUIDITY RISKS**

You may not be able to sell your Units you own for cash on a timely basis. There is no free tradability of Units under the Federal income tax laws, in order to preserve the Issuer's status as a limited partnership. It is not likely that a lender will accept the Units as security for borrowing. There is no market for the Units, either public or private, and there is no likelihood that one will ever develop. An investor must be prepared to hold his or her Units as a long term investment. In order to comply with applicable tax laws, the General Partner may refuse, on advice of tax counsel, to consent to a transfer or assignment of Units. Certain state securities administrators may also impose a restriction on sale or transfers of the Units because of the investor suitability standards that apply to a purchaser of Units.

#### **7. THE PARTNERSHIP'S REPURCHASE OF UNITS IS RESTRICTED**

The purchaser must hold units purchased pursuant to this offering for at least one year before he or she can request the Issuer to repurchase them. In addition, the amount of repurchases and the mechanism for repurchasing is severely limited by the Limited Partnership Agreement; an investor may only have a maximum of 40,000 Units repurchased and, in any calendar year, the total repurchase of Units cannot exceed 10% of the aggregate capital accounts of the Limited Partners. See the Limited Partnership Agreement.

#### **8. RISK OF LEVERAGE**

The Issuer is authorized to borrow up to fifty percent (50%) of its total capitalization by pledging the general credit of the Issuer and/or pledging the promissory note asset pool of the Issuer. If delinquencies and/or defaults occurred in the assets held by the Issuer, it is possible that the Issuer would be unable to meet its debt obligations and lose its assets. At present the Issuer has no debt except the limited underlying debt on all-inclusive notes in the portfolio in the amount of \$ 28,142. See "Definitions".

#### **9. DEPENDENCY ON THE GENERAL PARTNER**

The Partnership has no employees and, as such, is totally dependent upon the General Partner for all of its activities, including the placement of

loans, loan administrations and collections, accounting, and for disbursements of profits. The General Partner shall be responsible for investing the Partnership's assets and for servicing and collecting the Partnership's loan portfolio. The General Partner, or its affiliates, will be paid fees for providing certain services to the Partnership [See "Interest of Management in Certain Transactions" in this offering circular] and, as such, may have conflicts of interest with the Partnership. The General Partner will only devote so much time to the operation of the Partnership as will be reasonably required. The General Partner will have conflicts of interest in allocating management time, services, and functions between its existing business interests other than the Partnership, and any future Partnerships which it may organize as well as other business ventures in which it may be involved. The General Partner believes that it has sufficient staff available to be fully capable of discharging its responsibilities. The General partner has previously bought loans or properties that have gone into foreclosure or been foreclosed upon. There is no assurance that the General Partner will do so in the future.

#### **10. LACK OF INDEPENDENT LEGAL REPRESENTATION**

The Partnership has not been represented by independent legal counsel to date, and such, the Partnership has no representation with respect to dealings between the Partnership and the General Partner and its affiliates. This may increase the risk that such dealings will not be fair to the Partnership.

#### **11. RISK OF CONCENTRATION OF MORTGAGES IN NEVADA**

Northern Nevada real estate secures more than 69% of the total mortgage loans, by dollar volume, held by Partnership as of June 8, 2001. The balance of the loan portfolio is secured by California property. This concentration may increase the risk of delinquencies on its loans when Northern Nevada real estate or economic conditions are weaker than elsewhere, for reasons such as: economic recession in that area; overbuilding of commercial properties; and relocations of business outside the area, due to factors such as costs, taxes, and regulatory environment.

#### **12. RISKS OF UNINSURED LOSSES**

The Issuer requires that borrowers carry adequate Hazard insurance, naming the Issuer as an additional named insured. However, some events, such as earthquakes, floods, or mudslides may be either uninsurable or the cost of the insurance may be prohibitive. In addition, insurance coverage may be adequate to cover the property losses. As a result, the Issuer may suffer losses should it foreclose on a property which is underinsured following a catastrophe.

### 13. CONFLICT OF INTEREST RISKS

The General Partner and its affiliates are subject to various conflicts of interest in managing the Issuer. The Issuer pays the General Partner substantial fees that are not determined by arms-length negotiations. For the last fiscal year ending December 31, 2001, \$7,341.17 was paid to the General Partner in fees, and for the period ending December 31, 2001 \$10,960.37 was paid in fees.

#### Dilution

The addition of additional Limited Partners into the Issuer through this offering will not dilute the interests of either (i) the existing Limited Partners or, (ii) the investors who acquire their Units at any time during the time that this offering is open. This is because each Unit is valued at One Dollar (\$1.00), and will be used to purchase or fund One Dollars' (\$1.00) worth of loans as additional Units are purchased through this offering. The number of Units owned by each investor in the Issuer will remain the same, regardless of the total number of Units within the partnership, and each Unit will represent One Dollar's (\$1.00) worth of loans.

The Issuer allocates profits to the Limited Partners in the Partnership monthly. Such allocations result in (1) either a monthly cash distribution to each Limited Partner of his or her pro rata share of the profits, up to the amount of the then cumulative annual Preferred Return; or (2) each Limited partner who does not receive such a monthly cash distribution receives additional Partnership Units, with each Unit being One Dollar (\$1.00), equal to that Partner's share of the undistributed profits. To the extent that the monthly allocations to the Limited partners, either in cash or additional Units, do not meet or exceed the cumulative Preferred Return under the Limited Partnership Agreement, for each year, the allocations in the succeeding calendar year shall be applied to any unfulfilled Preferred Returns for such Limited Partner or Limited Partners, while, at the same time, new Limited Partners [purchasers of Units under this Offering Circular] shall have their cumulative Preferred Return calculated concurrently, and allocations made accordingly.

Purchasers of Units pursuant to this Offering Circular shall start accumulating Preferred Returns from the Partnership from the month that they purchase Units in the Partnership. Since the Partnership Preferred Return is cumulative, and a running total of unattained cumulative Preferred Return deficiencies [if any] is maintained monthly for each Limited Partner in the Partnership, there is no dilution of either existing or new Limited Partners' share of profits.

No funds from purchasers of Units pursuant to this Offering Circular will be used to pay any unmet cumulative Preferred Returns for existing Limited Partners; the ONLY use for all new funds into the Partnership will be to purchase new loans as Partnership

assets. Each Limited Partner's cumulative Preferred Return is calculated individually, on a monthly basis.

### **PLAN OF DISTRIBUTION**

- a. The Units will not be offered through underwriters, but directly by the officers and directors of the General Partner in Nevada and California.
- b. There shall be no commissions or discounts paid to any individual or entity in connection with the sale of any Units.
- c. The officers, directors, and employees of the General Partner of the Issuer will sell the securities being offered through this offering directly to the qualified public, using direct mail, internet, and newspaper advertising solicitations. They are exempt from broker dealer licensing pursuant to Rule 3a4-1 of the 1934 Exchange Act. The names of the persons who will be selling the securities offered herein are: John F. Royce, President of the General Partner; George R. Kucera, Secretary of the General Partner; and Robin Cardnuto, Office Manager and employee of the General Partner.
- d. No existing Unit owner is selling any of the securities offered in this offering.
- e. (1) There is neither plan nor arrangement to return funds to purchasers of Units if the full amount of \$5,000,000 is not sold or subscribed for. The Issuer will close the offering on the Termination Date [described on the cover page of this Offering Circular] and will utilize whatever funds as have been paid for Units as of that time to invest in new or existing loans as described herein.  
(2) There is no underwriter for this offering, and, hence, there will be no delay in receipt of funds from a subscriber or purchaser of Units to the Issuer, except for a possible delay of up to sixty (60) days while the General Partner decides to accept the subscription.

### **USE OF PROCEEDS TO ISSUER**

All of the funds received by the Issuer from the sale of Units in accordance with this offering will be used to invest in new or existing notes, secured by deeds of trust in real property interests. There are no load charges, fees, commissions, or other expenses paid by anyone in this offering, and 100% of all funds received from purchasers of Units will go to the Issuer. As funds are received by the Issuer, from purchasers of Units, until the Termination Date, such funds will be used to fund or purchase new or existing real estate secured loans. No part of the purchase price of any Unit offered herein will pay any existing indebtedness of the Issuer. No existing loans have been identified that will be funded or purchased from the General Partner of the Issuer or any affiliate, officer, director, or employee of the Issuer and no existing loans will be so purchased.

Monies from subscribers will be held, for up to sixty (60) days, in an interest bearing account until sufficient funds from subscribers can be used to fund or purchase a promissory note secured by real estate. Once a note is identified and purchased or funded, the subscribers funds and interest earned to the date of purchase or funding shall

be converted into Units at the rate of One Dollar (\$1.00) per Unit. Any monies not used to purchase or fund such notes within sixty (60) days of receipt, shall be returned to the subscriber, with interest earned on such monies, to date of return.

## DESCRIPTION OF THE BUSINESS

(1) The Issuer is a Nevada limited partnership, formed in Feb. 1, 1997, as D. F. Capital, L.P., for the sole purpose of making and buying whole and fractional interests in loans secured by real estate interests. When the Issuer purchases fractional interests [See "Definitions" in this offering circular], it only does so in conjunction with affiliates or subsidiaries of the General Partner of the Issuer or third parties with whom the General Partner has had previous co-investing experience. The Issuer's sole business is real estate lending. The Issuer does, and will, originate real property interest secured loans, or purchase existing real property interest secured loans through its General Partner or subsidiaries of the General Partner. The General Partner does not currently have existing loans to sell to the Issuer. "Real property interest secured loans" are described as asset based loans which are not entirely based on the credit of the borrowers, but, instead, are secured by real property interests. The Issuer has been doing this since its formation in 1997, and will continue its current method of operation with the proceeds of this offering.

The products produced by the Issuer are promissory notes secured by deeds of trust on real estate primarily in Nevada and California. In the past the Issuer has made mobile home only loans, i.e., loans on mobile homes in parks or on lots, but it does not intend to do this any more. At the present time, only 3 of 27 loans in the portfolio totaling \$23,263 are of this category.

The General Partner of the Issuer, Royce Capital, has a number of affiliated [subsidiary] corporations each of which performs a specialized business and each of which is separately licensed in Nevada to perform those businesses. Certain of these subsidiaries not involved in finance business were 'spun off' from the General Partner to John F. Royce as of January 1, 2000. These included the following companies: Design Construction and Design Management. [See Organizational Chart of General Partner and Remuneration of Officers and Directors]. The General Partner and its affiliated subsidiaries have been in the mortgage brokerage business, both on the wholesale [no direct contact with borrowers] and on the retail [direct solicitation of borrowers] sides since 1986.

- (i) The Issuer has no subsidiaries.
- (ii) There are no new products or services performed by the Issuer; real estate interest secured loans are ubiquitous and easily understood.
- (iii) The Issuer has no research and development budget, nor does it spend any money seeking out loans for investment or funding.
- (iv) The Issuer has no employees because the General Partner controls, and will control, the day to day operations of the Partnership, and will make all business decisions for the Partnership.
- (v) The Issuer is not affected by any rules, regulations, or laws, local state or Federal, which govern the discharge of materials into the

environment. However, if the Issuer has to foreclose on any deed of trust, and winds up owning the property which previously secured the defaulted note, and there is an environmental liability associated with such property, it is possible that the Issuer may inherit the environmental liability as a result of such ownership. Each foreclosure will be examined on a case by case basis to avoid so assuming such environmental liabilities. If a major environmental liability were to be discovered on a property securing one or more of the Issuer's loans, the Issuer may elect to abandon the loan and not to foreclose on such property. The Issuer does not knowingly make loans where the environmental risk is likely.

(2) The largest factor in the Issuer's industry which has a material impact upon the Issuer's future financial performance is demand for non conforming loans of the type that meet the investment return expectations of the investing limited partners. All of the promissory notes currently held by the Issuer are at fixed rates and it is anticipated that the proceeds from this offering will be used to fund or purchase additional fixed rate promissory notes. If interest rates drop after such notes are made or purchased, the return to the purchaser(s) of Units may be higher than then currently available from other notes, and, conversely, if the interest rates rise after such notes are made or purchased, the return to the purchaser(s) of Units may be lower than then currently available from other notes.

(3) The Issuer usually uses loan to value ratios, based on the appraisals from unaffiliated parties, to determine the maximum amount loaned to each borrower. The following table illustrates typical loan to value ratios for various loans made or purchased by Issuer and currently in the Issuer's portfolio:

Type of Property	Maximum Ratio [Loan to Value]	Current Loan to Value of Loans in Issuer as of 12/31/01
Residential, Owner Occupied	75%	55%
Residential, Non-owner Occupied	65%	62%
Commercial property [all types]	50%	20%
Undeveloped real property	25-40%	38%
Subdivision developed lots	80%	55%
Subdivision undeveloped lots	60%	0%

The General Partner of the Issuer may, in its sole discretion, vary the above ratios in evaluating loan requests. For example, a non-amortizing loan will be made only on a lower loan to value ratio than normal. Generally speaking the General Partner will obtain an appraisal for a property if it is making a loan. The General Partner may waive the appraisal, in such cases where there is a recent sale or the loan to value based on assessed valuation is sufficiently low as to negate the need for a formal appraisal on a given note purchase or funding. In either of these cases, the General Partner or its agent will inspect



the property. Generally the Issuer will not obtain environmental insurance on property which is collateral for loans.

The General Partner will require title insurance in all circumstances, to insure that the borrower has title to the property securing the loan and to determine whether there are any encumbrances senior to the loan being made or purchased. In addition, the General Partner will usually require casualty insurance, naming the Partnership as an additional named insured to the extent of the Partnership's loan.

The General Partner cannot dissolve the Partnership without the written vote of a Majority in Interest of the Limited Partners but a Majority in Interest of the Limited Partners may dissolve the Partnership without the consent of the General Partner. "Majority in Interest" means that a majority of the Units, excluding any Units held by the General Partner, vote for or against such dissolution. Notwithstanding the above, the Partnership shall wind up and dissolve, and terminate its activities, on February 12, 2002, unless it is dissolved earlier.

The Issuer does not directly market its real estate lending. Royce Capital, a subsidiary of the General Partner, solicits loans for the Issuer as the Issuer has no direct dealings with borrowers prior to the making of the loans which constitute the Issuer's loan portfolio. Within the real estate lending community in Northern Nevada, because of its limited capital, the Issuer is a fairly small participant, holding less than 1% of the non-conforming loans in this market. However, since it does not directly solicit loans, it is able to benefit from the reputation of John F. Royce and Royce Capital in obtaining loans. Royce Capital directly solicits borrowers, through direct mail, newspaper advertisements and word of mouth, and screens such borrowers for the Issuer. This advertising is directed at consumer borrowers and borrowers who are commercial property owners or real estate developers.

The Issuer has shown a profit since its inception and has never had a loss. The profit for its last five years is as follows:

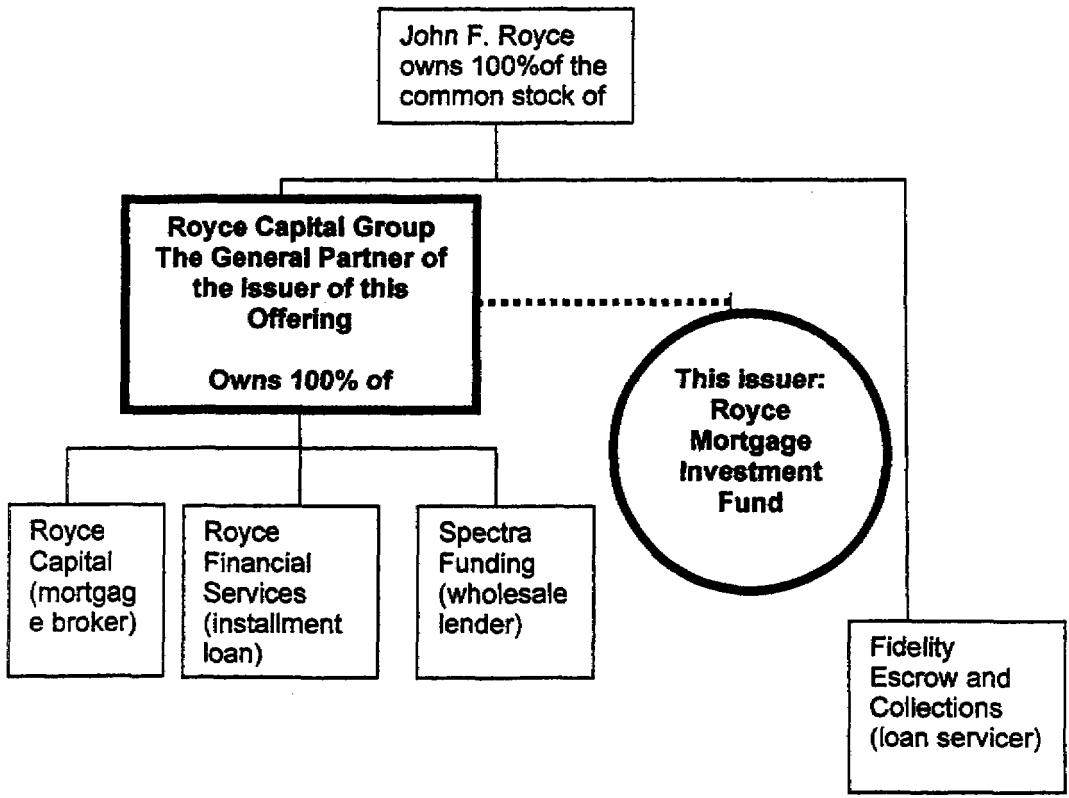
1997	\$20,708
1998	\$87,821
1999	\$119,760
2000	\$109,314
2001	\$86,946

Its profits have been a function of its capital base in past years. Its assets consist of notes receivables; it owns no real estate, and its only debt consists of underlying notes on its all inclusive notes in its portfolio. [See "Definitions"]. Its capital has declined in recent years from a high of \$950,584 in 1999, to its present capital of \$675,828, because of the fact that the Issuer has not accepted new investors since 1999, while this offering has been pending, and during this time some normal withdrawals have been made to meet the needs of some of its Limited Partners. As of the end of 2001, the issuer has total capital of \$675,828.32. The limited partners have total capital of \$501,159.41 and the

General Partner has total capital of \$174,668.91. The issuer owns notes of approximately \$695,292, and no real estate at this time and its debt is limited to \$28,142 in payables on underlying notes on all inclusive notes in the portfolio. See the financial statements and notes for a more complete discussion.

Loan servicing of the Issuers' loans has been done by the General Partner or its affiliates. Starting in 2002, the General Partner intends to have a company, Fidelity Escrow and Collections, owned by the CEO of the General Partner do the loan servicing of the issuer. This company, formerly known as Design Management has been in the business of doing loan servicing for the General Partner and its affiliates since 1974. It has recently changed its name to Fidelity Escrow and Collections, and obtained an escrow company license in the State of Nevada. See the Organizational Chart of General Partner, and description of Fidelity below.

**ORGANIZATIONAL CHART OF ISSUER  
AND GENERAL PARTNER  
AND AFFILIATES**



**Royce Capital.**

Royce Capital is licensed as a retail loan broker. A retail loan broker solicits loan business directly from borrowers or property owners.

**Royce Financial Services.**

Royce Financial Services is licensed as an installment loan company, making loans which are primarily consumer loans secured by personal property or a combination of personal and real property.

**Spectra Funding.**

Spectra Funding was incorporated on October 4, 2001, and will act as a wholesale loan broker. A wholesale loan broker solicits loan business from other loan brokers and bankers, and does not approach or solicit business from borrowers or property owners. This solicitation is done by direct mail, e-mail, web promotions, and/or contacts by wholesale loan representatives.

**Fidelity Escrow and Collections.**

Fidelity Escrow and Collections is licensed as a escrow company and loan servicing company, and will service the Issuer's loan portfolio starting on January 1, 2001. Fidelity will track the payments from borrowers on a monthly basis, and when a borrower is fifteen (15) days delinquent, informs the borrower by mail of the delinquency and requests that the loan be brought current. If no payment is received, within fifteen (15) days after the initial notice, or by the thirtieth (30<sup>th</sup>) day following the delinquency, the Issuer contacts the borrower by telephone and/or personal contact, to determine the reason for the delinquency and the date by which the delinquency will be cured. If no satisfactory resolution is achieved by this date, the Issuer will initiate foreclosure proceedings, including notifying senior encumbrances, if any, of the steps to be taken by the Issuer. During any foreclosure proceedings, the Issuer will keep any senior encumbrances current. The Issuer will have previously notified any senior encumbrances of the Issuer's loan to the borrower, and will have requested to be notified by the senior encumbrance holder if the senior note is delinquent. If such notice is received, the Issuer will usually cure such senior delinquency, keep the senior encumbrance payments current, and immediately initiate foreclosure proceedings against the borrower. This determination will be made on a case by case basis, depending on such factors as the then current value of the property securing the loan(s), the amount of all encumbrances on the property, and the ability of the borrower to meet the borrower's obligations. If there are no encumbrances on the property which are senior to the Issuer's loan, the Issuer will initiate foreclosure proceedings, if such proceedings seem reasonably likely to protect the Issuer, not later than the sixtieth (60<sup>th</sup>) day of delinquency of the loan.

The servicing agent is paid monthly  $1/12^{\text{th}}$  of 1% of the loan balance of each loan that is serviced by the Issuer. Some loans provide that the borrower pay a fee of \$6-\$9 per month for each loan as well. The servicer gets 1/2 of the prepayment penalties and late charges that are paid by the borrower.

The assets of the Issuer consists primarily of a portfolio of mortgage loans, secured by real estate interests. A complete schedule of the existing loans is in this offering circular as an attachment to the footnotes to the Financial Statements. This is very diversified pool of loans. The principal balances of the loans range from \$3,016 to \$138,600, the average investment in each loan is \$25751. The weighted average loan to value ratio is 57%. The weighted average return on the loan portfolio is 12.77%. 10% of the loans are secured by property located in California; 90% of the loans are secured by property in Nevada. 93% of the loans are secured by first [senior] trust deeds; 7% of the loans are secured by second [junior] trust deeds. 85% of the loans are current; 11% are one and one loan or 4% of the portfolio is two months delinquent. One loan is in foreclosure. 60% of the loans, by dollar amount, are secured by single family or mobile homes, 7% are on improved commercial properties, and 33% are on land.

The proceeds from the sale of Units will be used to fund or purchase loans similar to the existing portfolio. As there are no existing loans which are waiting to be either funded or purchased, it is impossible to state exactly what types of loans, and for what dollar amounts, will be added to the portfolio from the sale of Units. It is the intention of the General Partner to do larger loans than those presently in the portfolio with the proceeds of this offering.

The Issuer owns no real estate at the present time. If a loan goes into default there is the chance that it would find itself owing the property securing the loan when the foreclosure is completed. Were that to happen the Partnership would own a REO (real estate owned) property.

The offices of the General Partner are the same offices used by the Issuer. The offices are suitable and adequate for the Issuer since it has no employees and it does not have direct dealings with borrowers. The Issuer does not pay rent to the General Partner as the Partnership Management Fee includes rent and all management expenses. [See "Partnership Management Fee to General Partner" under the heading "Remuneration of Officers and Directors"]. The Issuer is managed by the corporate General Partner and its personnel. The Issuer therefore has no employees of its own.

#### **DIRECTORS, EXECUTIVE OFFICERS, AND SIGNIFICANT EMPLOYEES**

- (a) (1) There are no directors of the Issuer, as it is a limited partnership. The management of Royce Capital Group, the General Partner, controls the day to day operations of the Issuer. The Director of the General Partner is John F. Royce, age 58, who has served as the Director of the General Partner since Royce Capital Group was appointed as the General Partner on February 1, 1997. His period of appointment is annually, and expires on January 2, 2002. There are no understandings between himself and anyone else pursuant to which he serves as the Director of the General Partner.

(2) There are no persons nominated to become Directors of the General Partner.

(3) There are no executive officers of the Issuer as it is a limited partnership, and the General Partner is a corporation. The executive officers of the General Partner are:

John F. Royce, age 58, President and Treasurer  
Served since February 1, 1997. His term of office is annual. There are no understandings between himself and anyone else with respect to his so serving.

George R. Kucera, age 59, Secretary and General Counsel.  
Served since April 1, 2001. His term of office is annual. There are no understandings between himself and anyone else with respect to his so serving.

Nina Bliss, age 84, Vice President.  
Served since February 1, 1997. Her term of office is annual. There are no understandings between herself and anyone else with respect to her so serving.

(4) There are no persons chosen to become executive officers of the General Partner of the Issuer.

(5) There are no employees of the Issuer. The significant employees Of Royce Capital Group, the General Partner of the Issuer are:

Robin Cardnuto, age 45, Executive Assistant to the President.  
Her term of office is annual. She has served since February 1, 2001. There are no understandings between herself and anyone else with respect to her so serving.

Steve Nisen, age 52, Chief Financial Officer.  
His term of office is annual. He has serve since April 1, 2001.  
There are no understandings between himself and anyone else with respect to his so serving.

Chandra Butcher, age 32, Residential Loan Manager and Compliance Officer  
She has been hired to become the primary compliance officer for the issuer. She has served since October 2001, and her term of office is annual. There are no understandings between herself and anyone else with respect to her so serving.

Dale White, age 52, Commercial Loan Officer  
He joined the General Partner on February 1, 2002, and his term of office is annual. There are no understandings between himself and anyone else with respect to his so serving.

- (b) The only family relationship between any officer, director, and significant employee of the General Partner of the Issuer is that Nina Bliss, a Vice President of the General Partner is the mother-in-law of John F. Royce, the President of the General Partner.

- (c) A brief account of the business experience, for the past five years, of each director, executive officer, and significant employee of the General Partner is as follows:

(1) John F. Royce, President of the General Partner. After graduating from Lehigh University in 1965 with a B.S. in Civil Engineering, Mr. Royce worked as an engineer and assistant to the General Manager for Morrison Knudson in Vietnam, then returned to Columbia University Business School for a MBA in Real Estate. He then worked in the land development business for subsidiaries of Boise Cascade until 1971. His last assignment was that of Project Manager in Incline Village Nevada, managing Boise Cascade's operations there. After leaving Boise Cascade, in March, 1971, he formed his own business building single family residences for a company known as Royce Construction, Inc. Since March 1971, He has been a real estate developer, consultant and property manager under his own name. He is experienced in all areas of real estate. Mr. Royce has been a wholesale and retail mortgage lender and broker for over twenty-five years, first starting in California in 1970, and has been President of the General Partner since its formation, in December 1991. As the President of Royce Capital Group, Mr. Royce was responsible for all operations of the company, from human resources to finding investors, to placing loans. As President of Royce Capital Group, since February 1, 1997, when the Issuer was formed and when Royce Capital Group became the General Partner of the Partnership, Mr. Royce has been responsible for the acquisition and management of the loan portfolio of the Partnership. Mr. Royce was one of the founders of the Nevada Association of Mortgage Brokers, in January 1993, and has served both as its President, from January 1996 until December 1996, and as its lobbying representative in the Nevada Legislature from January 1993, until May 2000. He was appointed by the Nevada Legislature, in 2000, to be on the Mortgage Advisory Council to Nevada Legislature and served in that capacity until June 2001. He has a B.S. in Civil Engineering from Lehigh University, Bethlehem, Pennsylvania, in 1965 and an MBA from Columbia Business School, New York, New York, in 1968.

(2) George R. Kucera, Secretary and General Counsel of the General Partner. Mr. Kucera has been consulting for the General Partner since April 2001. Prior to that, from January 1, 2001, to April 2001, he was a consultant in the areas of real estate, land use planning, and law. From January 1, 1996, to December 31, 2000, Mr. Kucera was General Counsel and Secretary for Devco Properties, Inc., a real estate development company developing a 2,300 lot subdivision in Northern Nevada. As such, he was responsible for all in-house and outside legal matters, corporate matters, HR matters, and all interfacing with governmental agencies. Prior to that, from September, 1979, to January 1, 1996, he was a sole practitioner, in Redding, California, and Palo Alto, California, specializing in corporate and real estate law, and, before 1979, between June, 1971, and July, 1979, he was a partner in various law firms in Palo Alto, California. Mr. Kucera

has been licensed as an attorney with the California State Bar since 1970, and has been licensed as a real estate broker in California since 1980 and in Nevada since 1997. All licenses are current. He graduated from the University of California, Davis, in June 1964, with an A.B. in History, and from Hastings College of the Law, San Francisco in May 1969. He is a graduate of the U.S. Army Special Forces Officers Course, Ft. Bragg, North Carolina and of the U.S. Army Airborne School, Fort Benning, Georgia, from June 1967 to September 1967.

(3) Nina Bliss, Vice President of the General Partner. Mrs. Bliss has worked for affiliates of Royce Capital Group since June 1986. Prior to that date she was not affiliated with Royce Capital Group or any affiliate. She has been responsible for its accounting, loan servicing, and collections. In 1993 and 1994 she was CEO and owner of Interstate Escrow Company, in Reno, Nevada. At the present time she works only part-time on specific assignments.

(4) Robin Cardnuto, Executive Assistant to the President of the General Partner. Ms. Cardnuto has, for the last five years, been a loan processor and loan officer with various Reno, Nevada, mortgage loan companies, and was owner and CEO of CDK Reports, Inc., a credit reporting company in Reno, Nevada, from August 1, 1985 to December, 1996. As the owner and CEO she was responsible for all aspects of the credit reporting business including all human resources ["HR"], management, governmental compliance, and billing. From December 1996 to March 1997, she took time off from work. From March 1997, to January 2001, she was a loan officer/loan processor for Mortgage Capital Resources, Reno, Nevada. She commenced her employment with Royce Capital Group in January 2001. She is responsible for all administrative matters of the General Partner including investor relations, property management, and property foreclosures and sales.

(5) Steve Nisen, Chief Financial Officer for the General Partner. Mr. Nisen has worked for the General Partner since June 2001. Prior to such employment, from September 1996, until June 2001, Mr. Nisen was the Comptroller for Devco Properties, Inc., a real estate development company in Reno, Nevada. As such, he was responsible for all loan servicing, debt servicing and structuring, and all financial affairs of a company with 6 offices in 3 states and over \$10,000,000 in gross sales. Mr. Nisen is responsible for the general ledger of the General Partner, as well as for all payables and loan servicing. He holds a B.S. degree from Fairleigh Dickenson University.

(6) Chandra Butcher, Residential Loan Origination Manager for the General Partner has been in the residential lending business for over 10 years, having worked in Southern California for Dollar Mortgage in their wholesale lending operations for 5 years, and then running the operations department for United

Lending group for several more years. She was the Nevada state regional manager for American Benefit Mortgage, Inc., in Reno, NV, from September 1997, to October 2001. American Benefit Mortgage is a retail mortgage company, making loans to, and dealing directly with, borrowers. As Nevada regional manager, she was responsible for all compliance issues in Nevada, as well as all other aspects of running a retail mortgage company. Prior to American Benefit Mortgage, she was with United Lending Group from April 1995, to September 1997, and was with Dollar Mortgage from June 1991, until April 1995. She joined the General Partner in October 2001 and is responsible for the residential lending department of the General Partner.

(7) Dale White, Commercial Loan Officer for the General Partner, was hired on February 1, 2002. He has been in commercial lending for over 30 years, most recently as a Vice President of Bank of the West, from August, 1988 to December, 1996, where underwrote over 700 SBA and commercial loans. He then worked for Sacramento Commercial Bank, Sacramento, California, from January 1997, to July 1998, where he wrote SBA loans, and at Heritage Bank of Nevada, from July 1998, to May 2000, where he managed the commercial loan division. Following that, from May 2000, until February 2002, he was the National Sales Manager for a restroom facilities manufacturer.

(d) (1) None of the individuals described above has had any bankruptcy petition filed by, or against, them, or any partnership in which they were a general partner, within the last two years prior to this filing.

(2) None of the individuals described above has been convicted of any criminal proceeding prior to this filing.

#### REMUNERATION OF DIRECTORS AND OFFICERS

(a) All remuneration listed below was paid by Royce Capital Group in 2001. Three Highest Paid Officers/Directors of General Partner

Name of Individual Or Identity of Group	Capacities in Which Aggregate Remuneration Was Received	Remuneration
John F. Royce	President of General Partner	\$52,000
George R. Kucera	Secretary of General Partner	\$40,000
Stephen Nisen	Chief Financial Officer	\$34,000

Aggregate Annual Remuneration of All Officers/Directors of General Partner: \$1136,000. All payments are on the cash basis.

(b) Total payments to all individuals who are officers and directors of the General Partner of the Issuer, to be made in the next fiscal year will be \$172,000. Payments will be made monthly to each individual affected. Compensation is based solely on the



individual continuing to perform his or her job satisfactorily, and there are no employment contracts, guaranteed bonuses, or other compensation or deferred income plans. All employees of the General Partner are employed on a month to month basis and, under Nevada law, are terminable at will.

The following discussion summarizes the forms of compensation to be received by the General Partner and its affiliates and is a partial list of the important areas in which the interests of the General Partner may conflict with those of the Partnership. The Limited Partners must rely on the general fiduciary standards which apply to a General Partner of a Limited Partnership to prevent unfairness by the General Partner or an affiliate of the General Partner in transactions with the Partnership. [See "Fiduciary Responsibility of the General Partner" in this offering circular] Except as may arise in the normal course of the relationship, there are no transactions presently contemplated between the Partnership and its General Partner (or its affiliates) other than those listed below. Except as listed below, there are no transactions between the General Partner and any of its officers, directors, shareholders, or any relative or spouse of any of the above.

See the chart entitled Organizational Chart of General Partner and its affiliates, on page 14 of this offering circular for the relationship between the General Partner and its affiliates.

All of the following amounts, except for the General Partner's share of profits and losses will be received regardless of the success or profitability of the Partnership. None of the following compensation was determined by arm's-length negotiations. The General Partner retains the right to terminate all or any portion of its business relationship with the Partnership at any time, in which event the Partnership would seek to retain one or more other firms to perform the various services to be rendered by the General Partner as described below.

Form of Compensation

Estimated Amount or Method of Compensation

DESCRIPTION OF COMPENSATION	HOW IT IS PAID
Loan Brokerage Fees anticipated to be between 1-5% of loan fees. to broker John F. Royce or Royce Capital.	Anticipated to average between 2-5% of Royce Capital or John F. Royce. They may be higher or lower, depending on market conditions. If loan brokerage commissions paid by the borrower are less than 2% of the principal amount of the loan, the Partnership will pay loan brokerage commissions to the General Partner or its affiliate equal to the difference between the loan brokerage fee paid by the borrower and the normal compensation for a transaction of this size and difficulty. This would typically be done where the broker does a 'no commission deal', but at a rate higher than the market rate for the loan. These loans typically would have a prepayment penalty to protect the Partnership if there were an early payoff.

Loan Processing Fees to Broker	Usually \$300 per loan, paid by the borrower.
Loan Servicing Fees	1/12 of the 1% of the principal amount of each Partnership Loan, payable monthly, but only as interest is received by the Partnership. Loan originated by Royce Capital usually have a \$6.00 to \$9.00 per month collection fee that is paid by the borrower. To the extent that a borrower can be required to pay for special collection charges, the servicing agent may be compensated for its time spent in managing a foreclosure, repossession, or bankruptcy of a given loan.
	As is customary in the industry the servicing agent may receive ½ of the late fees and prepayment penalties collected.
Partnership Management fee to General Partner	The General Partner may be paid up to a total fee of 3% of the loan portfolio balance for administering the Partnership, which fee shall include compensation for management, bookkeeping, telephone, rent, and all expenses of the Partnership. The payment of this fee shall be subordinate to the payment of the cumulative preferred returns to each class of Partner, and if there is not a full management fee paid in any particular year, the General Partner shall not accumulate unpaid expenses for management in subsequent years. The Issuer and the General Partner share the same offices at 1281 Terminal Way, Suite 201, Reno, Nevada 89502.
Document Fees to affiliates	The average transaction provides for approximately \$300 in document preparation fees which amount is usually paid by the borrower.
Real estate brokerage fees to General Partner or its affiliates.	In the event that the Partnership forecloses on any properties, the General Partner or its affiliates may earn a standard brokerage fees for selling the property, providing however that the Partnership's basis in the property is returned to the Partnership.
Return on General Partner's Capital	After the Limited Partner's preferred returns have been met, the General Partner is entitled to receive the same return on its capital.
Excess Profits	After Partnership management fees have been paid to the General Partner up to a level set forth above, excess profits if any shall be paid to all partners in accordance with their capital accounts as of the end of the accounting period.

**NOTHING FOLLOWS ON THIS PAGE**

Compensation paid by the Issuer to its General Partner in 2001, for the above categories was:

Loan Brokerage Fees:	\$ 0
Loan Processing Fees:	\$ 0, paid by borrowers
Loan Servicing Fees:	\$ 5,626.54
Partnership Management Fee:	\$10,960.67
Document Fee:	\$ 0, paid by borrowers
Real Estate Brokerage Fee:	\$ 0
Return of Capital	\$0
Excess Profits	\$ 0

**SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN SECURITYHOLDERS**

(a) **NOTE:** There are no persons who are officers, directors, or employees of the Issuer, as the Issuer is a Limited Partnership and it pays no salary to anyone. The compensation to the General Partner is described above in this offering circular. There are also no voting securities, as the Limited Partnership Units have no vote in the Partnership except in exceptional circumstances. [SEE "Summary of Limited Partnership Agreement"] The information below gives the Security Ownership of Management and Certain Securityholders of Royce Capital Group, the General Partner of the Issuer.

(1) Ownership of General Partner

<u>Title of Class</u>	<u>Name/Address Of Owner</u>	<u>Amount Owned Before Offering</u>	<u>Amount Owned After Offering</u>
Director, Officer	John F. Royce 1281 Terminal Way,#201 Reno, NV 89502	100% of Common Stock	100% of Common Stock
	George R. Kucera 1281 Terminal, Way #201 Reno, NV 89502	0%	0%

(2) All officers and directors of the General Partner as a group:

Total ownership of voting securities: 100%

(3) The only partner of the Issuer who owns more than 10% of the Issuer's securities is its' General Partner, Royce Capital Group, 1281 Terminal Way, Suite 201, Reno, Nevada 89502. Prior to this offering it owns 26% of the Units or \$174,668 in the Partnership, as there are 675,828 Units currently outstanding. Its' ownership after this offering and the percentage of the Issuer that it will depend on how many Units are purchased pursuant to this Offering Circular. The General Partner is required, by the Limited Partnership Agreement [See Exhibits, Limited Partnership Agreement, Paragraph III] to maintain 10% of the first \$1,000,000 or \$100,000. in total capital or \$100,000, 2%

of the capital from \$1,000,001 to \$5,000,000 or \$80,000., and 1% of the total capital in excess of that amount.

Each shareholder who owns more than 10% of any class of the General Partner's securities (John F. Royce may be a 'control person' of the Issuer and both John F. Royce and Charles M. Royce may be beneficial owners of securities of the Issuer by virtue of their ownership of stock in the General Partner):

John F. Royce, 1281 Terminal Way, #201, Reno, NV 89502  
100% of common voting stock

Charles M. Royce, 1414 Avenue of the Americas, New York, NY  
100% of non-voting preferred stock

No other person controls or directs the voting of any security described above. No person, other than as described below, holds or shares the power to vote, or direct the vote, of any of the Issuer's securities.

(b) No Limited Partner of the Issuer owns 10% or more of the securities of the Issuer except the Cynthia G. Davis Living Trust, 2465 Telluride Drive, Reno, NV 89511, and Jocelyn Helzer and the Pensco Corporation fbo Jocelyn Helzer, 115 South Deer Run Road, Carson City, NV 89701. Limited Partners have no voting rights in the Issuer except under extraordinary circumstances. [See Summary of Limited Partnership Agreement]

(c) There are no non-voting securities of the Issuer. Non-voting securities of the General Partner of the issuer are held as follows:

<u>Title of Class</u>	<u>Name and Address Of Owner</u>	<u>Amount Owned Before Offering</u>	<u>Amount Owned After Offering</u>	<u>% of Class</u>
Individual	Charles M. Royce 1414 Avenue of The Americas New York, N.Y.	100% of Preferred Stock	100% of Preferred Stock	100

(d) There are no options, warrants, or rights to any stock, common or preferred.

(e) There are no parents of the issuer.

## **INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS**

There have been no transactions in the previous two years, nor are there any presently proposed transactions [except as explained below in this offering circular], to which the Partnership was a party and in which any of the following persons had, or is to have, a direct or indirect material interest:

Any director or officer of the General Partner; or  
Any nominee for election as a director of the General Partner; or  
Any principal security holder having the power to vote 10% or more

of the securities of the General Partner; or  
Any promoter of the General Partner; or  
Any relative or spouse of any of the foregoing persons, or any relative of such spouse, who has the same house as such person, or who is a director or officer of any parent or subsidiary of the Partnership, except as follows:

1. On December 31, 1999, John F. Royce, President of the General Partner purchased a residential property which had been taken back by the Partnership by acceptance of a deed in lieu of foreclosure, by giving the Limited Partnership a promissory note representing all of the funds that the Limited Partnership had invested in the note and deed of trust which was foreclosed upon. The amount of the original note was \$48,365.96. All payments on the note given to the Limited Partnership by John F. Royce are current. The amount of such note is \$47,446.10, as of December 31, 2001.

2. On December 31, 1999, Royce Pension Plan purchased a residential property which had been foreclosed upon by the Limited Partnership, by exchanging Limited Partnership interests for the property. The property was purchased at the principal amount which the Partnership had invested in the property, or \$22,207.35, and the Pension Plan assumed the senior loan on the property.

3. Royce Capital Group, the General Partner of the Issuer purchased approximately \$293,098.27 of Limited Partnership interests from Limited Partners in June 2000. The Limited Partnership units purchased, and converted to General Partnership interests, were of a class which had lower priority and higher yields than the other Limited Partnership interests. The purchase price was \$1.00 per Unit. Currently, there is only one class of Limited Partnership interests, and there will only be one class of Limited Partnership interests after this offering.

In September, 2001, Royce Capital Group exchanged a two promissory notes,, one for \$68,250 and one for \$19,588 for two other loans which were an asset of the Issuer, for the same amount of principal balance Those substituted notes given to the issuer met the loan specifications of the partnership and are current on payments of principal and interest.. The notes removed from the partnership were to eliminate a potential conflict of interest between the Issuer and the General Partner. in that Mr. Royce was doing separate business with this borrower.

The Issuer is dependent upon the General Partner of the Partnership for all of its administration and investment activities. See the discussion of this dependency under "Risk Factors" in this circular.

6. Fidelity Escrow and Collections, a Nevada corporation, is wholly owned by John F. Royce, the President of the General Partner. Fidelity will be servicing the loans within the Issuer's loan portfolio. Usually the loans originated by the General Partner for the benefit of the Issuer's portfolio will have a \$6.00 to \$9.00

loan collection fee which is paid by the borrower, and, thus, the Issuer will pay nothing for these services. The Issuer will pay Fidelity 1% of each outstanding loan, annually, payable 1/12<sup>th</sup> of 1% per month, plus one half of the late charges and prepayment penalties, as interest on such loan is collected by the General Partner. The written agreement between the Issuer and Fidelity is attached as an exhibit to this offering circular.

7. Loan brokerage commissions will be paid to the General Partner by either the borrower or the Issuer for each loan the General Partner makes and assigns to the Issuer. Loan brokerage commissions average between 2% to 5% of the principal amount of the loan, depending on market conditions. If the loan brokerage commissions paid by the borrower are less than 2% of the loan principal, the Issuer will pay loan brokerage commissions to the General Partner, or its affiliate, equal to the difference between the loan brokerage fee paid by the borrower and the normal compensation for a transaction of that size and difficulty. This determination will be made by the General Partner.

### **SECURITIES BEING OFFERED**

The securities which are being offered are Limited Partnership interests [Units] with a value of One Dollar (\$1.00) per Unit. A minimum investment shall consist of Ten Thousand (10,000) Units. Upon the purchase of Units, the purchaser becomes a Limited Partner in the Limited Partnership [Issuer] subject to the Limited Partnership Agreement. The Partnership is in existence and the sale of Units in the Partnership will not dilute the interests of the existing partners since all Units in the Partnership, whether currently existing, or to be sold pursuant to this offering, are valued at One Dollar (\$1.00) each. There is no minimum number of Units required to be sold before the General Partner closes the offering. The Issuer reserves the right to close the offering on or before the termination date. There are no arrangements to return funds to subscribers for Units if the entire amount of this offering is not sold or subscribed.

No commissions or underwriting fees are being paid to anyone and One Hundred Percent (100%) of the proceeds from the sale of Units goes to the Issuer and will be used to fund or purchase loans for the Partnership's portfolio.

The Limited Partnership is formed and is governed by Chapter 88 of the Nevada Revised Statutes, the "Limited Partnership Act". Section 88.430 of such act provides, as does paragraph III 6 of the Limited Partnership Agreement, that a Limited Partner shall not be or become liable for the obligations of the Partnership in an amount in excess of his or her capital account. The Limited Partnership Agreement prohibits the General Partner from making calls or assessments against a Limited Partner's Units after the Units have been purchased by the Limited Partner. The General Partner may purchase any Limited Partnership interest [Unit] from any Limited Partner if the General Partner determines it to be in the best interest of the Partnership, the General Partner, or the Limited Partner. The purchase price for the Units purchased by the General Partner shall be the sum of: (i) the then capital account for the holder of such Units; plus (ii) the then

unmet cumulative preferred returns to date [see below for definition of “preferred return”]; plus (iii) any accrued excess profits [see below for definition of ‘excess profits’]. By purchasing Units, the purchaser agrees to this redemption provision. [See Article IX, 3, Partnership Agreement]

The Partnership profits and losses are calculated as follows:

1. First, the General Partner projects, as of December 1 of each year, what the ‘preferred return’ should be for the Partnership for the following calendar year. The rate of preferred return shall be a minimum of 2 percent over the then present yield of 5 year U.S. Treasury notes as of such date, and shall be determined by the General Partner based on what rates the General Partner projects it can originate loans for in the market as of December 1. This preferred return is paid first to the Limited Partners [holders of Units]. If the actual profits are insufficient to pay the full preferred return to the Limited Partners, the unpaid preferred return carries over the next accounting period for the Partnership on a cumulative basis. [SEE Article VIII, Allocations and Distributions, Limited Partnership Agreement]

2. Secondly, after the preferred return has been paid to the Limited Partners, the General Partner is entitled to the same preferred return on its capital account, and if there are not sufficient funds to pay this preferred return in full, the unpaid amount is NOT carried to the next accounting period.

3. Third, after the preferred return has been paid to both the Limited Partners and the General Partner, the General Partner is entitled to be paid a Management Fee of up to 3% of the loan portfolio as of the end of the calendar year.

4. Finally, any profits remaining are designated as “excess profits” and are allocated between all Partners, Limited and General, in accordance with their capital accounts as of the end of the calendar year.

Historically, the General Partner has not taken its full Management Fee. The Partnership Units have earned the following annual returns in the following years:

Year	Returns to LP's	GP's Management Fee	% of Note Balance
1997	11.5%	\$1,248	2%
1998	10.6	7,174	1%
1999	9.6	8,162	1%
2000	11.4	3,578	.5%
2001	12.0	10,029	1.6%

The preferred return for the year 2002 has been set to be 11.0% These illustrations are historical only and there are can be no assurances that returns such as these will be achieved in the future. No ‘excess profits’ have ever been paid by the Partnership.

The holders of Units [Limited Partners] shall have the right only to vote to amend the Partnership Agreement; or to dissolve and wind up the Partnership; or to remove the General Partner and elect a new General Partner; or to approve or disapprove the sale, pledge, refinancing or exchange of substantially all of the Partnership's assets. A Majority in Interest [majority of Units held] is necessary to accomplish these objectives. See SUMMARY OF PARTNERSHIP INTERESTS below.

If the Partnership is would up and liquidated, the priority of distribution of assets shall be as follows: (1) the Partnership assets shall be liquidated so as to obtain the highest reasonable price in an orderly liquidation not to exceed five (5) years; (2) then the liabilities of the Partnership to third parties [non-Partners] would be paid; (3) then the liabilities of the Partnership to the General Partner would be paid; (4) then the remaining assets are distributed, first to the Limited Partners, and then to the General Partner in the same manner as cash available for distribution is distributed. Once the Limited Partner's capital and unmet cumulative preferred returns are paid, in full, any remaining assets may be distributed to the General Partner. See Article XIII of the Limited Partnership Agreement which is an exhibit to this offering circular.

### **ADDITIONAL PERTINENT INFORMATION**

#### **Fiduciary Responsibility of General Partner**

Under Nevada law, a General Partner is accountable to a Partnership as a fiduciary, which means that the General Partner is required to exercise good faith and integrity with respect to Partnership affairs. This fiduciary duty is in addition to those other duties and obligations of, and limitations on, the General Partner which are set forth in the Limited Partnership Agreement. The General Partner must, on demand, give any Limited Partner or his legal representative true and complete information concerning all Partnership affairs. Each Limited Partner or his legal representative has the right to inspect and copy the Partnership books and records at any time during normal business hours.

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



'business judgment rule' which states that, insofar as the normal course of business is concerned, the General Partner is not liable if it exercises its normal business judgment in making decisions for the Partnership.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 [the "Act"] may be permitted to officers, directors, and controlling persons of the small business Issuer pursuant to the foregoing provisions, or otherwise, the small business Issuer has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable.

#### Other Partnerships or Businesses

In the future, the General Partner may also sponsor other Limited Partnerships formed to conduct business similar to that of the Partnership. If these other Limited Partnerships (if formed) have funds to invest at the same time as the Partnership, there will then exist conflicts of interest on the part of the General Partner as to whether it offers a particular loan opportunity to the Partnership or to these other Partnerships. The General Partner will decide which loans are appropriate for funding by the Partnership or by such other Partnerships after consideration of all relevant factors, including the size of the loan, portfolio diversification, and amount of uninvested funds. The General Partner may engage for its own account, or for the account of others, in other business ventures, either similar to that of the Partnership or otherwise, and neither the Partnership nor any Limited Partners shall be entitled to any interest therein from such other investments.

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

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

The General Partner has undertaken to resolve these conflicts by setting a purchase price for each defaulted loan or property which is not less than any of the following: (i) the independently appraised value of such loan or property, if one is

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

### **ERISA Considerations**

The Employee Retirement Income Security Act of 1974 ("ERISA") contains strict fiduciary responsibility rules governing the actions of 'fiduciaries' of employee benefit plans. It is anticipated that some Limited Partners will be corporate pension or profit sharing plans and Individual Retirement Accounts, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Units will be a 'fiduciary' of such plan and will be required to conform to ERISA's fiduciary responsibility rules. Persons making investment decisions for employee benefit plans (i.e. 'fiduciaries') must discharge their duties with the skill, care, and prudence which a reasonable person familiar with such matters would exercise in like circumstances. In evaluating whether the purchase of Units is a 'prudent' investment under this rule, fiduciaries should consider all of the risk factors set forth in this offering circular. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (see "Federal Income Tax Consequences") as well as the percentage of plan assets which will be invested in the Partnership insofar as the diversification requirements of ERISA are concerned. An investment in the Partnership is illiquid, and fiduciaries must not rely on an ability to convert an investment in the Partnership into cash in order to meet liabilities to plan participants who may be entitled to distributions. **DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT THEIR OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS OR HER PROSPECTIVE INVESTMENT.**

The Partnership will limit subscriptions for Units from ERISA plan investors such that, immediately after each sale of Units, ERISA plan investors will hold less than twenty-five percent (25%) of the total outstanding equity interests in the Partnership.

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan's fiscal year.

Although the General Partner will provide annually, upon the written request of a Limited Partner, an estimate of the value of the Units based upon, among other things, outstanding mortgage investments, it may not be possible to value the Units adequately from year to year, because there will be no market for them.

### **Federal Income Tax Consequences**

The following is a summary of all the material Federal income tax consequences arising from the purchase, ownership, and disposition of the Units. This summary cannot, and is not intended to, cover all of the pertinent tax consequences for any individual purchaser of Units. See the Tax Opinion Letter attached to this Offering Circular as an Exhibit.

### **Partnership Status**

In the event that the Partnership is treated for Federal income tax purposes as an association taxable as a corporation in any taxable year, the Partnership would be required to pay taxes on its net income, thus reducing the amount of cash available for reinvestment in the business of the Partnership or for distribution to the Limited Partners. If the Partnership is treated for Federal income tax purposes as a partnership, no such Federal income tax would be payable by the Partnership.

The Partnership has not requested, and does not intend to request a ruling from the Internal Revenue Service that the Partnership will be treated for Federal income tax purposes as a partnership, and not as an association taxable as a corporation. Under the currently application regulations, an organization is treated as a partnership and not as an association taxable as a corporation so long as the organization does not have a preponderance of the corporate characteristics described in such regulations. The Partnership will not have a preponderance of those corporate characteristics set forth in the regulations as those regulations are currently interpreted by the IRS and, consequently, the Partnership should not be an association taxable as a corporation for Federal income tax purposes, provided that the General Partner of the Partnership has "substantial assets" as that term is used in Section 301.7701-2(d)(2) of the Income Tax Regulations, and provided that the Partnership meets the conditions set forth in the following subparagraphs.

Specifically, (i) the Partnership has been duly formed and will operate in conformity with the requirements of Nevada law and the provisions of the Limited Partnership Agreement; (ii) the net worth of the General Partner of the Partnership is sufficient and will remain sufficient to satisfy the requirements of 'substantial assets' within the meaning of the regulations at all times during the existence of the Partnership; (iii) no lender on a non-recourse basis will obtain or have the right to obtain a proprietary interest in the Partnership or its assets other than as a creditor; (iv) the General Partner will have at all times at least a one percent (1%) interest in the profits, losses and each specifically allocated item of income, credit, or deduction of the Partnership; (v) the Partnership and the Partners will enter into the transactions described herein with a

reasonable expectation of profit; and (vi) criteria or standards other than those specified in the Regulations will not be applied in determining such classifications.

At present no specific criteria has been established by the Internal Revenue Service (other than procedural guidelines) as to the minimum net worth or other characteristics that a General Partner must maintain to qualify a Limited Partnership for federal tax classification as such, other than that General partner must have substantial assets and not be a mere 'dummy'. Based on the current net worth of the General Partner of the Partnership, it is likely that he would be deemed to have 'economic substance' within the meaning of the Regulations and, accordingly, that the Partnership will be treated as a partnership for Federal tax purposes.

### **Taxation of Undistributed Partnership Income (Individual Investors)**

Under the laws pertaining to Federal income taxation of partnerships, no Federal income tax is paid by the Partnership as an entity. Each individual partner reports on his Federal income tax return his distributive share of Partnership income, gains, losses, deductions and credits, whether or not any actual distribution is made to such Partner during a taxable year. Each individual partner may deduct his distributive share of Partnership losses, if any, to the extent of the tax basis of his Units at the end of the Partnership year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the Partner as it was for the Partnership. Since individual Partners will be required to include Partnership income in their personal income without regard to whether there are distributions of Partnership income even though they may have received no cash distributions from the Partnership with which to pay such taxes.

### **Distributions of Income**

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

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

The Partnership has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the Partnership were at any time to be deemed for Federal tax purposes to be holding one or more Partnership loans primarily for sale to customers in the ordinary course of business (a 'dealer'), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The Federal income tax rates for ordinary income are higher than those for capital gains. In addition, income from sales of loans to customers in the

ordinary course of business would also constitute unrelated business income to any investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all of the relevant facts and circumstances. The Partnership intends to make and hold the Partnership loans for investment purposes only, and to dispose of Partnership loans, by sale or otherwise, at the discretion of the General Partner and as consistent with the Partnership's investment objectives. It is possible that, in so doing, the Partnership will be considered a 'dealer' in mortgage loans, and that profits realized from such sales will be considered unrelated business income to otherwise tax-exempt investors in the Partnership.

### **Tax Returns**

Annually, the Partnership will provide the Limited Partners (but not to assignees of Limited Partners unless they become substituted Limited Partners) sufficient information from the Partnership's informational tax return for the Limited Partners to prepare their individual Federal, state, and local returns. The Partnership's informational tax returns will be prepared by certified public accountants selected by the General Partner.

### **Portfolio Income**

The Partnership's primary source of income will be interest, which is ordinarily considered 'portfolio income' under the Internal Revenue Code. Similarly, Temporary Regulations issued by the Internal Revenue Service in 1988 [Temp. Reg. 1.469-2T(f)(4)(ii)] confirmed that net interest income from an equity-financed lending activity such as the Partnership will be treated as portfolio income, not as passive income, to Limited Partners. Therefore, investors in the Partnership will not be entitled to treat their proportionate share of Partnership income as 'passive income', against which passive losses (such as deductions from unrelated real estate investments) may be offset.

### **Unrelated Business Taxable Income**

Units may be offered and sold to certain tax exempt entities (such as qualified pension or profit sharing plans) that otherwise meet the investor suitability standards described elsewhere in this Private Placement memorandum (see "Subscription Account"). Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income", as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Units will be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the Partnership. Interest income (which will constitute the primary source of Partnership income) does not constitute an item of unrelated business taxable income, except to the extent it is derived from "debt-financed property"; however, if the Partnership does utilize borrowed funds for the purpose of making or investing in loans, interest earned on Partnership loans should may constitute

unrelated business taxable income and investors that are otherwise exempt from federal and state income taxes may realize taxable income by reason of interest income earned by the Partnership.

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

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

#### **Certain Legal Aspects of Partnership Loans**

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

Foreclosure of a deed of trust is accomplished in most cases by a non-judicial trustee's sale under the power-of-sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and send a copy to the trustor, to any person who has recorded a request for a copy of a notice of default and notice of sale, to any successor in interest to the trustor, and to the beneficiary of any junior deed of trust. The trustor or any person having a junior lien or encumbrance of record may, in California, until five (5) business days prior to the date of a scheduled foreclosure date and in Nevada for the first thirty-five (35) days after the notice of default, cure the default by paying the entire amount of the debt then due, exclusive of principal due only because of acceleration upon default, plus costs and expenses actually incurred in enforcing the obligation and statutorily limited attorney's and trustee's fees. Thereafter, and at least twenty (20) days before the trustee's sale, notice of sale must be posted in a public place and published once a week over such period. A copy of the notice of sale must be posted on the property, and sent to the trustor, to each person who has requested a copy, to any

successor in interest to the trustor and to the beneficiary of any junior deed of trust, at least twenty (20) days before the sale.

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

### **Anti-Deficiency Legislation**

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

Another statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under the deed of trust by foreclosure before bringing a personal action against the trustor on the promissory note

The fourth statutory provision limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale. Other matters, such as litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws, may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property. In Nevada, in order to get a deficiency judgment one must prove that the property is worth less than the amount owed, something which is usually impractical to do.

### **Special Considerations With Junior Loans**

In addition to the general considerations concerning trust deeds discussed above, there are certain additional considerations applicable to second deeds of trust ("junior

encumbrances"). By its very nature, a junior encumbrance is less secure than more senior ones. Only the holder of a first trust deed is permitted to bid in the amount of his credit at his foreclosure sale; junior lien holders must bid cash. If a senior lien holder forecloses on its loan, unless the amount of the bid exceeds the senior encumbrances, the junior lien holders will receive nothing. Because of the limited notice and attention given to foreclosure sales, it is possible for junior lien holders to be sold out, receiving nothing from the foreclosure sale. However, in such event the junior lien holder may have a personal action against the borrower to enforce the debt.

Accordingly, a junior lien holder (such as the Partnership) may find that the only method of protecting its security interest in the property is to take over all obligations of the trustor with respect to senior encumbrances while the junior lien holder commences his foreclosure, making adequate arrangements either to (i) find a purchaser of the property at a price which will recoup the junior lien holder's interest or (ii) to pay of the senior encumbrances so that his encumbrance achieves first priority. Either alternative will require the Partnership to make substantial cash expenditures to protect its interest (see "Risk Of Defaults By Borrowers, Pg. 7")

The Partnership may also make wrap-around mortgage loans (sometimes called "all-inclusive loans"), which are junior encumbrances to which all the considerations discussed above will apply. A wrap-around loan is made when the borrower desires to refinance his property but does not wish to retire the existing indebtedness for any reason, e.g., a favorable interest rate or a large prepayment penalty. A wrap-around loan will have a principal amount equal to the outstanding principal balance of the existing debts plus the amount actually to be advanced by the Partnership. The borrower will then make all payments directly to the Partnership, and the Partnership in turn will pay the holder of the senior encumbrance. The actual yield to the Partnership under a wrap-around mortgage loan will exceed the stated interest rate to the extent that such rate exceeds the interest rate on the underlying senior loan, since the full principal amount of the wrap-around loan will not actually be advanced by the Partnership.

In the event the borrower defaults solely upon his debt to the Partnership while continuing to perform with regard to the senior lienor, the Partnership (as junior lienor) will foreclose upon its security interest in the manner discussed above in connection with deeds of trust generally. Upon foreclosure by a junior lienor, the property remains subject to all liens senior to the foreclosed lien. Thus, were the Partnership to purchase the security property at its own foreclosure sale, it would acquire the property subject to all senior encumbrances.

The standard form of deed of trust used by most institutional lenders, like the one that will be used by the Partnership, confers on the beneficiary the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with any condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the deed of trust, in such order as the beneficiary may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the



beneficiary under the underlying first deed of trust will have the prior right to collect any insurance proceeds payable under a hazard insurance policy and any award of damages in connection with the condemnation, and to apply the same to the indebtedness secured by the first deed of trust before any such proceeds are applied to repay the Partnership's loan. Applicable case law, however, imposes upon the lender the good faith obligation to apply the proceeds toward reconstruction where the lender's security would not be impaired.

### **Due On Sale Clause**

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

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

**Due-on-Encumbrance.** With respect to mortgage loans on residential property containing four or less units, federal law prohibits acceleration of the loan merely by reason of the further encumbering of the property (e.g., execution of a junior deed of trust). This prohibition does not apply to mortgage loans on other types of property. Although most of the Partnership's second mortgages will be on properties that qualify for the protection afforded by federal law, some loans will be secured by apartment buildings or other commercial properties. Second mortgage loans made by the Partnership may trigger acceleration of senior liens on such properties if the senior loans contain due-on-encumbrance clauses, although both the number of such instances and the actual likelihood of acceleration is anticipated to be minor. Failure of a borrower to pay off the accelerated senior loan would be an event of default and subject the Partnership (as junior lien holder) to the attendant risks (see "Special Considerations in Connection with Junior Encumbrances").

The foregoing considerations apply equally to all second mortgage lenders, including various banks, savings and loan associations and other institutional lenders who are

continuing to engage in the business of making second mortgage loans despite the FHLBB's new regulations. The General Partner believes the Partnership will be afforded some protection by the following considerations: (a) it is anticipated that a majority of the Partnership's assets will be invested in loans secured by second deeds of trust on owner occupied dwellings, which clearly cannot trigger any acceleration by the senior lien holder; and (b) there is some doubt as to the validity of the FHLBB regulations described above since they appear to contradict the express language of the Garn Bill.

### **Prepayment Clauses**

Most loans originated by the Partnership provide for certain prepayment charges to be imposed on the borrowers in the event of certain early payments on the loans. In California, Partnership loans secured by deeds of trust encumbering single-family owner-occupied dwellings may be prepaid at any time, regardless of whether the note or deed of trust so provides, but prepayments made in any twelve (12) month period during the first five (5) years of the term of the loan which exceed twenty percent (20%) of the unpaid balance of the loan may be subject to a prepayment charge. The law limits the prepayment charge on such loans to an amount equal to six (6) months' advance interest on the amount prepaid in excess of the permitted 20%, or interest to maturity, whichever is less. However, California law does not allow a prepayment penalty to be charged where a loan secured by residential property is being prepaid because the lender has accelerated the loan under a due-on-sale clause.

In addition, the High Cost Mortgage Act restricts prepayment charges on loans covered thereby (unless certain criteria are met).

### **Certain Restrictions On "High Cost Mortgages"**

As discussed above, the High Cost Mortgage Act applies to closed-end mortgage loans secured by a consumer's principal dwelling (other than purchase money or construction loans and reverse mortgages) which either: (a) bear interest at an APR which is 10 percentage points higher than the yield on Treasury securities having comparable periods of maturity; or (b) involve payment of points and fees by the consumer in excess of the greater of 8% of the loan amount or \$401 ("High Cost Mortgages"). High cost Mortgages may not be made solely on the value of the collateral without regard to the borrower's ability to pay and may not contain certain provisions that are deemed to be unfair to consumers in connection with such loans, namely: (i) prepayment penalties other than those based on the actuarial method unless certain criteria are met; (ii) increases in the interest rate after a default; (iii) balloon payments for loans with a term of less than 5 years; (iv) negative amortization; and (v) consolidation and prepayment of more than two periodic payments. The Partnership may

make loans which are High Cost Mortgages and, in that event, the Partnership intends to comply with the requirements of the High Cost Mortgage Act.

### **Subscription Agreements; Admission To Partnership**

Subscription Agreements from prospective investors will be accepted or rejected by the General Partner promptly after receipt. The General Partner reserves the right to reject any subscription submitted for any reason. If accepted, an investor will become a Limited Partner without any further action by any person and such investor's entire investment shall be deposited into the Partnership only when all, or any portion, of such investor's subscription funds are required by the Partnership to invest in a mortgage loan, to create appropriate reserves and all, or a portion, of the investor's subscription funds are transferred to the Partnership During the period prior to an investor's admittance to the Partnership as a Limited Partner, an investor's subscription is revocable by such investor by a request, in writing, for the subscription to be cancelled and funds returned to such investor. Subscription funds received by the General Partner shall be held by it for the account of each such investor in an interest bearing subscription account. The investor's funds will be transferred from the subscription account into the Partnership and the Partnership's account on a first-in, first-out basis within sixty (60) days of being put into the subscription account. Upon an investor's admission to the Partnership, such investor's subscription funds will be released to the Partnership and Units will be issued to such investor at the rate of \$1.00 per Unit. Any interest earned on the funds while in the subscription account will be used to purchased additional units.

By executing a Subscription Agreement, an investor agrees to purchase the number of Units shown thereon on a "when issued" basis. Accordingly, upon executing a Subscription Agreement, an investor is not yet an owner of Units. Units will be issued when the investor is admitted to the Partnership as a Limited Partner, i.e., when an amount representing the purchase price for an investor's subscribed for Units and any assignments are accepted by the General Partner and are transferred from the subscription account into the Partnership and/or the assignments are accepted. Subscription funds are refundable for any reason, by written request from the investor to the General Partner. Notwithstanding the preceding sentence, subscription funds remaining in the subscription account after the expiration of sixty (60) days from the date the subscription funds were first received from the investor shall be returned to the investor, at the option of the General Partner. After having subscribed for at least 10,000 Units (\$10,000), an investor may at any time, and from time to time, subscribe to purchase additional Units in the Partnership so long as the offering is open. There are no arrangements for the return of funds to subscribers if the entire amount of Units being offered through this Offering Circular is not sold.

The Subscription Agreement provides that the investor must meet certain eligibility standards and it provides certain representations and warranties from the investor to the General Partner. The eligibility standards are either imposed by various state regulatory agencies or are designed to aid the General Partner in determining the

suitability of prospective investors to invest in the Partnership. Neither the General Partner nor the Partnership shall not assert any representations made by any investor in the Subscription Agreement as a defense to any subsequent litigation. **No representations made by the investor to the General Partner or to the Partnership, with respect to the investor's ability to meet the eligibility standards, waives any rights that the investor may have under the Federal Securities laws.**

**The specific representations made by an investor to the General Partner are contained in the Subscription Agreement which is an Exhibit to this offering circular. Each is significant, and has an effect both on the General Partner and the individual investor. Each is explained below, in sequence:**

- A. That the investor has received the Offering Circular and the Limited Partnership Agreement. The General Partner is required to present specific information in the Offering Circular so as to enable the potential investor or subscriber to properly evaluate the offering, and the risks inherent in investing in this Issuer. The Limited Partnership Agreement is the legal document which governs the Limited Partnership and explains how the Partnership works. It is necessary that the investor receive these documents so as to be properly informed about the offering, and it necessary that the investor acknowledge receipt of these documents to protect the General Partner and the Partnership from a potential future claim that the investor did not understand the offering due to not receiving the proper documents.**
- B. That the investor understands that no governmental agency has made any finding as to fairness for public investment in the Issuer nor has any governmental agency recommended or endorsed this investment. This representation, made by the investor, acknowledges that, although the documents bear the heading of the U.S. Securities and Exchange Commission ["SEC"], and that the SEC has examined the offering documents to insure that they comply with the applicable securities laws, no endorsement or recommendation is made by the SEC or any other agency with respect to this offering.**
- C. That the investor understands that there is a minimum number of Units which may be purchased. This representation is for the protection of the General Partner to insure that the Partnership will not have a myriad of investors with small amounts invested. Were this to happen, the administrative and accounting costs of the Partnership would be much greater than if the number of Partners in the Partnership were smaller, each with a greater investment.**
- D. That the investor recognizes that the investment involves a high degree of risk. Although the major risk factors are set forth at length in the offering circular, this representation by the investor clarifies that the investor does understand the risks involved in this type of investment.**
- E. That the investor recognizes that there is no public market for the Units, that there are restrictions on repurchase or transfer of Units, and that it**

may not be possible to readily liquidate the investment. These are important restrictions on the ownership of Units, and the General Partner requires that the investors acknowledge to it that they fully understand these restrictions upon Units purchased pursuant to this offering.

- F. **Has met certain minimum net worth and income standards prior to investing. This representation is necessary since this investment is a long term, non-liquid, investment, and it is very important that the investor know these facts and, to protect the General Partner from any claim that the investor did not know these facts, the investor represents and warrants them to the General Partner and to the Partnership.**
- G. **That the investor is old enough to invest and that the investor has no legal impairment that would prevent such an investment. The General Partner will not be acquainted with the facts surrounding every investor in this offering, nor will the General Partner be able to investigate each investor to determine the suitability of that investor for this investment. It is, therefore, important for the General Partner to have potential investors affirm these facts so as to be legally able to sell Units to such investor.**
- H. **If the investor is a trustee, that such trustee has authority to act on behalf of the trust. The same factual rational as in G, above, is true also in this instance. It is important for the General Partner to rely on the representations of the investor in order to transfer title to Units to that investor.**
- I. **That the investor indemnifies the General Partner and the Partnership, and its affiliates, from any claims or damages which might result from any of the representations made by the investor not being true. This representation allows the General Partner to seek reimbursement for any damages to the Partnership or the General Partner which result from a false representation by an investor. For example, if an investor was under a legal disability, which legally prevented him or her from owning Units, and the investor purchased Units by giving the General Partner an inaccurate representation, there would be administrative and book keeping costs in removing such investor from the Partnership. It is not fair that these costs be borne by the Partnership instead of by the investor who made the misleading or false representations, so these representations serve as a form of insurance for the General Partner and the Partnership. Notwithstanding the above, this indemnification shall not be raised as a defense against any action by an investor against the General Partner or the Partnership.**
- J. **That the investor meets the suitability standards established by the Partnership and the investor's state of domicile. It is imperative that only investors who can afford the risks of investing, and who can have their investment illiquid for a long period of time, invest in the Partnership. Moreover, each state has its own financial and income criteria for determining who should investment in an investment of this type.**

- K. That, although the words ‘preferential return’ are used in the offering circular and its exhibits, that the Partnership and the General Partner do not guarantee any return or interest on the investment. This representation by the investor emphasizes that the investor understands the nature and risks of the investment and that there are no guarantees made to the investor about any return on the investment.**
- L. That the General Partner may exercise its right to investigate any representation made by the potential investor, and may call such investor to perform such investigation. The General Partner owes a duty to the Partnership to insure that every investor meets all requirements for investment in the Partnership and that the investor fully understands the terms and risks of the investment.**

### **Election To Receive Monthly Cash Distributions**

Upon subscription for Units, an investor must elect whether to receive monthly cash distributions from the Partnership or to allow his or her earnings to compound for the term of the Partnership. If an investor invests more than \$50,000, an election may be made to split the allocation. This election, once made, is irrevocable. An investor may not change his or her election, even if his or her own circumstances or those of the Partnership subsequently change, without the approval of the General Partner. Notwithstanding the foregoing, the General Partner reserves the right, at any time, to immediately commence making monthly cash distributions to ERISA plan investors who previously compounded earnings in order to ensure that the Partnership remains exempt from the Plan Asset Regulations pursuant to the “significant participation” exemption (see “ERISA Considerations”, above).

Income allocable to investors who elect to compound their earnings will be retained by the Partnership for investing in further mortgage loans or other proper Partnership purposes. The income from these further loans will be allocated among all investors; however, investors who compound will be credited with a larger proportionate share of such earnings than investors who receive monthly distributions since the capital accounts of investors who compound should increase over time.

### **Restrictions on Transfer**

As a condition to this offering of Units, restrictions have been placed upon the ability of investors to resell or otherwise dispose of any Units purchased hereunder, including without limitation the fact that no Limited Partner may resell or otherwise transfer any Units without the prior written consent of the General Partner, which may be withheld subject to the satisfaction of certain conditions designed to comply with applicable tax and federal and state securities laws, including without limitation the requirement that certain legal opinions be provided to the General Partner with respect to such matters.

In the event of discrepancies between this offering statement and the terms of the partnership agreement which is an exhibit to this transaction, the terms in the partnership agreement shall prevail.

### **SUMMARY OF LIMITED PARTNERSHIP AGREEMENT**

The Issuer is a Nevada limited partnership. Purchasers of Units become Limited Partners in the Partnership, with a percentage of ownership in the Partnership equal to the ratio of the Units held by each investor compared to the total Units within the Partnership. The following is a brief discussion of the rights of the Limited Partners [holders of Units] and the references are to the Limited Partnership Agreement which is part of this offering circular.

- a. As Limited Partners, investors do not have any right to participate in the day to day operations or management of the Partnership, and, subject to certain exceptions, the General Partner is in control of the Partnership. [Article IV, Management]. Except as indicated below, Limited Partners have no vote in the Issuer. However, Limited Partners are not liable for the obligations of the Partnership in excess of the capital account of the Limited Partners. [Article III, Partnership interest and Capital]
- b. Subject to the above, however, a majority in interest of the Units [defined as a majority of the Units excluding those held by the General Partner] may vote to:
  - (i) Amend the Partnership Agreement; or
  - (ii) Dissolve and wind up the Partnership; or
  - (iii) Remove the General Partner and elect a new General Partner or Partners; or
  - (iv) Approve or disapprove of the sale, pledge, refinancing, or exchange of over 50% of the assets of the Partnership. [Article V, Rights of Limited Partners]
- c. The Limited Partners, or their representatives, have the right to inspect the books and records at any time. The Limited Partners have the right to receive a list of all of the Limited Partners in the Partnership from the General Partner. [Article V, Rights of Limited Partners]
- d. Meetings of the Partnership may be called at any time by the General Partner or by Limited Partners holding at least 10% of the Units in the Partnership. [Article VII, Accounting Records Reports and Meetings]
- d. A Limited Partner may transfer or assign the Units held by such Limited Partner by a written instrument satisfactory to the General Partner and if tax counsel for the Partnership determines that such transfer would not jeopardize the status of the Partnership as a partnership taxable under Federal law as such. [Article X, Assignment of Interest].

- e. The General Partner may purchase the Units held by any Limited Partner if the General Partner determines it to be in the best interest of the Partnership, the Limited Partner, or the General Partner. Such Units shall be purchased for cash equal to the amount in such Limited Partner's then capital account plus accrued preferred returns and excess profits as of such date. [Article IX, Transactions Between the Partnership and the General Partner]
- f. The Limited Partnership Units are non-assessable, and once a Unit has been paid for in full, the holder of the Unit has no obligation to make further contributions to the Partnership. [Article III, Partnership Interest and Capital]

### **DEFINITIONS**

- A. Note that many of the specific terms used in real estate lending are defined in the Limited Partnership Agreement, on pages 3 and 4. The Limited Partnership Agreement is attached to this offering circular as an Exhibit and the definitions in it are incorporated herein by reference.
- B. "Issuer" shall mean Royce Mortgage Investment Fund, Limited Partnership, a Nevada limited partnership.
- C. "General Partner" shall mean Royce Capital Group, a Nevada corporation.
- D. "Unit" shall mean a Limited Partnership interest being offered for \$1.00 per Unit through this offering circular.
- E. "Security" or 'securities' shall mean Unit or Units except where the term refers to the General Partner, and there it shall mean capital stock of the General Partner.
- F. "All inclusive notes" are promissory notes which include a smaller note balance within them. For example, if a borrower owes \$10,000 on a parcel of real property, and wishes to refinance or sell such property without paying the \$10,000 note off, the borrower may borrow a larger amount, such as \$20,000, and make payments on the \$20,000 note. The holder and payee of the \$20,000 note would receive the payments on the \$20,000 note and make the payments, itself, on the \$10,000 note.
- G. "Fractional interests" means that only part, or a fraction, of the promissory note is purchased. For example, if the entire note is \$100,000, the Issuer may purchase a fraction of the note, such as 10%, so that several lenders share the risk of such loan.
- H. "Non-conforming loan" means that the loan is typically asset-based instead of credit-based, and is a loan which a financial institution might not make but which a private investor would make.





## **FINANCIAL STATEMENTS**

The following pages constitute the profit and loss statements and balance sheets of the Issuer and the General Partner of the Issuer, plus additional helpful information about the financial status of the Issuer and the General Partner and its affiliates. The financial statements and balance sheets of the General Partner of the Issuer are for informational purposes only and investors are not acquiring any interest in the General Partner or prior General Partner of the Issuer.

### **INDEX TO FINANCIAL STATEMENTS**

1. Royce Mortgage Investment Fund Profit and Loss as of 12/31/2000...
2. Royce Mortgage Investment Fund Balance Sheet as of 12/31/2000....
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4. Royce Mortgage Investment Fund Balance Sheet as of 12/31/2001....
5. Royce Mortgage Investment Fund Comparative Income 2000/2001...
6. Royce Mortgage Investment Fund Statement of Cash Flow, 2000....
7. Royce Mortgage Investment Fund Statement of Cash Flow, 2001...
8. Royce Mortgage Investment Fund Statement of Comparative Equity  
2000, 2001.....
9. Royce Capital Group Consolidated Profit and Loss as of 12/31/2000.
10. Royce Capital Group Consolidated Balance Sheet as of 12/31/2000..
11. Royce Capital Group Consolidated Profit and Loss as of 12/31/2001.
12. Royce Capital Group Consolidated Balance Sheet as of 12/31/2001..

**ROYCE MORTGAGE INVESTMENT FUND  
PROFIT AND LOSS 2000 (Unaudited)**

Jan - Dec 00

<b>Ordinary Income/Expense</b>	
<b>Income</b>	
broker fees	445.31
Discount Amortization Income	11,646.00
Interest Income	117,804.00
Late Fees	804.57
Loan Origination income	2,550.00
Miscellaneous income	28.01
Money Market Interest Income	460.55
<b>Total Income</b>	<b>133,738.44</b>
<b>Gross Profit</b>	<b>133,738.44</b>
<b>Expense</b>	
Bank Service Charges	1,894.48
Collection Expense	4,776.98
Collection Fees	3,363.56
Interest Expense	16,647.55
Licenses and Permits	310.00
Miscellaneous	137.13
Partnership Management Expense	0.00
Professional Fees	1,028.00
Taxes	0.00
Uncategorized Expenses	0.00
<b>Total Expense</b>	<b>28,157.70</b>
<b>Net Ordinary Income</b>	<b>105,580.74</b>
<b>Other income/Expense</b>	
<b>Other Income</b>	
Other Income	3,733.28
<b>Total Other Income</b>	<b>3,733.28</b>
<b>Net Other Income</b>	<b>3,733.28</b>
<b>Net Income</b>	<b>109,314.02</b>

The accompanying notes are an integral part of these financial statements

**ROYCE MORTGAGE INVESTMENT FUND  
BALANCE SHEET 2000 (Unaudited)**

Dec 31, 00

**ASSETS**

**Current Assets**

**Checking/Savings**

A OA - D.F. Capital3289 2,727.49

Closed B of A Maximizer (8975) 732.60

money in escrow 65,050.00

**Total Checking/Savings 68,510.09**

**Total Current Assets 68,510.09**

**Other Assets**

Collection Trust Acct Balance 404.24

Notes receivable 784,436.30

**Total Other Assets 784,840.54**

**TOTAL ASSETS 853,350.63**

**LIABILITIES & EQUITY**

**Liabilities**

**Current Liabilities**

**Other Current Liabilities**

Accounts Payable-borrower 497.23

Accounts Payable to GP 1,375.00

Interest Payable 235.27

**Total Other Current Liabilities 2,107.50**

**Total Current Liabilities 2,107.50**

**Long Term Liabilities**

Discounts 2,873.98

Loan Payable- Underlying Notes 29,373.72

**Total Long Term Liabilities 32,247.70**

**Total Liabilities 34,355.20**

**Equity**

General Partners Capital 321,511.57

Limited Partner's Capital 497,483.86

Net Income Allocation -109,314.02

Net Income 109,314.02

**Total Equity 818,985.43**

**TOTAL LIABILITIES & EQUITY 853,350.63**

The accompanying notes are an integral part of these financial statements

**ROYCE MORTGAGE INVESTMENT FUND  
PROFIT AND LOSS (UNAUDITED)**

January through December 2001

Accrual Basis  
Jan - Dec 01

<b>Ordinary Income/Expense</b>	
<b>Income</b>	
broker fees	0.00
Discount Amortization Income	2,631.89
Interest Income	99,350.03
Late Fees	1,389.07
Loan Origination Income	178.00
Miscellaneous Income	6,653.67
Sales	14,000.00
<b>Total Income</b>	<u>124,202.66</u>
<b>Cost of Goods Sold</b>	
Cost of Goods Sold	14,439.86
<b>Total COGS</b>	<u>14,439.86</u>
<b>Gross Profit</b>	<u>109,762.80</u>
<b>Expense</b>	
Advertising	1,084.30
Bank Service Charges	10.00
Collection Expense	0.00
Collection Fees	5,626.54
Commission Expense	0.00
Filing Fees	7.00
Interest Expense	3,302.19
Legal Fees	96.00
Licenses and Permits	175.00
Miscellaneous	0.00
Partnership Management Expense	10,960.67
Professional Fees	1,513.75
Utilities	40.97
<b>Total Expense</b>	<u>22,816.42</u>
<b>Net Ordinary Income</b>	<u>86,946.38</u>
<b>Other Income/Expense</b>	
Other Income	
Other Income	0.00
<b>Total Other Income</b>	<u>0.00</u>
<b>Net Other Income</b>	<u>0.00</u>
<b>Net Income</b>	<u><u>86,946.38</u></u>

**ROYCE MORTGAGE INVESTMENT FUND  
Balance Sheet (UNAUDITED)**

As of December 31, 2001

Accrual Basis  
Dec 31, 01

<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
A OA - D.F. Capital3289	14,768.69
<b>Total Checking/Savings</b>	<u>14,768.69</u>
<b>Total Current Assets</b>	<u>14,768.69</u>
<b>Other Assets</b>	
Notes receivable	695,292.77
<b>Total Other Assets</b>	<u>695,292.77</u>
<b>TOTAL ASSETS</b>	<u><u>710,061.46</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
Long Term Liabilities	
Discounts	6,090.40
Loan Payable- Underlying Notes	27,943.47
<b>Total Long Term Liabilities</b>	<u>34,033.87</u>
<b>Total Liabilities</b>	<u>34,033.87</u>
<b>Equity</b>	
General Partners Capital	174,868.18
Limited Partner's Capital	501,159.41
Retained Earnings	-86,946.38
Net Income	86,946.38
<b>Total Equity</b>	<u>676,027.59</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>710,061.46</u></u>

The accompanying financial statements are an integral part of these statements.

**COMPARATIVE INCOME STATEMENT  
FOR THE YEARS ENDING DECEMBER 31.**

Unaudited

<u>INCOME</u>	<u>2000</u>	<u>2001</u>
<u>Other Interest Income</u>	-	
<u>Rental Properties Owned</u>		
<u>Miscellaneous</u>	28.01	6,653.67
<u>Money Market Interest Income</u>	460.55	
<u>Discount Amortization Income</u>	11,646.00	2,631.89
<u>Interest Income</u>	117,804.00	99,350.03
<u>Late Fees</u>	804.57	1,389.07
<u>Loan Origination Income</u>	2,550.00	178.00
<u>Broker Fees</u>	445.31	-
<u>Sale of Property</u>		14,000.00
<u>Total Income</u>	<u>133,738.44</u>	<u>124,202.66</u>
<u>COST OF PROPERTY SOLD</u>		
<u>Cost of Property Sold</u>	-	14,439.86
<u>Gross Profit</u>	<u>133,738.44</u>	<u>109,762.80</u>
<u>EXPENSES</u>		
<u>Advertising</u>		1,084.30
<u>Collection Expense</u>	4,776.98	
<u>Bank Service Charges</u>	1,894.48	10.00
<u>Collection Fees</u>	3,363.56	5,626.54
<u>Filing fees</u>		7.00
<u>Interest Expense</u>	16,647.55	3,302.19
<u>Licenses and Permits</u>	310.00	175.00
<u>Legal Fees</u>		96.00
<u>Miscellaneous Expense</u>	137.13	
<u>Partnership Management Expense</u>	-	10,960.67
<u>Professional Fees</u>	1,028.00	1,513.75
<u>Utilities</u>		40.97
<u>Total Expense</u>	<u>28,157.70</u>	<u>22,816.42</u>
<u>Net Ordinary Income</u>	<u>105,580.74</u>	<u>86,946.38</u>
<u>Other Income</u>	<u>3,733.28</u>	-
<u>Net Income</u>	<u>109,314.02</u>	<u>86,946.38</u>

**Royce Mortgage Investment Fund  
Statement of Cash Flow 2000 Unaudited**

Jan.- Dec. 00  
109,314.02

**OPERATING ACTIVITIES- NET  
INCOME**

<b>Adjustments to reconcile Net Income</b>	
To net	
cash provided by operations:	
Decrease in Accounts Receivable	900.00
Increase in Accounts Payable-GP	1,375.00
Increase in Accounts Payable - Other	497.23
Increase in Interest Payable	235.27
	3,007.50
<b>Net cash Provided by Operating Activities</b>	<b>112,321.52</b>
<b>INVESTING ACTIVITIES</b>	
Decrease Advances on Loans	5,575.18
Increase Trust Account Balance	(24.72)
Decrease Contract Receivable	60,000.00
Decrease Notes Receivable	265,563.07
<b>Net cash provided by Investing Activities</b>	<b>331,113.53</b>
<b>FINANCING ACTIVITIES</b>	
Decrease in Discounts Payable	(18,389.26)
Decrease in Loans Payable- Underling Notes	(127,387.59)
Increase in Equity- GP (Note 1)	176,214.23
Decrease in Equity- Limited Partners ( Notes 1)	(307,802.90)
Net Income Allocation	(109,314.02)
<b>Net cash provided by Financing Activities</b>	<b>(386,679.54)</b>
<b>Net cash increase for period</b>	<b>56,755.51</b>
<b>Cash at Beginning of Period</b>	<b>11,754.58</b>
<b>Cash at end of period</b>	<b>68,510.09</b>



**ROYCE MORTGAGE INVESTMENT FUND**  
**Statement of Cash Flow**  
**2001**

	<u>Unaudited</u> <u>Jan.- Dec. 01</u>
<b>OPERATING ACTIVITIES- NET INCOME</b>	86,747.11
<b>Adjustments to reconcile Net Income</b>	
<b>To net cash provided by operations:</b>	
Decrease in Accounts Payable-Borrower	(497.23)
Increase in Accounts Payable-GP	(1,375.00)
Decrease in Interest Payable	(235.27)
	(2,107.50)
<b>Net cash Provided by Operating Activities</b>	<b>84,639.61</b>
<b>INVESTING ACTIVITIES</b>	
Decrease in Collection Trust Acct. Balance	404.24
Decrease Notes Receivable	89,143.53
<b>Net cash provided by Investing Activities</b>	<b>89,547.77</b>
<b>FINANCING ACTIVITIES</b>	
Increase in Discounts Payable	3,216.42
Decrease in Loans Payable- Underling Notes	(1,230.98)
Decrease in Equity- GP ( Note 1)	(146,842.66)
Increase in Equity- Limited Partners ( Note 2)	3,675.55
Net Income Allocation	(86,747.11)
<b>Net cash provided by Financing Activities</b>	<b>(227,928.78)</b>
<b>Net cash (decrease) for period</b>	<b>(53,741.40)</b>
<b>Cash at Beginning of Period</b>	<b>68,510.09</b>
<b>Cash at end of period</b>	<b>14,768.69</b>

The accompanying financial statements are an integral part of these statements

**ROYCE MORTGAGE INVESTMENT FUND  
COMPARATIVE STATEMENT OF PARTNERSHIP EQUITY  
FOR THE YEARS ENDED DECEMBER, 31**

	<u>YEAR 2000</u>			<u>YEAR 2001</u>		
	<u>GENERAL PARTNER</u>	<u>LIMITED PARTNER</u>	<u>TOTAL</u>	<u>GENERAL PARTNER</u>	<u>LIMITED PARTNER</u>	<u>TOTAL</u>
<b>BEGINNING BALANCE</b>	145,297.34	805,286.76	950,584.10	321,511.57	497,483.86	818,995.43
	18,168.00	10,000.00	28,168.00	-	-	-
<b>CURRENT YEAR PROFITS DISTRIBUTED</b>	33,814.54	75,499.48	109,314.02	27,268.66	59,478.45	86,747.11
<b>DISTRIBUTION OF PROFITS</b>	(33,814.54)	(24,027.35)	(57,841.89)	-	(35,802.90)	(35,802.90)
<b>RETURN OF CAPITAL</b>	(135,052.04)	(76,176.76)	(211,228.80)	(62,741.68)	(20,000.00)	(82,741.68)
<b>PURCHASE OF L.P INTEREST BY G.P.</b>	293,098.27	(293,098.27)	-	-	-	-
<b>NOTE PURCHASE</b>				(111,369.64)		(111,369.64)
<b>ENDING BALANCE</b>	<u>321,511.57</u>	<u>497,483.86</u>	<u>818,995.43</u>	<u>174,668.91</u>	<u>501,159.41</u>	<u>675,828.32</u>

The accompanying financial statements are an integral part of these statements

## FOOTNOTES TO FINANCIAL STATEMENTS

Royce Mortgage Investment Fund, Issuer  
December 31, 2001

(1) Summary of Significant Accounting Policies. The Issuer's books are maintained on the accrual basis in accordance with Generally Accepted Accounting Principles ["GAAP"]. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The partnership has no subsidiary companies.

**Organization.** Royce Mortgage Investment, Limited Partnership, a Nevada Limited Partnership was formed on February 12, 1997. The Partnership commenced operations on the date of formation and will continue until February 12, 2022, unless dissolved prior thereto under provisions of the Partnership Agreement. The General Partner of the Partnership is Royce Capital Group, a Nevada Corporation, (RCG) which is engaged in the business of managing this partnership, and, through subsidiaries and affiliates, originating loans for the partnership and other third party investors. The partnership agreement authorizes the General Partner to offer and sell Units in the Partnership up to an aggregate of 500,000,000 units outstanding at \$1.00 per unit, representing \$500,000,000 of Limited Partnership Units in the Partnership. This offering is for only \$5,000,000 in new units. Limited Partnership Units outstanding were 459,973 as of December 31, 1997; 697,916.13 as of December 31, 1998; 805,286.76 as of December 31, 1999; 497,483.86 as of December 31, 2000, and \$501,159.41 as of December 31, 2001. The decrease in limited partnership interests recorded as of the end of 2000 was because the General Partner bought out two subordinate limited partnership classes for approximately \$293,000. Other than reinvested profits from those limited partners that elected to do so, no new limited partnership interests have been sold in the last two years.

### Partnership Assets

**Assets.** The primary asset of the Issuer is a portfolio of note receivables secured by trust deeds. A chart detailing these notes is included as an exhibit to this Offering Circular. The notes are listed on the company's books at par, or the amount that is due from the note for principal payments advanced. In the case of loans that are originated by the company, the par price represents the principal advanced. If a loan is purchased at a discount the present note balance is still listed as an asset, and the discount amount is listed on the balance sheet as a

discount liability, which is amortized over the remaining term of the loan.

The Issuer does not have a reserve for loan losses since the General Partner, and/or its affiliates, have, previously, purchased defaulted loans or foreclosed property from the Issuer. There can be no assurances that the General Partner, and/or its affiliates, will continue this practice after December 31, 2001, so the Issuer will establish a one percent (1%) reserve for loan losses during 2002, which will be adjusted each year thereafter according to actual experience with the loan portfolio. This loss ratio is based on the General Partner's experience in this business over the last fifteen years.

Occasionally the company makes advances on loans to protect its position in these notes by paying taxes, insurance, or payments on prior encumbrances. These advances are due from the borrower and are paid when a delinquency may be cured or when the loan is paid off. If a loan goes to default, and the company owns the property by completing a foreclosure, the advances are wrapped up in the principal amount, together with any costs of completing the property. The costs of holding the property, maintaining it, paying taxes, making improvements, are also capitalized, and written off to costs of goods sold when the property may be sold. Losses could be realized at this point as well. If the property is not sold, but is rented during this time, the structural components of the asset would be depreciated.

**Delinquencies:** See the chart of loans attached to these footnotes for a list of loans which are delinquent and/or in foreclosure. It is not expected that any losses will be realized from the delinquencies. The Issuer owns no real estate at this time. If there were properties held for sale by the Issuer, they would be carried at the lower of the recorded investment, inclusive of senior indebtedness, or the property's estimated fair market value, less the estimated costs to sell the property (ies). When a note is substantially in default, approximately 90 days, the carrying value of the loan is adjusted to the lower of cost or the underlying value of the property as of the 90<sup>th</sup> day following default.

**Cash and cash equivalents.** The Issuer maintains two bank accounts. One for current expenses, and one investment account which is interest bearing [See the Subscription Agreement]

**Marketable securities:** None

**Real Estate Held for Sale:** None.

**Liabilities:** Liabilities are trade accounts payable for overhead chargeable to the Partnership, and holding costs of real estate owned.

## Partnership Liabilities and Equities

Long term liabilities include discounts for discounted notes acquired, and underlying note payables on all-inclusive notes

Total number of outstanding Units as of December 31, 2000 were 818,995.00 and the number of General Partner Units were 321,511.00. Total number of Units outstanding as of December 31, 2001 were 675,828.00 and the number of General Partner Units were 174,668.00.

## Partnership Income and Expenses

The capital accounts are maintained for each category of equity holder. The General Partner is required to maintain certain minimum capital, as per the terms of the Partnership Agreement. The Limited Partners subscribe to the Partnership, and when accepted into the Partnership, their contribution is credited to their capital accounts.

The primary income item on the income statement is interest income, received from borrowers who are making loan payments to the Issuer.

Income is booked as it is received on those loans that have regular monthly payments. Some development loans do not provide for monthly payments, but include an accrual for interest which is added to the amount due on the loan, which accrual is made monthly, and booked as income at that time. Other income items include, loan fees charged at origination, amortization of discount income, the Issuer's share of loan late fees, prepayment penalty and miscellaneous income. When the Issuer funds loans with its own assets, as opposed to purchasing existing loans from another party, the General Partner generally requires that the borrower pay the Issuer a 'loan origination fee' of one percent (1%) of the principal balance of the loan so funded. This loan origination fee is treated as income to the Issuer in the year in which the loan is funded. Because the fact that there have been outstanding requests for withdrawals from one limited partner for the last year, no new loans have been funded by the partnership in the last year there has been negligible loan origination income earned by the partnership.

Expense items include collection expenses to loan servicing company and interest on loans payable. At the present time neither the General Partner has not borrowed on the loan portfolio, as it is allowed to do. It has not arranged any credit lines using the note portfolio as collateral. It may try

to do this once this offering is underway, and the partnership is in a position to buy more notes. It does make payments on underlying loans on so called all-inclusive or wrap notes. The payments include an interest expense and principal pay-down component.

Profits are allocated monthly on a spill over basis as follows, first to the Limited Partners, up to amount equal to the monthly preferred rate of return that the General Partner determines at the beginning of each calendar year. The General Partner has determined that the preferred return rate will be reduced in the year 2002 from the 12% level that was offered and paid in 2001 to an 11% level. This is a reflection in a lowering of general interest rates over the past year. The five-year U. S. treasury rate stands at 4.35% as of this date. The partnership agreement provides that the preferred return must be at least 2% over the present 5-year rate at all times. Furthermore the General Partner has determined that in order to maintain loan quality given the competitive environment for loans from borrowers that the issuer must decrease its cost of capital for the next year. On the other hand, the General Partner feels that it will not be competitive against other offerings being offered to private investors in our region if we do not offer a yield of at least this 11% amount. Competitors generally offer higher interest rate opportunities to private mortgage investors in northern Nevada, but we believe that our loan portfolio is less risky than their products. To the extent that preferred returns are not met in a given year, would accumulate, and be paid when available. The partnership has always paid its preferred return to limited partners historically as per the following table.

Year	Preferred Yield Paid	5 Year Treasuries beginning of year	Spread Over Treasuries
1997	11.50%	6.50%	5.00%
1998	10.63%	5.63%	5.00%
1999	09.59%	4.59%	5.00%
2000	11.40%	6.40%	5.00%
2001	12.00%	4.70%	7.30%
2002	11.00%PROJECT ED	4.36%	6.64%

Losses are allocated to the Partners in proportion to their capital account balance at the beginning of the month. The partnership has never experienced a loss for any accounting period since its inception.

Then monthly profits are allocated to the General Partner in a manner equal to the preferred returns paid to the Limited Partners on their capital

accounts. These profits are credited to the respective Partners accounts.

After profits at the preferred return rate have been paid to all Partners if there are unallocated profits remaining, then the General Partner is entitled to take a management fee equal up to a maximum of 3% of the average unpaid principal balance of the partnership mortgage loans at the end of the calendar year. After that, "excess profits" if any would be split between all Partners in accordance with their Capital Account balances as of the end of the year. Excess profits have never been earned or distributed since the partnership's inception.

### Cash Distributions

Cash distributions are paid monthly to those Limited Partners who have requested monthly distributions, and such distributions are shown as a debit to their respective capital accounts. The General Partner can withdraw capital at any time that he chooses, providing he maintains the minimum capital account requirements set forth in the partnership agreement. Limited Partners have a limited right to withdraw their capital subject to restrictions set forth in the Partnership Agreement. At the termination of the Partnership the Limited Partners have a priority as to the return of their capital accounts.

Overhead. The Issuer's operating expenses for rent, salaries, supplies, and similar items, are paid by the General partner from its management fee. The Issuer has no long term contracts, or commitments, except that at some point it may contract with attorneys or with a CPA for tax and accounting services on an as needed basis. The Issuer has no employees.

Contingencies. The Issuer is not involved in any litigation, and has no expected liabilities for the same. The Issuer does not deal with borrowers directly, since its loans are originated by other subsidiaries of the General Partner. The loans are serviced by a loan servicing company that is owned by the CEO of the General partner. Its loans are originated by others, to the extent possible, so as to minimize liability for origination risks. There are always risks connected with any business as set forth in this Offering Circular. To the extent these risks can be covered by insurance on an economically feasible way, this is done. Some risks cannot be covered.

Income taxes. The Issuer is a flow through entity. No federal income tax is paid by the Issuer. Individual investors report their share of profits and losses on their personal tax returns, which information is provided to them

annually by the Partnership in a K-1. The books are maintained the same for tax and accounting purposes.

In the opinion of management of Royce Capital Group, the General Partner of the Issuer, all adjustments necessary for a fair statement of results for the interim period shown have been included. All adjustments made are of a normal recurring nature.

NOTHING FOLLOWS ON THIS PAGE



**ROYCE CAPITAL GROUP**  
**Consolidated Profit and Loss**  
**Year end December 2000**  
**UNAUDITED**

Jan - Dec 00

**Ordinary Income/Expense**

<b>Income</b>	
Borrower Pd Broker Fee	18,905.05
Broker Fees	402.82
Collection Set-Up	340.00
Credit Report Income	25.00
Doc Preparation Fees	295.00
Funding Fee	3,946.00
Gain on Installment Sale	15,166.76
Gain/(Loss) Disposal of Income	0.00
ICS PD. Service Fee	256.97
Installment Collection	0.00
Interest Income	49,678.10
Late Charge Income	1,130.83
Lender Pd Service Fee	13,674.64
Limited Partner Income	33,951.44
Loan Origination	0.00
Management Fees- RMIF	11,810.15
Misc Pd. Service Fee	39.31
Miscellaneous Income	2,420.55
Other Income	456.12
Rental Income	4,400.00
Sales-Affiliates	0.00
Settlement Income	2,000.00
Website Commission Income	26.89
<b>Total Income</b>	<b>158,925.63</b>
<b>Cost of Goods Sold</b>	
Property Basis	2,574.24
<b>Total COGS</b>	<b>2,574.24</b>
<b>Gross Profit</b>	<b>156,351.39</b>
<b>Expense</b>	
Accounting Expenses	7,080.63
Advertising	4,265.15
Auto Expense	3,815.53
Bank Charges	2,821.41
Business Expense	1,787.54
Collection Expense	75.00
Commission Expense - Mark H.	0.00
Computer Consulting Expense	552.09

Computer Expense	1,046.59
Copies	0.00
Copy Machine	1,521.29
Credit Report Expense	130.00
Depreciation Expense	1,032.92
Dues & Subscriptions	105.92
Educational Training	37.48
Escrow/Title/Recording	4,609.15
Filing Fees	1,029.00
Finance Charge	272.42
Foreclosure Fees	1,272.72
Insurance Expense	4,675.00
Interest Expense	10,884.68
Late Fees	255.88
Legal Expense	4,102.00
License	1,231.53
Mail Expenses	1,921.91
Management Expense	0.00
Meals & Entertainment	470.99
Membership & Association Dues	480.00
Miscellaneous Expense	2,028.21
Non-Employee Expense	96,485.18
Office Expenses	383.83
Office Supplies	1,298.29
Pension Plan Expenses	-1,365.00
Property Taxes	1,888.60
Recording Fees	181.80
Rent Expense	9,522.57
Repair & Maintenance	1,651.85
Software Rental	4,369.58
Subscriptions	50.00
Supplies - General	1,914.36
Tax Expense	592.92
Telephone Expense	3,950.98
Title Transfer Expense	40.00
Travel	378.00
Travel & Entertainment	2,112.03
WIP-H Street	0.00
<b>Total Expense</b>	<b>180,960.03</b>
<b>Net Ordinary Income</b>	<b>-24,608.64</b>
<b>Net Income</b>	<b>-24,608.64</b>

The accompanying notes are an integral part of these financial statements

**An Investor in the Issuer Does Not Acquire an Interest in this Equity**

**Royce Capital Group**  
**Consolidated Balance Sheet**  
**For the Year Ending 12/31/00**

**ASSETS**

**Current Assets**

**Checking/Savings**

**Checking Account-Operating** 5,361.83

**Checking Trust Accounts** 7,970.87

**Total Checking/Savings** 13,332.70

**Other Current Assets**

**Contract Receivable** 30,000.00

**Deposits** 896.43

**Interest receivable** 3,961.27

**Notes Receivable** 474,215.33

**SIIS Deposits** 660.92

**Total Other Current Assets** 509,733.95

**Total Current Assets** 523,066.65

**Fixed Assets**

**Computers, Software, equip.** 1,053.97

**Office furn. & Equip.** 5,916.29

**Total Fixed Assets** 6,970.26

**Other Assets**

**Design Financial Group** 2,489.18

**Investment - Affiliates** 0.00

**Limited Partnership** 321,511.57

**Total Other Assets** 324,000.75

**TOTAL ASSETS** 864,037.66

**LIABILITIES & EQUITY**

**Liabilities**

**Current Liabilities**

**Accounts Payable**

**Accounts Payable** 6,815.90

**Total Accounts Payable** 6,815.90

**Credit Cards**

**American Express Corporate** 892.56

**Blue for Business/ Am Express** 0.71

Purchase Power	3,627.71
<b>Total Credit Cards</b>	<u>4,520.98</u>
<b>Other Current Liabilities</b>	
Advance- DM money Market	2,299.96
Advance From DMTA	300.00
Inter-company Transfers	-50,717.18
<b>Total Other Current Liabilities</b>	<u>-48,117.22</u>
<b>Total Current Liabilities</b>	<u>-36,780.34</u>
<b>Long Term Liabilities</b>	
Deferred Gain	122,686.14
Discounts	6,818.26
Notes Payable	45,916.71
<b>Total Long Term Liabilities</b>	<u>175,421.11</u>
<b>Total Liabilities</b>	<u>138,640.77</u>
<b>Equity</b>	
*Retained Earnings	-446,365.96
Common Stock	1,000.00
Paid In Capital	158,228.00
Preferred Stock	1,027,143.49
Net Income	-24,608.64
<b>Total Equity</b>	<u>715,396.89</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>854,037.66</u>

The accompanying notes are an integral part of these financial statements

**An Investor in the Issuer Does Not Acquire  
An Interest in this Equity**

**ROYCE CAPITAL GROUP**  
**Consolidated Profit & Loss**  
January through December

2001

**Ordinary Income/Expense**

**Income**

<b>Borrower Pd Broker Fee</b>	321.94
<b>Broker Fees</b>	24,980.46
<b>Collection Set-Up</b>	100.00
<b>Commission</b>	5,060.00
<b>Credit Report Income</b>	250.00
<b>Discount Amort. Income</b>	6,818.26
<b>Doc Preparation Fees</b>	1,735.00
<b>Gain on Installment Sale</b>	122,686.14
<b>Interest Income</b>	46,008.24
<b>Late Charge Income</b>	20.00
<b>Limited Partner Income</b>	27,268.66
<b>Loan Brokerage Commission - Cal</b>	-
<b>Loan Discount Fee</b>	787.50
<b>Loan Origination</b>	13,886.30
<b>Management fee- Affiliates</b>	13,440.00
<b>Management Fees- RMIF</b>	10,960.67
<b>Miscellaneous Income</b>	1,484.90
<b>Other Income</b>	40.00
<b>Processing Income</b>	9,520.00
<b>Yield Spread Premium</b>	50,661.47
<b>Sale of Note- Cairns</b>	346,190.00

**Total Income** 682,219.54

**Cost of Goods Sold**

**C.O.S.- Cairns Note** 405,225.48

**Total COGS** 405,225.48

**Gross Profit** 276,994.06

**Expense**

<b>Advertising</b>	14,249.63
<b>Appraisal Expense</b>	55.00
<b>Audit Expense</b>	218.11
<b>Auto Expense</b>	1,698.25
<b>Bank Charges</b>	3,173.30
<b>Brokerage Fees</b>	2,597.18
<b>Business Expense</b>	815.17
<b>Collection Expense</b>	2,200.53
<b>Computer Consulting Expense</b>	2,955.66

Computer Expense	4,956.07
Copy Machine	217.90
Credit Report Expense	484.75
Depreciation Expense	1,188.00
Document Production Expense	35.00
Donations	100.00
Dues & Subscriptions	161.99
Filing Fees	3,510.00
Finance Charge	150.89
Insurance Expense	4,699.15
Interest Expense	4,636.65
Late Fees	176.58
Legal Expense	3,656.23
License	2,726.84
Mail Expenses	1,879.89
<b>MARKETING- INVESTORS</b>	-
Marketing - Brokers	1,026.45
Marketing Borrowers	2,331.50
Meals & Entertainment	309.76
Miscellaneous Expense	1,355.72
Non-Employee Expense	252,458.44
Office Expenses	11,398.24
Office Supplies	3,686.61
Pension Plan Expenses	481.17
Recording Fees	22.30
Rent Expense	15,880.50
Repair & Maintenance	619.15
Securities - Legal & Acctg	55.00
Subscriptions	50.00
Supplies - General	983.11
Tax Expense	49.75
Telephone Expense	11,817.44
Training Expense	668.19
Travel	1,590.91
Travel & Entertainment	60.83
<b>Total Expense</b>	<b><u>361,387.84</u></b>
<b>Net Ordinary Income</b>	<b><u>(84,393.78)</u></b>
<b>Net Income</b>	<b><u>(84,393.78)</u></b>

The accompanying notes are an integral part of these financial statements

**An Investor in the Issuer Does Not  
Acquire an Interest in this Equity**

**ROYCE CAPITAL GROUP**  
**Consolidated Balance Sheet**

As of December 31, 2001

**ASSETS**

**Current Assets**

**Checking/Savings**

    Checking Account-Total 3,313.44

    Checking Trust Accounts 8,300.00

**Total Checking/Savings** 11,613.44

**Accounts Receivable**

    Accounts Receivable 13,595.00

**Total Accounts Receivable** 13,595.00

**Other Current Assets**

    Deposits 896.43

    Loans Receivable 103,049.82

    Notes Receivable 211,919.37

    SIS Deposits 660.92

**Total Other Current Assets** 316,526.54

**Total Current Assets** 341,734.98

**Fixed Assets**

    Computers, Software, equip. 10,199.24

    Marina 155.35

    Office furn. & Equip. 12,580.19

    Pyramid Partners 30.00

    South Meadows 581.92

    Truckee Partners 1,275.00

**Total Fixed Assets** 24,821.70

**Other Assets**

    Advances 200.00

    Capitalized Costs 21,200.00

    Investment - Affiliates 0.00

    Investments-Other 100,000.00

    Limited Partnership 174,668.91

    Suspense -

**Total Other Assets** 296,068.91

**TOTAL ASSETS** 662,625.59

**LIABILITIES & EQUITY****Liabilities****Current Liabilities****Accounts Payable****Accounts Payable****35,813.37****Total Accounts Payable****35,813.37****Credit Cards****American Express Corporate****2,163.56****Total Credit Cards****2,163.56****Other Current Liabilities****Inter-company Transfers****17,292.34****Total Other Current Liabilities****17,292.34****Total Current Liabilities****55,269.27****Long Term Liabilities****Interest Reserve****2,388.75****Notes Payable****3,964.46****Total Long Term Liabilities****6,353.21****Total Liabilities****61,622.48****Equity****\*Retained Earnings****(470,974.60)****Common Stock****1,000.00****Paid In Capital****158,228.00****Preferred Stock****997,143.49****Net Income****(84,393.78)****Total Equity****601,003.11****TOTAL LIABILITIES & EQUITY****662,625.59**

The accompanying notes are an integral part of these financial statements.

**An Investor in the Issuer Does Not  
Acquire an Interest in this Equity**



## FOOTNOTES TO FINANCIAL STATEMENTS

### ROYCE CAPITAL GROUP, GENERAL PARTNER December 31, 2001

Royce Capital Group, a Nevada corporation, is the General Partner of Royce Mortgage Investment Fund, Limited Partnership. Its address is the same as the Partnership, 1281 Terminal Way, Suite 201, Reno, Nevada 89502. The General Partner manages and controls the affairs of the Partnership and has general responsibility and final authority in all matters affecting the Partnership's business. These duties include dealings with limited partners, accounting, tax and legal matters, communications and filings with regulatory agencies and all other needed management duties. The General Partner may also, at its sole discretion and subject to change at any time purchase from the Partnership the interest receivable or principal on delinquent mortgages loans held by the partnership, or any mortgage loan that the General Partner believes should not be held by the partnership because of a conflict of interest or any other reason. It or its affiliates may acquire real estate owned by the partnership

In order to assure that the limited partners will not have personal liability as a General Partner, limited partners have no right to participate in the management or control of the Partnership's business or affairs other than to exercise the limited voting rights provided for in the Partnership Agreement. The General Partner has sole responsibility for the selection, evaluation, and negotiation of mortgage investments for the partnership. The General Partner provides all executive, supervisory and administrative services of the Partnership, including loan servicing, which has been done in house and will be, at January 1, 2002, done through an affiliate. The Partnership books and records are maintained by the General Partner.

The General Partner had a net worth of approximately \$715,396 as of December 31, 2000; approximately \$321,511 of which was represented by General Partnership units in the Partnership. These units were paid for in cash, and not earned by any promotional interests or the like. All of the common stock of the General Partner is owned by the CEO of the General Partner, John F. Royce. Preferred stock is held by Charles M. Royce, who is the brother of John Royce. Charles M. Royce does not exercise any management authority over the General Partner, and is a non voting preferred shareholder.

As stated above, the General Partner's primary function is to provide administrative services to the Partnership. In addition to that it provides similar services to two subsidiary companies who are in the retail loan origination business, Royce Capital and Royce Financial Services, and one newly formed subsidiary company, Spectra Funding, which will be in the wholesale loan origination business, providing loans to Royce Capital and the Issuer through third party brokers. The last company is not actively in business at this time, but once this offering is being offered to the public, the General Partner intends to market the services of Spectra Funding to the brokerage community as that company being a source for specialized loans of the nature that the issuer intends to make.

The General Partner provides all office space and office equipment and services to all of these entities.

The General Partner leases its employees from an employee leasing company for the purpose of outsourcing all human resources functions. Pursuant to Nevada law, all employees are hired at will.

The General Partner has, in the past, provided loan servicing functions for the Partnership and for affiliated companies. In the future, starting January 1, 2002, it will perform these services through a separate company, Fidelity Escrow and Collections that is owned by John Royce. That company is now staffed with two full time persons in addition to Mr. Royce. One seasoned escrow officer has been hired and the CFO of the General Partner performs the loan servicing for this company.

The General Partner earns loan origination fees, loan servicing fees, and partnership management fees from the partnership. These fees are:

	2001	2000
Loan Servicing Fees from partnership loans.	5,656.54	3,302.19
Partnership Management Fees	10,960.67	7,431.17
Loan origination fees	0	0

The General Partner has substantially increased its staffing in the last year from one full time employee and a couple of part time persons to six full time employees as of the end of the year. A good portions of its energies and expenses resulting in the losses of the last year has been to train staff and implement marketing, web sites and internal procedures for the operation of the General partner and the issuer, and to process this offering statement through the Securities Exchange Commission and the Nevada Secretary of State. The General Partner expects to become profitable in the first quarter of 2002.

The Company was created as Design Financial Group on December 24, 1991. The company changed its name to Royce Capital Group in 1998. On December 27, 2000, it merged with its parent company Royce Enterprises. This company does not generally deal with the general public. As a lender it is was named in a lawsuit filed in December 2001, involving a plaintiff on whom it was foreclosing. . Our counsel does believe that this suit has any merit and the suit possess little threat to the wellbeing of the general partner.

The company files a consolidated tax return with its subsidiary companies, Royce Capital, and Royce Financial Statement. The financials presented are consolidated statements.

EXHIBITS  
FOLLOWING  
TABS 32PGS.

## **EXHIBITS**

### **Index to Exhibits**

<b><u>Description of Exhibit</u></b>	<b><u>Sequential Page #</u></b>
<b>1. Item 2 (2), Limited Partnership Agreement</b>	<b>Following Pg. 70</b>
<b>2. Item 2(4), Subscription Agreement</b>	<b>Following Pg. 71</b>
<b>3. Item 2, (11), Opinion re Legality</b>	<b>Following Pg. 72</b>
<b>4. Item 2 (11), Tax Opinion Letter</b>	<b>Following Pg. 73</b>
<b>5. Item 2 (15) Issuer Deed of Trust Collateral Analysis</b>	<b>Following Pg. 74</b>
<b>Signature Page</b>	<b>Page 75</b>

LIMITED  
PARTNERSHIP  
AGRMT 28 PGS.

LIMITED PARTNERSHIP AGREEMENT

The Limited Partnership Agreement of the Issuer,  
consisting of pages 1 of 28 through 22 of 28,  
follows this page

**LIMITED PARTNERSHIP AGREEMENT**  
Amended and Restated

**ROYCE MORTGAGE INVESTMENT FUND , L. P. , a NEVADA LIMITED PARTNERSHIP**  
Formerly Known as D. F. Capital , L.P.  
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## THE AGREEMENT

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (the "Agreement"), dated January 1, 2000, is made and entered into by and among Royce Capital Group, a Nevada Corporation, as General Partner (the "General Partner"), and the Limited Partners of Royce Mortgage Investment Fund, L.P., a Nevada Limited Partnership (hereinafter referred to collectively as the "Limited Partners").

### RECITALS

Whereas, Royce Mortgage Investment Fund, Limited Partnership, a Nevada Limited Partnership (the "Partnership") was formed on February 1, 1997, under the Nevada Uniform Limited Partnership Act, under the name D. F. Capital, L.P., and the Limited Partnership Agreement was amended and restated as of February 6, 1998, January 1, 2000, and June 1, 2001.

The Partners therefore agree as follows:

- A. On January 1, 2000, Royce Enterprises, a Nevada Corporation, one of the prior General Partners merged with Royce Capital Group, a Nevada corporation. The surviving company is known as Royce Capital Group. From the effective date of this agreement, the sole remaining General Partner of this Partnership shall be Royce Capital Group. John F. Royce has resigned as a General Partner of the Partnership. The Limited Partners, by approving this amendment, consent to that resignation of John F. Royce, effective January 1, 2000.
- B. That the effective date of this amendment is January 1, 2000.
- C. That the Partnership agreement is amended and restated as follows:

### I. FORMATION OF PARTNERSHIP

1. The Partnership was formed and is governed by and pursuant to the provisions of Nevada Revised Statutes Chapter 88, known as the Uniform Limited Partnership Act.

2. Name. The name of the Partnership is changed from "D. F. Capital, L.P." to "Royce Mortgage Investment Fund, L.P., a Nevada Limited Partnership."

3. Place of Business. The principal place of business for the Partnership is located at Suite 201, 1281 Terminal Way, Reno, Nevada 89502; provided, however, that the General Partner may change the address of the principal office by notice in writing to all Limited Partners. In addition, the Partnership may maintain such other offices and places of business as the General Partner may deem advisable at any other place or places within the United States.

4. Addresses for the General Partner and Limited Partners. The principal place of business of the General Partner is Suite 201, 1281 Terminal Way, Reno, Nevada 89502. The address for each of the Limited Partners is that address shown on the books and records of the Partnership located at its principal place of business. The Limited Partners may change their address of record by written notice to the Partnership, which notice shall become effective upon receipt.

5. Term. The Partnership commenced on February 12, 1997. Unless earlier dissolved under the provisions of this Agreement, the Partnership will dissolve on February 12, 2022.

6. Purpose and Business . The purpose of the Partnership is to provide current income and capital growth. Its business is to make or purchase whole or fractional interests in first, second, wraparound, participating and construction mortgage loans, and mortgage loans on leasehold interests, and to do all things reasonably related thereto, including but not limited to developing, managing, and either holding for investment or disposing of real property acquired through foreclosure. As such, the majority of the Partnership's income will come from interest income. Depending on market conditions the Partnership sometimes will earn a 1% loan origination fee for originating a loan, and in the case of loans bought at a discount, it will earn discount income as the loan is paid off.

7. Agent for Service of Process; Tax Matters Partner. So long as the General Partner maintains a principal place of business in Nevada, the General Partner is the Partnership's agent for service of process. If the General Partner moves from Nevada, the Limited Partners will designate a new agent for service of process. The General Partner also is the "Tax Matters Partner" as defined in Section 6231(a)(7) of the Internal Revenue Code of 1986, as amended.

## II. DEFINITIONS

The following terms shall have the following respective meanings:

"Affiliate" means: (i) any person directly or indirectly controlling, controlled by, or under common control with another person; (ii) any person owning or controlling ten percent (10%) or more of the outstanding voting securities of such other person; (iii) any officer, director, or partner of such person; and (iv) if such other person is an officer, director, or partner, any company for which such person acts in such capacity.

"Capital Account" means as defined in Article III hereof.

"Capital Contribution" means the total investment and contribution to the capital of the Partnership by a Partner in cash, by way of automatic reinvestment of Partnership distributions, or by other contributions that may have been accepted as a capital contribution prior to or after this amendment.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or corresponding provisions of subsequent revenue laws.

"Excess Profits" means any profits for a calendar year, that are remaining after recouping of any prior allocated losses, after cumulative Preferred Returns have been allocated first to limited partners and then to the General Partner, and subordinated management fee has been paid to the General Partner. This is a separate part of an owner's capital account, and is not compounded with ongoing Preferred Returns. Excess Profits are never distributed to any limited partner until dissolution of the Partnership. If a limited partner withdraws his capital prior to that date, his accrued Excess Profits will be assigned to the General Partner.

"Late Payment Charges" means additional charges paid by borrowers on delinquent loans and loans past maturity held by the Partnership, including additional interest and late payment fees.

"Majority-In-Interest" means Limited Partners holding a majority of the outstanding Units, not including any interests of the General Partner.

"Mortgage Loans" means notes, debentures, bonds, and other evidence of indebtedness or obligations which are negotiable or nonnegotiable and which are secured or collateralized by mortgages, trust deeds, or security interests in real property or personal property attendant thereto.

"Net Income Available for Distribution" means Profits and Losses, as defined below, reduced by amounts set aside for restoration or creation of reserves and increased by amounts provided by the reduction or elimination of reserves at the discretion of the General Partner.

"Net Proceeds" means the cash proceeds from any repayment of principal from the regular monthly payments, or full or partial payoff or other disposition of the Partnership's Mortgage Loans or from the disposition of other Partnership assets remaining after deducting all expenses relating to the transaction.

"Partners" means the General Partner and the Limited Partners.

"Person" means any natural person, Partnership, corporation, association, or other legal entity.

"Profits and Losses" means, for each fiscal year or other period, an amount equal to the Partnership's taxable income or loss for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss).

"Preferred return" means that return which shall be announced on or about December 1 of each calendar year, which return, is subject to certain limitations, and will be effective for the next calendar year to determine, and be the allocation of profits, if any paid to limited partners, and then General Partner capital accounts, before the subordinated management fee is taken by the General partner, and "excess profits" are split. This is a cumulative figure, which if unmet, is accumulated, and met from future profits, as they may be earned.

"Real property" means and includes land and any buildings, structures, improvements, fixtures, and equipment located on or used in connection with land, but does not include mortgages, mortgage loans or interests therein.

"Regulations" means, except where the context indicates otherwise, the permanent, temporary, proposed, or proposed and temporary regulations of the United States Department of the Treasury under the Code, as such regulations may be lawfully changed from time to time.

"Unit" means an interest in the Partnership and represents a contribution either in cash or through reinvestment of distributions of One Dollar (\$1.00) to the capital of the Partnership by a Limited Partner, and entitles the holder thereof to the rights and interests of Limited Partners as herein provided.

"Unmet Cumulative Preferred Return" means any Preferred Returns that cannot be met from current profits, net of recouping of prior losses, which is carried forward and taken as subsequent profits are available. Unmet Cumulative Returns accruing to a given date, are not later recoverable if a limited partner withdraws any of his capital, not including regular monthly distributions.

### **III. PARTNERSHIP INTEREST AND CAPITAL**

1. **Capital Contributions of Partners.** The Limited Partners and the General Partner shall contribute the capital of the Partnership. From this date forward the Limited Partners shall contribute to the capital of the Partnership cash or reinvested distributions in the amount of One Dollar (\$1.00) for each Unit subscribed. The General Partner shall contribute to capital in the capital of the Partnership, a cash or notes in an amount equal to 10% of the first \$1,000,000 in total capital, and 2% of the capital from \$1,000,001 to \$5,000,000 and one percent of the excess of the capital above \$5,000,000. He shall maintain his capital account at least at these minimum levels. The General Partner may contribute notes secured by trust deeds meeting the general requirements of loans that the Partnership would acquire as set forth in Article 6. The General Partner shall be free to establish or adjust the minimum capital contribution amount for new limited partner investments, which amount is set forth in the subscription agreement attached hereto.

2. **Sale of Units.** In the General Partner's sole discretion, Units up to an aggregate outstanding amount of \$500,000,000 may be offered and sold by the Partnership. Purchasers of such Units shall become Limited Partners immediately on acceptance of subscriptions by the General Partner. The General Partner may refuse to accept contributions from time to time, or from any prospective limited partner in his sole discretion. It may establish and revise suitability standards for prospective investors, and those that

wish to use the reinvested distributions plan. The Partnership shall pay no commissions with respect to the sale of these units, but the General Partner may pay commissions to licensed individuals in accordance with applicable securities law.

**3. Limited Partners' Reinvested Distributions.** A Limited Partner may elect to participate in the Partnership's Reinvested Distributions Plan (the "Plan") at the time of his purchase of Units, by making such election in the form of Subscription Agreement for Units executed by each Limited Partner. Participation in the Plan will commence as of the date of acceptance by the Partnership of the Limited Partner's Subscription Agreement. Subsequently, a Limited Partner may revoke any previous election or make a new election to participate in the Plan by sending written notice to the Partnership. A limited partner may chose to have one capital account with distributions and one without, as long as each capital account meets the minimum limited partner capital requirements of the partnership. Such notice shall be effective for the month in which the notice is received, if received at least ten (10) days prior to the end of the calendar month; otherwise the notice is effective the following month.

Distributions to which a Limited Partner participating in the Plan is entitled shall be used to purchase additional Units at \$1.00 per Unit ("Reinvested Distributions"). Units so purchased under the Plan are credited to the Limited Partner's Capital Account as of the first day of the month following the month in which the reinvested distribution is made. If a Limited Partner revokes a previous election to participate in the plan, distributions made by the Partnership subsequent to the month in which the revocation notice is received by the Partnership shall be made in cash to the Limited Partner instead of being reinvested in Units.

The General Partner will mail, within 15 days of the end of each quarter, to each Limited Partner who is a participant in the Plan a statement of account describing the Reinvested Distributions received, the number of Units purchased thereby, the purchase price per Unit, and the total number of Units held by the Limited Partner. The terms and conditions of the Plan may be amended, supplemented, or terminated for any reason by the Partnership at any time by mailing notice thereof at least thirty (30) days prior to the effective date of such action to each Limited Partner who is a participant in the Plan at his last address of record.

The General Partner, in its sole discretion, may suspend or terminate the Plan if:

(a) it determines that the Plan impairs the capital or the operations of the Partnership or that an emergency makes continuance of the Plan not reasonably practicable;

(b) any governmental or regulatory agency with jurisdiction over the Partnership so demands for the protection of Limited Partners;

(c) in the opinion of counsel for the Partnership, such Plan is not permitted by federal or state law; or repurchase, sales, assignments, transfers and the exchange of Units in the Partnership within the previous twelve (12) consecutive months would result in the Partnership being considered terminated within the meaning of Section 708 of the Code; or

(d) it determines that allowing any further Reinvested Distributions would give rise to a material risk that the Partnership would be treated for any taxable year as a "publicly traded Partnership," within the meaning of Code Section 7704.

**4. Non assessability of Units.** The Units are non-assessable. Once a Unit has been paid for in full, the holder of the Unit has no obligation to make additional contributions to the Partnership.

**5. Capital Accounts.** The Partnership shall maintain a Capital Account for each Partner. Initially, the Capital Account of each Partner shall be the amount equal to the initial Capital Contribution made by such Partner in exchange for his or her interest in the Partnership. Thereafter, each Partner's Capital Account shall be maintained in accordance with the provisions of Section 1.704-1(b)(2)(iv) of the Regulations and will be determined as follows:

(a) To each Partner's Capital Account there shall be credited the amount of cash contributed by such Partner to the Partnership, and such Partner's distributive share of Partnership profits and losses. Excess Profits shall be maintained in a separate sub account for each limited partner, against which no Preferred Return will be allocated.

(b) To each Partner's Capital Account there shall be debited the amount of cash distributed to such Partner pursuant to any provision of this Agreement and such Partner's distributive share of Partnership losses.

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

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulation Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall reasonably determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto, are computed in order to comply with such Regulations, the General Partner may make such modification, provided that it is not likely to have a material effect on the amounts distributable to any Partner pursuant to Article XIII hereof upon the dissolution of the Partnership. The General Partner also shall (a) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(a) and (b) make any appropriate modifications in the event unanticipated events (for example, the acquisition by the Partnership of oil or gas properties) might otherwise cause this Partnership not to comply with Regulation Section 1.704-1(b).

Neither a Limited Partner nor a General Partner is entitled to withdraw any part of his or its Capital Account or to receive any distributions from the Partnership except as specifically provided in this Agreement. No "interest" shall be paid on any Capital Contribution. While this agreement does provide for subordination of certain portions of the general partners management fees and capital, the General Partner, its officers, and directors do not guarantee any return on or return of the capital of a limited partner..

6. No Liability of Limited Partners. A Limited Partner shall not be or become liable for the obligations of the Partnership in an amount in excess of his Capital Account.

#### IV. MANAGEMENT

1. Control in General Partner. Subject to the provisions of Article IV.2., and except as otherwise expressly stated elsewhere in this Agreement, the General Partner has exclusive control over the business of the Partnership, including the power to assign duties, to determine how to invest the Partnership's assets, to sign bills of sale, title documents, leases, notes, security agreements, mortgage loans and contracts, and to assume direction of the business operations. As manager of the Partnership and its business, the General Partner has all duties generally associated with such position including, but not limited to dealing with Limited Partners, being responsible for all accounting, tax, and legal matters, performing internal reviews of the Partnership's investments and loans, determining how and when to invest the Partnership's capital, and determining the course of action to take with respect to Partnership loans that are in default; and has all the powers with respect and ancillary thereto. Without limiting the generality of the foregoing, such powers include the right:

(a) To evaluate potential Partnership investments and to expend the capital of the Partnership in furtherance of the Partnership's business;

(b) To acquire, hold, lease, sell, trade, exchange, or otherwise dispose of all or any portion of Partnership property or any interest therein at such price and upon such terms and conditions as the General Partner may deem proper;

(c) To cause the Partnership to become a joint venturer, partner or member of an entity formed to own, develop, operate and/or dispose of properties owned or co-owned by the Partnership acquired through foreclosure of a Mortgage Loan;

(d) To manage, operate and develop Partnership property, or to employ and supervise a property manager who may, or may not, be an affiliate of the General Partner;

(e) To borrow money from the General Partner, banks and other lending institutions, or other lenders for any Partnership purpose, and as security therefor, to encumber Partnership property, subject to the provisions of Article VI, 7;

(f) To repay in whole or in part, refinance, increase, modify, or extend any obligation affecting Partnership property;

(g) To employ from time to time, at the expense of the Partnership, persons, including the General Partner or its affiliates, required for the operation of the Partnership's business, including employees, agents, independent contractors, brokers, accountants, attorneys, and others; to enter into agreements and contracts with such persons on such terms and for such compensation as the General Partner determines to be reasonable; and to give receipts, releases, and discharges with respect to all of the foregoing and any matters incident thereto as the General Partner may deem advisable or appropriate; provided, however, that any such agreement or contract between the Partnership and the General Partner, or between the Partnership and an affiliate of the General Partner shall contain a provision that such agreement or contract may be terminated by the Partnership without penalty on sixty (60) days written notice and without advance notice if the General Partner or affiliate who is a party to such contract or agreement resigns or is removed pursuant to the terms of this Agreement. Whenever possible, contracts between the Partnership and others shall contain a provision recognizing that the Limited Partners shall have no personal liability for performance or observance of the contract;

(h) To maintain, at the expense of the Partnership, adequate records and accounts of all operations and expenditures and furnish the Limited Partners with annual statements of account as of the end of each calendar year, together with all necessary tax-reporting information;

(i) To purchase, at the expense of the Partnership, liability and other insurance to protect the property of the Partnership and its business;

(j) To refinance, recast, modify, consolidate, or extend any Mortgage Loan or other investment owned by the Partnership;

(k) To pay all expenses incurred in connection with the operation of the Partnership;

(l) To file tax returns on behalf of the Partnership and to make any and all elections available under the Code, as amended;

(m) Without the consent of the Limited Partners, to modify, delete, add to or correct from time to time any provision of this Agreement for one or more of the following reasons:

(i) To cure any ambiguity or formal defect or omission herein, including substantial items and or spelling and or grammatical changes;

(ii) To grant to Limited Partners any additional rights, remedies, powers or authorities that may be lawfully granted or conferred upon them;

(iii) To conform this Agreement to applicable laws and regulations, including without limitation, federal and state securities and tax laws and regulations, and guidelines of the North American Association of Securities Administrators; and

(iv) To make any other change in this Agreement which is not to the prejudice of the Limited Partners.

(v) To change suitability and subscription provisions of this agreement.

The General Partner shall give prompt written notice to all Limited Partners of each change to this Agreement made pursuant to subsection (m).

2. Limitations on General Partner's Authority. The General Partner has no authority to:

- (a) do any act in contravention of this Agreement;
- (b) do any act which would make it impossible to carry on the ordinary business of the Partnership;
- (c) confess a judgment against the Partnership;
- (d) possess Partnership property or assign the rights of the Partnership in property for other than a Partnership purpose;
- (e) admit a person as a General Partner without the prior affirmative vote or consent of a Majority-In-Interest, or such higher vote as may be required by applicable law;
- (f) sell, pledge, refinance, , or exchange all or substantially all of the assets, meaning more than 50%, of the Partnership, without the prior affirmative vote or consent of a Majority-In-Interest, except as set forth in Article VI 7 or Article XIII;
- (g) amend this Agreement without the prior affirmative vote or consent of a Majority-In-Interest, except as permitted by Article IV.1.(m) or (n);
- (h) dissolve the Partnership without the prior affirmative vote or consent of a Majority-In-Interest;
- (i) grant to the General Partner or any of its affiliates an exclusive right to sell any Partnership assets, except in the case of Article XIII;
- (j) receive or permit the General Partner or any affiliate of the General Partner to receive any insurance brokerage fee or write any insurance policy covering the Partnership or any Partnership property;
- (k) receive from the Partnership a rebate or participate in any reciprocal business arrangement which would enable the General Partner or any of its affiliates to do so;
- (l) commingle the Partnership's assets with those of any other person, except for the purpose of joint venturing property development as set forth in Article IV, 1, (c)
- (m) use or permit another to use the Partnership's assets in any manner, except for the exclusive benefit of the Partnership; or
- (n) pay or award, directly or indirectly, from Partnership funds, any commissions or other compensation to any person engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchase of Units; provided, however, that this clause shall not

Clerically revised June 1, 2001

prohibit the payment by the General Partner from his own funds, normal sales commissions payable to a registered broker-dealer or other properly licensed person for selling Units .

3. Right to Purchase Receivables, Loans and Property. The General Partner, in its sole discretion, may at any time, but is not obligated to:

(a) purchase from the Partnership the interest receivable or principal on delinquent Mortgage Loans held by the Partnership;

(b) purchase from a senior lienholder the interest receivable or principal on mortgage loans senior to Mortgage Loans held by the Partnership;

(c) use its own monies or loan the Partnership money to cover any other costs associated with Mortgage Loans held by the Partnership such as property taxes, insurance and legal expenses;

(d) purchase from the Partnership real estate acquired by the Partnership through foreclosure.

(e) purchase from the Partnership assets that do not meet the general Investment and Operating Policies of the Partnership, as set forth in Article VI.

The consideration paid pursuant to the above, must be equal to or greater than the fair market value of the asset being acquired. Such consideration can be for cash or by a promissory note on terms equivalent to what the asset might be disposed of to a third party if one were available.

4. Extent of General Partner's Obligation. The General Partner shall devote such of its time to the business of the Partnership as it determines, in good faith, to be reasonably necessary to conduct its business. The General Partner shall not be bound to devote all of its business time to the affairs of the Partnership, and the General Partner and its Affiliates may engage for their own account and for the account of others in any other business ventures and employments, including ventures and employments having a business similar or identical or competitive with the business of the Partnership. As a fiduciary of the Partnership, the General Partner agrees that the assets of the Partnership will not be commingled with the assets of the General Partner or any other person and will be used or expended solely for the use of the Partnership. The Partnership shall not permit a Limited Partner to contract away the fiduciary duty owed to such Limited Partner by the General Partner under common law. If at any time the General Partner or its affiliates owns any units as a Limited Partner, its right to vote such units will be waived and not considered outstanding in any vote for removal of the General Partner.

5. Indemnification of General Partner.

(a) Neither the General Partner nor any of its Affiliates, agents or attorneys (hereinafter, an "Indemnified Party") shall be liable, responsible or accountable in damages or otherwise to any other Partner, the Partnership, its receiver or trustee (The Partnership, its receiver or trustee are hereinafter referred to as "Indemnitors") for, and the Indemnitors agree to indemnify, pay, protect and hold harmless each Indemnified Party (on the demand of such Indemnified Party) from and against any and all liabilities, obligations, losses, damages, actions, judgments, suits, proceedings, reasonable costs, reasonable expenses and disbursements (including, without limitation, all reasonable costs and expenses of defense, appeal and settlement of any and all suits, actions or proceedings instituted against such Indemnified Party or the Partnership and all reasonable costs of investigation in connection therewith) (collectively referred to as "Liabilities" for the remainder of this Section) which may be imposed on, incurred by, or asserted against such Indemnified Party or the Partnership in any way relating to or arising out of any action or inaction on the part of the Partnership or on the part of such Indemnified Party in connection with services to or on behalf of the Partnership (and with respect to an Indemnified Party which is an Affiliate of the General Partner for an act which the General Partner would be entitled to indemnification if such act were performed by it) which such Indemnified Party in good faith determined was in the best interest of the Partnership.



Notwithstanding the foregoing, each Indemnified Party shall be liable, responsible and accountable, and neither the Partnership nor Indemnitor shall be liable to an Indemnified Party, for any portion of such Liabilities which resulted from such Indemnified Party's (i) own fraud, gross negligence or misconduct or knowing violation of law, (ii) breach of fiduciary duty to the Partnership or any Partner, or (iii) breach of this Agreement, regardless of whether or not any such act was first determined by the Indemnified Party, in good faith, to be in the best interests of the Partnership. If any action suit or proceeding shall be pending against the Partnership or any Indemnified Party relating to or arising out of any such action or inaction, such Indemnified Party shall have the right to employ, at the reasonable expense of the Partnership (subject to the provisions of Subsection 5(b), below), separate counsel of such indemnified Party's choice in such action, suit or proceeding. The satisfaction of the obligations of the Partnership under this Section shall be from and limited to the assets of the Partnership and no Limited Partner shall have any personal liability on account thereof.

(b) Cash advances from Partnership funds to an Indemnified Party for legal expenses and other costs incurred as a result of any legal action initiated against an Indemnified Party by a Limited Partner are prohibited. Cash advances from Partnership funds to an Indemnified Party for reasonable legal expenses and other costs incurred as a result of any legal action or proceeding are permissible if (i) such suit, action or proceeding relates to or arises out of any action or inaction on the part of the Indemnified Party in the performance of its duties or provision of its services on behalf of the Partnership; (ii) such suit, action or proceeding is initiated by a third party who is not a Limited Partner; and (iii) the Indemnified Party undertakes by written agreement to repay any funds advanced pursuant to this Section in the cases in which such Indemnified Party would not be entitled to indemnification under Subsection 5(a) above. If advances are permissible under this Section, the Indemnified Party shall have the right to bill the Partnership for, or otherwise request the Partnership to pay, at any time and from time to time after such Indemnified Party shall become obligated to make payments therefor, any and all amounts for which such Indemnified Party believes in good faith that such Indemnified Party is entitled to indemnification under Subsection 5(a) above. The Partnership shall pay any and all such bills and honor any and all such requests for payment within 60 days after such bill or request is received. In the event that a final determination is made that the Partnership is not so obligated for any amount paid by it to a particular Indemnified Party, such Indemnified Party will refund such amount within 60 days of such final determination, and in the event that a final determination is made that the Partnership is so obligated for any amount not paid by the Partnership to a particular Indemnified Party, the Partnership will pay such amount to such Indemnified Party within 60 days of such final determination.

(c) Notwithstanding anything to the contrary contained in Subsection 5(a) above, neither the General Partner nor any of its Affiliates, agents, or attorneys, nor any person acting as a broker-dealer with respect to the Units shall be indemnified from any liability, loss or damage incurred by them arising due to an alleged violation of federal or state securities laws unless (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular Indemnified Party, or (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular Indemnified Party, or (iii) a court of competent jurisdiction approves a settlement of the claims against the particular Indemnified Party and finds that indemnification of the settlement and related costs should be made. Prior to seeking a court approval for indemnification, the General Partner shall undertake to cause the party seeking indemnification to apprise the court of the position of the Securities and Exchange Commission and the Nevada Secretary of State with respect to indemnification for securities violations.

(d) The Partnership shall not incur the cost of the portion of any insurance which insures any party against any liability as to which such party is prohibited from being indemnified as set forth above.

(e) For purposes of this Section 5, an Affiliate, agent or attorney of the General Partner shall be indemnified by the Partnership only in circumstances where such person has performed an act on behalf of the Partnership or the General Partner within the scope of the authority of the General Partner and for which the General Partner would have been entitled to indemnification had such act been performed by it.

**V. RIGHTS OF LIMITED PARTERS**

1. No Limited Partner, as such, shall take part in the management of the business of, or transact any business for the Partnership, nor have the power to sign for or bind the Partnership to any agreement or document. Notwithstanding the foregoing, Limited Partners holding at least a Majority-In-Interest may, without the concurrence of the General Partner, vote or consent in writing (and such vote or consent will be required) to:

- (a) amend this Agreement,
- (b) dissolve and wind up the Partnership,
- (c) remove the General Partner and elect one or more new General Partners (see Article XII.2.), or
- (d) approve or disapprove the sale, pledge, refinancing, or exchange of all or substantially all, meaning more than 50%, of the assets of the Partnership, except as set forth in Article IV 1, e and VI, 7 or XIII.

2. The Limited Partners and their designated representatives shall have access to all books and records of the Partnership during normal business hours. A list of the names and addresses of all Limited Partners is maintained as a part of the records of the Partnership and shall be made available on request to any Limited Partner or his representative at his cost for a stated purpose not contrary to the best interests of the Partnership.

**VI. INVESTMENT AND OPERATING POLICIES**

1. The Partnership may make or purchase Mortgage Loans of such duration and on such real property and with such additional security as the General Partner in its sole discretion shall determine. Such Mortgage Loans may be senior to other mortgage loans on such property, or junior to other mortgage loans on such property, all in the sole discretion of the General Partner.

2. Partnership loans will generally be selected for investment pursuant to a set of guidelines set forth below, which guidelines are designed to set standards for the quality of the real property security given for the loans.

<u>Type of Property</u>	<u>Maximum General Loan-to-Value Ratios</u>
Consumer Residential Owner Occupied (purchase or refinance loan)	75%
Consumer Residential Non-Owner Occupied	65%
Commercial Property (including multiunit residential property, office buildings, industrial and warehouse facilities, retail stores and small shopping centers)	75%
Consumer Developed Land	50%
Consumer Undeveloped Land (depending on location and marketability)	25% - 40%
Developer subdivision lands	
Developed lots	80%
Paper Lots (lots approved but not improved)	60%

The word "consumer" is used to describe a borrower who is not a professional real estate developer or professional commercial property owner. The General Partner shall have the authority on a limited basis to exceed the above guidelines if he believes the credit of the borrower warrants a higher loan to value ratio.

3. Geographic Area of Lending Activity. The Partnership will generally limit lending to deeds of trust on properties located in Nevada or California, although the Partnership may make or buy loans secured by real property located elsewhere in the U.S., if the General Partner believes it to be in the best interests of the Partnership.

4. **Loan-to-Value Ratios.** The amount of the Partnership's loan combined with the outstanding debt secured by any senior deed of trust on the security property generally will not exceed the percentages stated above, based on the appraised value of the security property as determined by independent written appraisal at the time the loan is made. In the case of loans being used for the construction of improvements or obtaining of entitlements that would add value to the property, the value can be "as completed". The General Partner shall take whatever steps he deems prudent to make sure that funds disbursed for a construction or land development loan are disbursed to insure, to the extent reasonably possible, that the improvements are completed when all funds are disbursed. This may be done by disbursing funds through a builder's control, by a third party, or by an in-house control supervised by the General Partner or his affiliate. This loan-to-value ratio may be increased if, in the sole discretion of the General Partner, a given loan is supported by credit or property adequate to justify a higher loan-to-value ratio or if mortgage insurance is obtained; however, the General Partner does not anticipate obtaining or requiring the borrowers to maintain mortgage insurance. Finally, the foregoing loan-to-value ratio will not apply to purchase-money financing offered by the Partnership to sell any real estate owned (acquired through foreclosure) or to refinance an existing loan that is in default at the time of maturity. In such cases, including instances where the buyer is the General Partner or an affiliate, the General Partner shall be free to accept any reasonable financing terms that it deems to be in the best interests of the Partnership, at its sole discretion.

The Partnership will generally, subject to some exceptions, receive an independent appraisal for each security property on which it will make a mortgage loan. Generally, appraisers retained by the Partnership shall be licensed or qualified as independent fee appraisers and, shall be licensed as an appraiser by the Nevada Real Estate Division, or the state in which the property is located, or shall possess other qualifications acceptable to the General Partner, including appraisals by independent real estate brokers. The General Partner will review each appraisal report. The General Partner shall have the right to waive an appraisal, if the loan-to-value of the proposed transaction is 10% less than the limitations as set forth above based on a "value" supported by a prior sale, and or the tax assessor's estimate of market value. In these instances, the General Partner, or its agent, will conduct a drive-by for each property on which an appraisal is not made. The General Partner may use an appraisal up to five years old, if the value is further supported by a drive-by inspection of the premises. If there is a bona fide third party sale, in which cash or other consideration was put down for the sale of exchange with a real value of at least 20% of the purchase price, the General Partner may in his sole discretion use that value as an appraised value without a formal appraisal being done. Such appraisals or their substitutions as set forth above will be retained at the office of the Partnership and will be available for review by any Limited Partner for a period of at least five years after the last day that the Partnership holds a mortgage secured by the subject property.

5. **Term and Types of loans.** Some Partnership loans may be interest only, partially amortized, or fully amortized. The term will vary generally between one (1) and fifteen (15) years.

6. **Escrow Conditions.** Partnership loans being originated will be funded through an escrow account handled by a qualified escrow company or by an in-house escrow, managed by the General Partner or an affiliate. Loans may be acquired from or sold to the General Partner or affiliates without the formality of an third party escrow. The escrow agent will generally be instructed not to disburse any of the Partnership's funds out of the escrow for purposes of funding the loan until:

(1) Satisfactory title insurance coverage has been obtained for all loans, with the title insurance policy naming the Partnership as the insured and providing title insurance in an amount equal to the principal amount of the loan. Title insurance insures only the validity and priority of the Partnership's deed of trust, and does not insure the Partnership against loss by reason of other causes, such as diminution in the value of the security property, over-appraisals, borrower's defaults, etc. If the Partnership accepts loans as part of a capital contribution, providing that the contributor holds a valid lenders title insurance policy, the general partner shall not be required to obtain a 104.1 assignment endorsement to this policy if he so elects. If he does wish to obtain such a policy it shall be an expense of the Partnership. The contributing partner must guarantee that he is legally entitled to assign the interest, and that the interest is as represented.

(2) Satisfactory fire and casualty insurance has been obtained for all loans, on which there are substantial improvements, which insurance shall name the Partnership as loan payee in an amount equal to the principal amount of the Partnership's loan.

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

(4) All loan documents (notes, deeds of trust, etc.) and insurance policies will name the Partnership as payee and beneficiary. Loans will not be written in the name of the General Partner or any other nominee, unless they are simultaneously assigned to the Partnership.

7. **Indebtedness of Partnership.** The Partnership may incur indebtedness for the purpose of funding loans, pending the payoff of loans in the portfolio, preventing default under prior loans or to discharge them entirely if this becomes necessary to protect the Partnership's Mortgage Loans, to assist in the development or operation of any real property on which the Partnership has theretofore made or purchased a Mortgage Loan and has subsequently taken over the operation thereof as a result of default or to protect such Mortgage Loan, and to buy or originate all inclusive note and trust deeds. However the indebtedness shall never exceed 50% of the total capital of the Partnership as of the end of the month prior to such borrowing.

8. **Diversity of Borrowers.** The Partnership will limit any single Mortgage Loan and will limit its Mortgage Loans to any one borrower to not more than 10% of the total Partnership assets once the Partnership has at least \$1,000,000 in capital.

9. **Purchases from General Partner.** Loans may be purchased from the General Partner or its affiliates only if any such loan is not in default and otherwise satisfies all requirements of this Article VI.

10. **Cash Reserve.** The Partnership will maintain a cash contingency reserve in a segregated bank or money market account in an aggregate amount of at least one half of one percent (.5%) of the aggregate Capital Accounts of the Partners. The General Partner in its sole discretion may increase the amount of this cash reserve as it sees fit.

## **VII. ACCOUNTING RECORDS, REPORTS AND MEETINGS**

1. **Books of Accounts and Records.** The Partnership's books and records are maintained in accordance with Code Section 703(a) at the principal office of the Partnership, and each Partner has access thereto at all reasonable times as provided in Article V.2. The books and records shall be kept in accordance with sound accounting practices and principles applied in a consistent manner by the Partnership and shall reflect all transactions and be appropriate and adequate for the business of the Partnership. The Partnership shall file all required documents with the applicable regulatory agencies.

2. **Cash and Cash Equivalents.** Partnership cash, cash equivalents and marketable securities are deposited and/or invested in the name of the Partnership in one or more Capital institutions designated by the General Partner and shall be withdrawn only on the signature of the General Partner or any person or persons authorized by it.

3. **Meetings of Limited Partners.** Special meetings of the Limited Partners to vote upon any matters as to which the Limited Partners are authorized to take action under this Agreement may be called at any time by the General Partner, or a Limited Partner or Limited Partners holding more than ten percent (10%) of the outstanding units by delivering written notice, either in person, or by registered mail, of such call to the General Partner. As soon as possible, but in all cases, within ten (10) days following receipt of such request, and at any time a meeting is called by the General Partner, the General Partner shall cause a written notice, either in person or by registered mail, to be given to the Limited Partners entitled to vote at such meeting, that a meeting will be held at a time and place fixed by the General Partner, convenient to the Limited Partners, which is not less than fifteen (15) days nor more than sixty (60) days after the sending of the notice of the meeting. Included with the notice of the meeting shall be a detailed statement of the action proposed, including a verbatim statement of the wording of any

resolution proposed for adoption by the Limited Partners and of any proposed amendment to this Agreement. There shall be deemed to be a quorum at any meeting of the Partnership at which a Majority-In-Interest attend such meeting in person or by a valid proxy. The General Partner shall be entitled to notice of and to attend all meetings of the Limited Partners, regardless of whether called by the General Partner. Any action that may be taken at any meeting of the Limited Partners may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by Limited Partners holding a Majority-in-Interest.

4. Reports. Within sixty (60) days after the end of each fiscal year of the Partnership, the General Partner will deliver to each Limited Partner such information as is necessary for the preparation by each Limited Partner of his federal income tax return. Within one hundred twenty (120) days after the end of the Partnership's calendar year, the General Partner will transmit to each Limited Partner an annual report which will include Capital statements of the Partnership audited by the Partnership's independent public accountants and prepared on an accrual basis in accordance with generally accepted accounting principles. Such Capital statements will include the Partnership's statements of income, balance sheets, statements of cash flows and statements of Partners' capital with a reconciliation with respect to information furnished to Limited Partners for income tax purposes. The annual report for each year will report on the Partnership's activities for that year, identify the source of Partnership distributions, set forth the compensation paid to the General Partner and its affiliates, and provide a statement of the services performed in consideration therefor and contain such other information as is deemed reasonably necessary by the General Partner to advise the Limited Partners of the affairs of the Partnership.

The Partnership will have available upon written request for review by Limited Partners a copy of the information filed with the Securities and Exchange Commission on Form 10-K within ninety (90) days of the closing of the fiscal year end, and if the Partnership becomes a registered Partnership a Form 10-Q within forty-five (45) days of the closing of each other quarterly fiscal period, by dissemination of such Form 10-K and Form 10-Q or any other report containing substantially the same information as required by Form 10-K and Form 10-Q.

## VIII. ALLOCATIONS AND DISTRIBUTIONS

1. Allocations of Profits and Losses. Profits for any fiscal year shall be allocated first to the Limited Partners, in an amount to pay to the Limited Partners a cumulative Preferred Return on their Limited Partnership capital (not including any excess profit accumulation) at a rate that shall be set by the General Partner as of December 1 of each year and will be effective for the next calendar year. That rate for the Calendar year 2000 shall be 11.4%. This rate shall be at a minimum of 2 percent over the present yield of 5 year U. S. Treasuries as of December 1 of each year and shall be determined by the General partner to take into account the average coupon rate of loans presently in the portfolio, and rates at which the General Partner projects he can originate loans in the market at that time. If profits are not sufficient so that the cumulative Preferred Return cannot be allocated to the limited partners, the unmet Preferred Return shall carryover to the next accounting period.

Then, to the extent that profits are available, the General Partner shall be entitled to take a return on his capital account equivalent to the Preferred Return to the Limited Partners, which return, if not allocated, shall not be carried forward.

After the cumulative Preferred Return has been fully allocated to Limited Partners, and the a non cumulative Preferred Return has been paid to the General partner then the General Partner shall be entitled to take a subordinated Management Fee of up to 3 % of the loan portfolio at the end of the year, and then any remaining profits, to be designated "Excess Profits" shall be allocated as a separate capital subaccount to all the Partners in accordance with their percentage of total capital as of the end of the year. A partner who may have withdrawn his total capital prior to the end of any calendar year shall not be entitled to any allocation of Excess Profits. Excess Profits cannot be distributed to any limited partner until dissolution of the Partnership. Any accumulated Excess Profits earned of parties who withdraw from the Partnership after January 1, 2001, but prior to dissolution shall be transferred to the General Partner.

Clerically revised June 1, 2001

Net Losses, if any shall be allocated to the partners in proportion to their capital account balances at the beginning of the month. If there are profits to be allocated after net losses may have previously been allocated, then, profits will first be allocated in the same proportion of losses that may have been previously allocated until all such losses shall have been recouped. After losses have been recouped, then profits shall be allocated as first above stated.

Net profits and losses shall be allocated monthly, but may be adjusted at the completion of a calendar year to reflect year-end adjustments, proportionately with capital accounts of those partners as of the end of the year.

If a partner's capital account changes in the middle of a month, allocations shall be adjusted to reflect a per diem allocation based on a 30-day month.

2. Distributions of Cash Available for Distribution. Distributions of cash available for distribution to the Limited Partners, up to the amount Preferred Return as set forth above shall be distributed in cash to those Limited Partners who have on file with the Partnership their written election to receive such distributions up to the Preferred Return. These distributions shall enjoy a priority over requested withdrawals pursuant to Article XI. A pro rata share of the total Net Income Available for Distribution to Limited Partners shall be distributed monthly in cash to each Limited Partner who has on file with the Partnership his written election to receive such distributions, in proportion to the weighted average Capital Account of each Limited Partner during the preceding calendar month. All sums of Net Income Available for Distribution not so distributed to the Limited Partners shall be credited proportionately to the Capital Accounts of the remaining Limited Partners and reinvested in Units in accordance with Article III.3, up to the amount necessary to meet cumulative Preferred Returns Cash not needed to meet Preferred return requirements shall than be used to pay the Partnership Management Fee for the current year. The General Partner's proportionate share of Net Income Available for Distribution shall be distributed to the General Partner or credited to its Capital Accounts. Excess Profits shall not be distributed to any limited partner, until such time as when the Partner may withdraw or the Partnership shall be dissolved. The General Partner shall be allowed to withdrawal cash from his capital account at any time providing his total capital meets the requirements of Article III.1, and providing that his doing so will not adversely affect the liquidity of the Partnership. Irrespective of this, the General Partner's capital shall never be reduced below \$50,000 until such time as all Limited Partners capital has been returned.

Net Proceeds, if any, may be reinvested in new loans, may be used to improve or maintain properties acquired by the Partnership through foreclosure, may be used to pay operating expenses or may be distributed to the Partners, pro-rata to the partner's share of total capital, in each event in the sole discretion of the General Partner.

#### **IX. TRANSACTIONS BETWEEN THE PARTNERSHIP AND THE GENERAL PARTNER**

1. Compensation to General Partner From the Partnership. The General Partner is entitled to receive the following fees, compensation and expense reimbursements from the Partnership:

(b) Subordinated Management fee. After the cumulative Preferred Return has been paid to the Limited Partners and the General Partner, the General Partner shall be entitled to receive a management fee of up to 3% per annum of the average unpaid balance of the of the Partnership's Mortgage Loans at the end of each month in the calendar year. Although the management fee is paid monthly, the maximum payment is calculated on an annual basis; thus, the management fee in any one month could exceed 3% / 12 of the unpaid balance of the Partnership's Mortgage Loans at the end of such month, provided that the maximum annual management fee shall not exceed 3% of the average unpaid balance of the Partnership's Mortgage Loans at the end of each month in the calendar year. In the event the management fee paid to the General Partner in a calendar year exceeds such 3%, the General Partner shall promptly refund such excess to the Partnership. These fees are not cumulative, on an annual basis, i.e. if they are not paid in one year, they do not carry forward to future years. If cumulative

Preferred Returns could not be paid in one year, the General Partner shall not be required to return prior years management fees.

(c) Partnership Expenses. All of the Partnership's expenses shall be billed directly, to the extent practicable, to and paid by the Partnership. Reimbursement to the General Partner, or its affiliate, for any expenses advanced by the General Partner including, but not limited to, legal and accounting expenses, printing costs, goods, services and materials used by or for the Partnership and filing fees will be made from cash available for distribution immediately following the expenditure. Except as indicated in this Article IX.1(c), the General Partner or any affiliate shall not be reimbursed by the Partnership for any indirect expenses incurred in performing services for the Partnership, such as officers' salaries, rent, utilities, and other overhead items. The Partnership, however, may reimburse the General Partner and any affiliate for salaries (and related salary expenses, but excluding expenses incurred in connection with the administration of the Partnership) for non-management and non-supervisory services which could be performed, directly for the Partnership by independent parties, such as legal, accounting, transfer agent, data processing and duplicating. There shall be no reimbursement for management and supervisory personnel (e.g., services of employees of the General Partner or its affiliates who oversee the work which would have been performed by an independent party if such party had been so engaged). The amounts charged to the Partnership shall not exceed the lesser of (a) the actual cost of such services, or (b) the amounts which the Partnership would be required to pay to independent parties for comparable services. Reimbursement may also be made for the allocable cost charged by independent parties for maintenance and repair of data processing and other special purpose equipment used for or by the Partnership. The reimbursement for expenses provided for in this Article IX.1(c) shall be made to the General Partner regardless of whether any distributions are made to the Limited Partners under the provisions of Article VIII.2.

(d) Loan Servicing Fee. The General Partner may act as servicing agent on behalf of the Partnership with respect to all Partnership loans, in consideration for which it shall be entitled to receive from the Partnership a monthly fee of up to 1% per annum of the unpaid balance of the Partnership's Mortgage Loans at the beginning of each month. This fee is paid before any allocations of profits are made to any partner. These fees are actually paid as interest is actually received by the Partnership.

2. Other distributions to General Partner that are not Fees.

(a) Return on Capital. After the limited partner's Preferred Return is allocated, the General partner shall be entitled to a return on his capital account for the month equal to the same Preferred Return rate as the Limited Partners have earned.

(b) Return of Capital. The General Partner shall be entitled to take his capital out of the Partnership down to the limits set forth in Article III, providing there are then no unmet requests for withdrawals from Limited Partners, that are payable in a given quarter, and that doing so would not jeopardize the liquidity needs of the Partnership. If the Partnership is being dissolved, distributions to the General Partner shall be as limited in Article 13, 1, (c).

(c) Excess Profits, if any, shall be paid to the General Partner, in accordance with Article VIII, 1 with the same priority as Limited Partners are entitled thereto in proportion to their capital accounts at the end of a calendar year.

3. Payments to General Partner by Borrowers, not paid by the Partnership.

(a) Investment Evaluation Fee. The General Partner or one or more affiliates of the General Partner may receive investment evaluation or broker fees (also known as mortgage placement fees or "points") payable by borrowers for services rendered in connection with the evaluation of potential investments of the Partnership. Sometimes these fees are characterized as processing Fees, inspection fees, underwriting fees, broker fees etc.

(b) Late Payment Charges. The General Partner shall receive 1/2 of all Late Payment Charges paid by borrowers on delinquent loans held by the Partnership

(c) Prepayment fees. The General Partner shall receive 1/2 of all prepayment fees paid by borrowers.

(d)Builder's control fees: The Partnership may charge a builder's control on Partnership loan disbursements, in which case the General Partner will earn a builder's control fee paid for by the borrower.

3. The General Partner may :

(a)buy any equity interest in the Partnership that may have existed, which was junior to the Limited Partnership interest at the time of this amendment, on terms that may be acceptable to these prior subordinated interest holders.

(b)buy any Limited Partner's interest, if the General Partner determines it to be in the best interests of the Partnership, the Limited Partner, or the General Partner by paying cash to the Limited Partner the amount in his capital account, including per diem accruals of unmet cumulative Preferred Returns to date, and any accrued Excess Profits. The Limited Partners agree to accept such amount and execute an assignment of their interests if such a purchase is tendered. The General Partner and a limited partner may also agree to buy and sell any interest on any other basis.

## X. ASSIGNMENT OF INTEREST: SUBSTITUTED LIMITED PARTERS

1. General Partner. The interest of a General Partner shall not be assignable in whole or in part, except when a substitution is made by vote of the Limited Partners or as provided in Article XII.2. Nothing herein shall prohibit the General Partner from merging with a corporation owned or substantially owned by the same person who owns the existing General Partner.

2. Partnership Interests. A Limited Partner's interests in the Partnership may be transferred by written instrument satisfactory in form to the General Partner, accompanied by such assurance of the genuineness and effectiveness of each signature and the obtaining of any necessary governmental or other approvals as may be reasonably required by the General Partner, provided, however, that:

(a) no transfer may be made of a fractional unit, and no transfer may be made if, as a result of such transfer, a Limited Partner (other than one transferring all of his units) will own fewer than two thousand (2,000) units except where such transfer occurs by operation of law;

(b) no transfer may be made if, in the opinion of tax counsel for the Partnership, it would jeopardize the status of the Partnership as a Partnership for Federal or any applicable state income tax purposes; and

(c) the transferor will pay in advance all legal, recording, and accounting costs in connection with any transfer, and the cost of any tax advice necessary under Subsection 2(b) above.

Assignments complying with the above shall be recognized by the Partnership not later than the last day of the calendar month in which the written notice of assignment is received by the Partnership.

No assignee of a Limited Partner shall have the right to become a Limited Partner unless the General Partner has consented in writing to the substitution of such Limited Partner, the granting or denial of which shall be within the absolute discretion of the General Partner.

## XI. DEATH, LEGAL INCOMPETENCE, OR WITHDRAWAL OF A LIMITED PARTNER

1. Effect of Death or Legal Incompetence of a Limited Partner on the Partnership. The death or legal incompetence of a Limited Partner shall not cause a dissolution of the Partnership or entitle the Limited Partner or his estate to a return of capital, other than as set forth below.

2. Rights of Personal Representative. On the death or legal incompetence of a Limited Partner, his personal representative shall have all the rights of a Limited Partner for the purpose of settling his estate or managing his property, including the rights of assignment and withdrawal.



3. Withdrawal of Limited Partners. To withdraw, or partially withdraw from the Partnership, a Limited Partner must give written notice thereof to the General Partner and may thereafter obtain the return, in cash, of his Capital Account, or the portion thereof as to which he requests withdrawal, within 60 to 90 days after written notice of withdrawal is delivered to the General Partner, subject to the following limitations:

(a) Except with regard to the right of the personal representative of a deceased Limited Partner under Section 2 of this Article XI, no notice of withdrawal shall be honored and no withdrawal made until the expiration of at least one year from the date of a purchase of Units by any Limited Partner on or after the date of effectiveness of this Agreement, other than by way of automatic reinvestment of Partnership distributions.

(b) any such cash payments in return of an outstanding Capital Account shall be made by the Partnership only from Net Proceeds and, at the discretion of the General Partner, from new Capital Contributions. There shall be a limit on a Limited Partners withdrawals equal to 25% of their capital account per quarter up to a maximum of \$40,000 from Net Proceeds during any calendar quarter. If a request is for more than these limits, it shall be paid to the extent money is available, and the remaining request shall be honored in the next calendar quarter, to the extent that funds are available.

(c) the Limited Partners shall have the right to receive such distributions of cash from their Capital Accounts only to the extent such funds are available from Net Proceeds; the General Partner shall not be required to establish a reserve fund for the purpose of funding such payments; the General Partner shall not be required to sell or otherwise liquidate any portion of the Partnership's loan portfolio in order to make a cash distribution of any Capital Account;

(d) following receipt of written notice of withdrawal from a Limited Partner, the General Partner shall not refinance any loans of the Partnership or reinvest any Net Proceeds in new loans or other non-liquid investment unless and until the Partnership has sufficient funds available to distribute to the withdrawing Limited Partner the amount of his Capital Account that he is withdrawing, up to the limits established herein, unless the General Partner has issued commitments to fund or purchase loans, which must be honored as a contractual obligation of the Partnership;

(e) the amount to be distributed to any withdrawing Limited Partner shall be a sum equal to the amount of such Limited Partner's Capital Account as of the date of such distribution, as to which the Limited Partner has given a notice of withdrawal under this subsection 3, notwithstanding that such sum may be greater or lesser than such Limited Partner's proportionate share of the current fair market value of the Partnership's net assets;

(f) in no event shall the General Partner be required to permit the withdrawal during any calendar year of total amounts from the Capital Accounts of Limited Partners that exceeds ten percent (10%) of the aggregate Capital Accounts of all outstanding Limited Partners' Units, except upon the vote of the Limited Partners to dissolve the Partnership pursuant to Article V above;

(g) requests by Limited Partners for withdrawal will be honored to the extent permitted in the order in which the General Partner receives the request, except that a request for a withdrawal from a deceased limited partner's survivor, in the case of joint account of a joint tenancy account, or the personal representative of a deceased sole investor, shall have priority. If any request may not be honored, due to any limitations imposed by this subsection 3 (except the one year holding limitation set forth in subsection 3(a)), the General Partner will so notify the requesting Limited Partner in writing, whose request, if not withdrawn by the Limited Partner, will subsequently be honored if and when the limitation no longer is imposed; and

(h) if a Limited Partner's Capital Account would have a balance of less than \$10,000 following a requested withdrawal, the General Partner, at its discretion, may distribute to such Limited Partner the entire balance in such account. The General Partner may, if he so elects, distribute a withdrawal, sooner rather than waiting the 60 day minimum period.

## **XII. BANKRUPTCY, WITHDRAWAL, REMOVAL, OR DISSOLUTION OF THE GENERAL PARTNER**

1. Removal of the General Partner. A Majority-In-Interest by vote or written consent given in accordance with Article VII.3 of this Agreement may remove the General Partner. Written notice of such removal setting forth the effective date thereof shall be served upon the General Partner and, as of the effective date, shall terminate all of its rights and powers as a General Partner.

2. Dissolution or Continuance of Partnership. The filing of a certificate of dissolution, withdrawal, removal, or adjudication of bankruptcy of the General Partner (any of which events is referred to hereafter as the "Terminating Event," and the General Partner affected as the "Terminated General Partner") shall immediately destroy the agency relationship between the Partnership and the Terminated General Partner. No other events affecting the General Partner shall constitute or be a "Terminating Event." A Terminating Event shall dissolve the Partnership and cause it to be wound up pursuant to subsection (b) below, unless the Partnership is continued by a new general partner elected in place of the Terminated General Partner by a Majority-In-Interest, as set forth in (a) below.

(a) Following a Terminating Event, if a Majority-In-Interest of the Limited Partners promptly by written consent agree to continue the business of the Partnership and within three (3) months of such Terminating Event admit one or more General Partners, then the Partnership shall continue without dissolution and winding up.

(b) If a Majority-In-Interest do not agree by written consent to continue the business of the Partnership or do not act to admit one or more new General Partners within three (3) months of the Terminating Event, the Partnership is dissolved and its affairs shall be wound up in accordance with Article 8 of the Nevada Revised Limited Partnership Act, NRS 88.550-88.565, and Article XIII of this Agreement.

3. Rights of Terminated General Partner. Upon the occurrence of a Terminating Event, the Partnership shall pay to the Terminated General Partner all amounts then accrued and owing to the Terminated General Partner. The Partnership shall also terminate the Terminated General Partner's interest in Partnership profits, gains, losses, net proceeds, distributions, and capital by payment of an amount equal to the then present fair market value of the Terminated General Partner's interest determined by agreement of the Terminated General Partner and the Partnership, or, if they cannot agree, by arbitration in accordance with the then current rules of the American Arbitration Association. The expense of arbitration is to be borne equally by the Terminated General Partner and the Partnership. The method of payment to the Terminated General Partner shall not threaten the solvency or liquidity of the Partnership. In the event that the terminated General Partner does not receive his full capital account, at the time he ceases to be the General Partner, that capital account shall become a limited partner account, with the same rights and privileges as any other Limited Partner.

## **XIII. DISSOLUTION AND WINDING UP**

1. Upon the vote or written consent of a Majority-In-Interest, or as otherwise provided in this Agreement, the Partnership shall be dissolved and wound up, the assets shall be liquidated and converted to cash and the net proceeds distributed to the Partners after payment of the debts of the Partnership as provided herein and by applicable law. The assets shall be liquidated so as to obtain the reasonable highest price in an orderly liquidation not to exceed a five year period. In settling accounts after liquidation, the monies of the Partnership shall be applied in the following manner:

(a) the liabilities of the Partnership to creditors other than the General Partner shall be paid or otherwise adequately provided for;

(b) the liabilities of the Partnership to the General Partner shall be paid or otherwise provided for, and

(c) the remaining assets shall be distributed first to the Limited Partners and the General Partner in the same manner as cash available for Distribution are distributed under Article VIII.2 hereof. As cash is available it will be distributed to the Limited Partners pro-rata with their capital balances at the beginning of the month. The automatic reinvestment plan will be suspended, and no Limited Partnership withdrawals requests will be recognized during this process, as per article XI. The General Partner may withdraw his capital only down to the limits prescribed in Article III, and only if there is sufficient assets with a realizable market value such as to be assured that all Limited Partnership account balances can be met. Once all the Limited Partners capital and unmet cumulative Preferred Returns has been returned, the remaining assets, if any, may be distributed to the General Partner.

(c) During the liquidation period if assets are sold, the General Partner shall be entitled to take a commission on the sale of the assets from the Partnership, that would not exceed a brokerage fee that a broker would normally receive for buying or selling the assets.

2. In the event that, upon dissolution and winding up of the Partnership, following the sale or other disposition of all of its assets, and after crediting any gain or charging any loss pursuant to Article VIII, the General Partner shall have a deficit balance in its Capital Account, then the General Partner shall contribute in cash to the capital of the Partnership an amount which is equal to such deficit in its Capital Account.

#### XIV. SIGNATURES

Any assignment, contract, security agreement, chattel mortgage, lease, contract of sale, bill of sale, or other similar document to which the Partnership is a party, shall be executed by the General Partner, and no other signatures shall be required.

#### XV. SPECIAL POWER OF ATTORNEY

Any person who becomes a Limited Partner after the effective date of this Agreement shall execute and deliver to the General Partner a special power of attorney in form acceptable to the General Partner (existing Limited Partners having already executed and delivered same) in which the General Partner is constituted and appointed as the attorney-in-fact for such Limited Partner with power and authority to act in his name and on his behalf to execute, acknowledge, and swear to in the execution, acknowledgment, and filing of documents, which shall include, by way of illustration but not of limitation, the following:

1. This Agreement and all certificates of Limited Partnership, as well as all amendments to the foregoing which, under the laws of the State of Nevada or the laws of any other state, are required to be filed or recorded or which the General Partner deems is advisable to file or record;

2. All other instruments or documents which may be required to be filed or recorded by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems it advisable to file or record; and

3. All instruments or documents which may be required to effect the continuation of the Partnership, the admission of additional or substituted Limited Partners, the withdrawal of Limited Partners, or the dissolution and termination of the Partnership, provided such continuation, admission, withdrawal and dissolution and termination are in accordance with the terms of this Agreement.

The special power of attorney to be concurrently granted upon admission as such by each Limited Partner:

1. is a special power of attorney coupled with an interest, is irrevocable, shall survive the death of the granting Limited Partner, and is limited to those matters herein set forth;

2. shall survive an assignment by a Limited Partner of all or any portion of his Units except that, where the assignee of the Units owned by a Limited Partner has been approved by the General Partner for admission to the Partnership as a substituted Limited Partner, the special power of attorney shall survive each assignment for the purpose of enabling the General Partner to execute, acknowledge, and file any instrument or document necessary to effect such substitution.

## **XVI MISCELLANEOUS**

1. Notices. Any notice, payment, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally to the party or to an officer of the party to whom the same is directed, or if sent by registered or certified mail, postage and charges prepaid addressed as follows:

If to the General Partner:

Royce Capital Group  
Suite 201  
1281 Terminal Way  
Reno, Nevada 89502

If to a Limited Partner, at such Limited Partner's address for purposes of notice which is set forth on the books and records of the Partnership, or in either case as the General Partner or a Limited Partner shall designate pursuant to the notice provision hereof. Any such notice shall be deemed to have been given on the date following on which the same was deposited in a regularly maintained receptacle for the deposit of United States mail, addressed and sent as aforesaid.

2. Application of Nevada Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

3. Execution in Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had all signed the same document. All counterparts shall be construed together and shall constitute one agreement.

4. Waiver of Action for Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that he or it may have to maintain any action for partition with respect to the property of the Partnership.

5. Assignability. Except as expressly limited herein, each and all of the covenants, terms, provisions, and agreements herein contained shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto.

6. Interpretation. As used in this Agreement, the masculine includes the feminine and neuter and the singular includes the plural, as determined by the context.

7. Captions. Paragraphs, titles, or captions in no way define, limit, extend, or describe the scope of this Agreement nor the intent of any of its provisions.

8. Adjustment of Basis. The General Partner may elect, pursuant to Code Section 754, to adjust the basis of Partnership property under the circumstances and in the manner provided in Code Sections 734 and 743. The General Partner shall, in the event of such an election, take all necessary steps to effect the election.

9. Entire Agreement. This Agreement constitutes the entire understanding and agreement among the parties hereto with respect to the subject matter hereof.

Clerically revised June 1, 2001

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective this 1<sup>st</sup> day of January, 2000.

**GENERAL PARTNER:**

**ROYCE CAPITAL GROUP**

By: \_\_\_\_\_  
John F. Royce, President  
775 322 5797  
1281 Terminal Way, Suite 201  
Reno, NV 89502

**LIMITED PARTNERS:**

By: ROYCE CAPITAL GROUP

By: \_\_\_\_\_  
John F. Royce, President  
As Attorney-In-Fact for the Limited Partners



**SUBSCRIPTION AGREEMENT**

**The Subscription Agreement to subscribe  
to Units in the Issuer follows this page as  
pages 1 through 5**

## SUBSCRIPTION AGREEMENT AND POWER OF ATTORNEY

### Royce Mortgage Investment Fund, Limited Partnership

1. **SUBSCRIPTION.** The undersigned investor ("Investor") hereby applies to become a Limited Partner in Royce Mortgage Investment Fund, Limited Partnership, a Nevada limited partnership (the "Partnership" or the "Issuer"), and agrees to purchase the number of units of limited partnership interests ("Units") in the Partnership stated below in accordance with the terms and conditions of the Amended and Restated Limited Partnership Agreement ("Limited Partnership Agreement"), a copy of which is provided with the Offering Circular and tenders the amount required to purchase such Units. It is understood that the Units are \$1.00 per Unit, with a 10,000 Unit minimum purchase. The Units which the Investor offers to be purchase hereby shall not be deemed issued to, or owned by, the Investor until: (a) the Investor has fully paid in cash for such Units, and (b) the General Partner has, in its sole discretion, accepted Investor's offer of purchase by executing and returning a copy of this Subscription Agreement.

2. **REPRESENTATIONS BY THE INVESTOR.** The Investor represents and warrants to the General Partner that the Investor:

a. Has received the Limited Partnership Agreement dated June 1, 2001, and the Offering Circular dated November 30, 2001.

b. Understands that no Federal or state agency has made any finding or determination as to the fairness for public investment in, nor any recommendation nor endorsement of, the Units.

c. Understands that Units are offered for a minimum investment of \$10,000 [ten thousand Units].

d. Recognizes that the Units as an investment involve a high degree of risk.

e. Understands that there will be no public market for the Units, that there are substantial restrictions on repurchase, sale, assignment or transfer of the Units, and that it may not be possible readily to liquidate this investment.

f. Has (i) a minimum net worth (exclusive of home, furnishings, and automobiles) of \$50,000, plus an annual gross income of at least \$50,000 or (ii) minimum net worth (exclusive of home, furnishings and automobiles) of \$100,000 (\$150,000 in the State of Washington); or (iii) is purchasing in a fiduciary capacity for a person meeting the requirements of either (i) or (ii) above.

g. If an individual, has attained the age of majority (as established in the state in which domiciled), and, in any event, is under no disability with respect to entering into a contractual relationship with the Partnership.

h. If a trustee, is the trustee for the trust on behalf of which it is purchasing the Units, and has due authority to purchase Units on behalf of such trust.

i. Fully indemnifies and holds harmless the Partnership, the General Partner, and its affiliates from any and all claims, actions, causes of action, damages, and expenses (including legal fees and expenses) whatsoever which may result from a breach or alleged breach of any of the representations by Investor contained herein. **Notwithstanding the preceding sentence, no representations made by the Investor to the General Partner or to the Issuer with respect to the Investor's ability to meet the eligibility requirements waives any right or rights that the**



**Investor may have under the Federal securities laws.**

j. Meets the current suitability standards established by the Partnership and the state in which the Investor is domiciled. **The Partnership shall not assert any representations made by any Investor, with respect to the eligibility standards, as a defense in any subsequent litigation.**

k. Understands that although a Limited Partner is entitled to a preferential return, before the General Partner is entitled to management fees, any return on or return of, its capital, as described in the Limited Partnership Agreement, the Issuer and the General Partner, and its officers and directors, do not guarantee any interest or return on this investment.

l. Understands that the General Partner may call any subscriber prior to accepting any subscription to verify the representations of the above.

3. **ADOPTION OF AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT.** The Investor hereby adopts, accepts, and agrees to be bound by all terms and provisions of the Limited Partnership Agreement and to perform all obligations therein imposed upon a Limited Partner with respect to Units to be purchased. Upon acceptance of this Subscription Agreement by the General Partner on behalf of the Partnership, payment in full of the subscription price and the filing of a Certificate of Limited Partnership of the Partnership, the undersigned shall become a Limited Partner for all purposes of the Limited Partnership Agreement.

4. **LIMITATION ON ASSIGNMENT.** The Investor acknowledges that the Units may be assigned only as provided in the Limited Partnership Agreement and further acknowledges the restrictions on resale, transfer, or assignment of the Units set forth in the Limited Partnership Agreement and as described in the Offering Circular.

5. **SPECIAL POWER OF ATTORNEY.** The Investor hereby makes, constitutes and appoints the President of the General Partner of the Partnership to be such person's true and lawful attorney-in-fact to sign and acknowledge, file, and record:

a. The Limited Partnership Agreement and any amended certificate of Limited Partnership, as well as any and all amendments thereto required under the laws of the State of Nevada or of any other state to be filed or which the General Partner deems advisable to prepare, execute, and file.

b. Any other instrument or document which may be required to be filed by the Partnership by any governmental agency or by the laws of any state, or which the General Partner deems it advisable to file.

c. Any documents which may be required to effect the continuation of the Partnership, the admission of a substituted Limited Partner, or the dissolution and termination of the Partnership, provided such continuation, admission, or dissolution and termination are in accordance with the terms of the Limited Partnership Agreement.

The foregoing grant of authority:

(i) is a Special Power of Attorney, coupled with an interest, is irrevocable, shall survive the death of the Investor and shall not be affected by the subsequent incapacity of the

**Investor may have under the Federal securities laws.**

j. Meets the current suitability standards established by the Partnership and the state in which the Investor is domiciled. **The Partnership shall not assert any representations made by any Investor, with respect to the eligibility standards, as a defense in any subsequent litigation.**

k. Understands that although a Limited Partner is entitled to a preferential return, before the General Partner is entitled to management fees, any return on or return of, its capital, as described in the Limited Partnership Agreement, the Issuer and the General Partner, and its officers and directors, do not guarantee any interest or return on this investment.

l. Understands that the General Partner may call any subscriber prior to accepting any subscription to verify the representations of the above.

3. **ADOPTION OF AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT.** The Investor hereby adopts, accepts, and agrees to be bound by all terms and provisions of the Limited Partnership Agreement and to perform all obligations therein imposed upon a Limited Partner with respect to Units to be purchased. Upon acceptance of this Subscription Agreement by the General Partner on behalf of the Partnership, payment in full of the subscription price and the filing of a Certificate of Limited Partnership of the Partnership, the undersigned shall become a Limited Partner for all purposes of the Limited Partnership Agreement.

4. **LIMITATION ON ASSIGNMENT.** The Investor acknowledges that the Units may be assigned only as provided in the Limited Partnership Agreement and further acknowledges the restrictions on resale, transfer, or assignment of the Units set forth in the Limited Partnership Agreement and as described in the Offering Circular.

5. **SPECIAL POWER OF ATTORNEY.** The Investor hereby makes, constitutes and appoints the President of the General Partner of the Partnership to be such person's true and lawful attorney-in-fact to sign and acknowledge, file, and record:

a. The Limited Partnership Agreement and any amended certificate of Limited Partnership, as well as any and all amendments thereto required under the laws of the State of Nevada or of any other state to be filed or which the General Partner deems advisable to prepare, execute, and file.

b. Any other instrument or document which may be required to be filed by the Partnership by any governmental agency or by the laws of any state, or which the General Partner deems it advisable to file.

c. Any documents which may be required to effect the continuation of the Partnership, the admission of a substituted Limited Partner, or the dissolution and termination of the Partnership, provided such continuation, admission, or dissolution and termination are in accordance with the terms of the Limited Partnership Agreement.

The foregoing grant of authority:

(i) is a Special Power of Attorney, coupled with an interest, is irrevocable, shall survive the death of the Investor and shall not be affected by the subsequent incapacity of the

Investor;

(ii) may be exercised by the General Partner for each Limited Partner by a facsimile signature of or on behalf of the General Partner or by listing all of the Limited Partners and by executing any instrument with a single signature of or on behalf of the General Partner, acting as attorney-in-fact for all of them; and

(iii) shall survive the delivery of an assignment by a Limited Partner of the whole or any portion of his interest; except that where the assignee thereof has been approved by the General Partner for admission to the Partnership as a substituted Limited Partner, the Special Power of Attorney shall survive the delivery of each assignment for the sole purpose of enabling such person to execute, acknowledge, and file any instrument necessary to effect such substitution.

6. PAYMENT OF SUBSCRIPTION. The amount of the Investor's subscription is set forth below and payment of such amount is enclosed by a check payable to "Royce Mortgage Investment Fund, Limited Partnership Subscription Account". The Investor hereby authorizes and directs the General Partner to deliver this Subscription Agreement to the Partnership and pay the funds delivered herewith to the Partnership, to the extent the Investor's subscription has been accepted, with interest, if any. Any interest earned in the subscription account during this period shall accrue to the Investor in the form of additional Units. If the Investor's subscription is rejected in part, the funds delivered herewith will, to the extent the application is so rejected, be returned to the Investor as soon as is practicable, with interest and without deductions. The General Partner shall open a subscription trust account into which subscription monies will be deposited if they cannot be accepted immediately. A subscriber may ask for and obtain any monies back if they are not accepted within sixty (60) days of being tendered, together with any earned interest thereon.

7. PURCHASE BY FIDUCIARY. If the Investor is purchasing the Units subscribed hereby in a fiduciary capacity, the above representations and warranties are to be deemed to have been made on behalf of the person(s) for whom the Investor is so purchasing, except that such person(s) need not be over 18 years of age. See the representations in bold type above.

8. LIMITED PARTNERSHIP AGREEMENT GOVERNS. In the event of any conflict between the provisions of the Limited Partnership Agreement and any instrument or document executed, acknowledged, filed or recorded by the General Partner pursuant to this Special Power of Attorney, the Limited Partnership Agreement will govern.

9. SUBSCRIPTION AMOUNT. The Investor subscribes \$ \_\_\_\_\_ and encloses such sum herewith as the purchase price of \_\_\_\_\_ Units.

10. REINVESTMENT OF DISTRIBUTIONS. The Partnership maintains a Distribution Reinvestment Plan ("Plan") under which distributions of income of the Partnership may be reinvested for the purchase of additional Units, rather than being received in cash. See Limited Partnership Agreement. So long as the Investor meets the standards established by the Partnership and by the securities law administrator of the state in which the Investor is domiciled, and subject to possible suspension or termination of the Plan by the General Partner, as set forth in the Limited

Partnership Agreement, the Investor will continue to participate in the Plan if he or she elects option A, below. Option B, below, will constitute an election not to participate in the Plan. The Investor may change his or her election at any time by written notice to the Partnership. Please choose one or the other of the two options by a check mark in the appropriate blank. If you check neither blank, you will be considered to have elected to receive your distributions in cash (Option B).

A.  Investor elects to participate in the Partnership Distribution Reinvestment Plan

B.  Investor elects not to participate in the Partnership Distribution Reinvestment Plan and to receive distributions in cash.

11. OWNERSHIP OF UNITS. The Investor's interest will be owned and should be shown on the Partnership's records as follows:

Check one:

- Individual Ownership
- Joint Tenancy With Right of Survivorship (all parties must sign)
- Tenants in Common (all parties must sign)
- Community Property (one party must sign)
- Custodian
- Trustee
- Corporation
- Partnership
- Nonprofit Organization
- Qualified Pension, Profit-Sharing, 401(k), or IRA

Complete for each party to this subscription  
(Please Print)

Name \_\_\_\_\_  
          First                  Middle                  Last  
Or name of entity

Resident Address: \_\_\_\_\_  
                                  Street                                  City                  State/ZIP

E-mail address: \_\_\_\_\_

Home telephone number w/area code: \_\_\_\_\_

Business telephone number w/area code: \_\_\_\_\_

Date of Birth: \_\_\_\_\_ (Individual investors only)

Occupation: \_\_\_\_\_ (Individual investors only)

Marital Status: (check one) Single  Married  (Individual investors only)

Citizenship: U.S.  Other (describe) \_\_\_\_\_ (Individual investors only)

Investment Objective(check one):

Current income with retention of capital\_\_\_\_\_

Capital growth\_\_\_\_\_

Other (explain)\_\_\_\_\_

Investor's Capital Status and Suitability:

Net Worth:\$\_\_\_\_\_

Liquid Net Worth: \$\_\_\_\_\_

Investor's Years of Investment Experience:\_\_\_\_\_

Investor's tax bracket (if known and if individual):\_\_\_\_\_%

IN WITNESS WHEREOF, the undersigned Investor has executed this Subscription Agreement and Power of Attorney on the \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_\_.

\_\_\_\_\_  
Authorized Signature of Subscriber

\_\_\_\_\_  
Social Security Number or Federal Tax  
Identification Number

\_\_\_\_\_  
Authorized Signature of Subscriber  
(If more than one)

\_\_\_\_\_  
Social Security Number or Federal Tax ID #

**ACCEPTED:**

\$\_\_\_\_\_ for the same number of Units in the Partnership.

Royce Mortgage Investment Fund, Limited Partnership

Royce Capital Group, a Nevada corporation, General Partner

\_\_\_\_\_  
By: JOHN F. ROYCE, President, for the Partnership

Dated: \_\_\_\_\_, 200\_\_\_\_\_

OPINION RE.  
LEGALITY  
2PGS

**OPINION RE LEGALITY OF ISSUANCE**

**The opinion letter concerning the legality of the  
Units proposed to be issued by the Issuer follows this  
page as a two page document.**

**George R. Kucera**

Attorney at Law

**5321 Desert Peach Drive  
Sparks, Nevada 89436**

Telephone: (775) 741-2779  
Fax: (775) 626-7938

California State Bar Number: 46886

February 7, 2002

John F. Royce, President  
Royce Capital Group  
1281 Terminal Way, Suite 201  
Reno, Nevada 89502

Re: Royce Mortgage Investment Fund, Limited Partnership  
Regulation "A" Offering Circular

Dear Mr. Royce:

You, on behalf of Royce Capital Group, the General Partner of Royce Mortgage Investment Fund, Limited Partnership, herein the "Issuer", have asked me to opine on the validity and legality of the securities being offered by the Issuer pursuant to a Regulation A Offering Circular to be filed with the U.S. Securities and Exchange Commission.

I have been licensed as an attorney in California since 1970, and am familiar with the requirements for this opinion letter. I understand that this letter will be used as part of the Offering Circular and consent to such use. My affiliation with that of the General Partner and the Issuer is that of an independent contractor.

In preparing for this opinion letter, I have reviewed the primary documents relating to the organization, qualification, and operation of the Issuer. I have reviewed the Nevada Revised Statutes applicable to limited partnerships, and the reported court cases which interpret the applicable statutes, and the provisions of the Nevada Constitution which govern them. I have been given access to, and have reviewed, the documents evidencing performance of the Issuer, including reviewing monthly distributions, and the Issuer's procedures and practices germane to its operations.

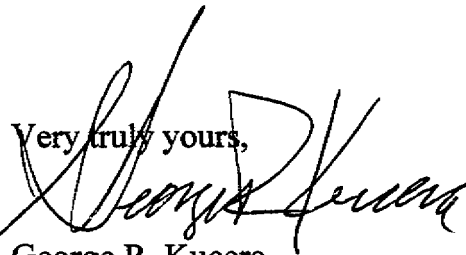
In addition, I have reviewed the Subscription Agreement, the Offering Statement, and the Offering Circular insofar as they describe and identify the Issuer and its organization,



qualification, and operations to date.

After review of the pertinent documents and resources, described above, I am of the opinion that:

1. The Limited Partnership ["Issuer"] is duly and legally organized under the laws of the State of Nevada.
2. The Issuer is in compliance with all laws of the State of Nevada with respect to its operations and has met all filing requirements of such State for limited partnerships.
3. The Issuer is offering limited partnership interests ["Units"] which, when sold pursuant to the Regulation A Offering Circular, will be legally issued.
4. The Units sold, when fully paid for by the purchaser(s), will be non-assessable, both under the laws of the State of Nevada and in accordance with the Issuer's Limited Partnership Agreement.

Very truly yours,  
  
George R. Kucera

GRK:sl



**TAX OPINION LETTER**

**The Tax Opinion Letter follows this page  
as a 7 page document.**

GEORGE R. KUCERA  
Attorney at Law  
5321 Desert Peach Drive  
Sparks, Nevada 89436

Telephone: (775) 741-2779  
Fax: (775) 626-7938

California State Bar Number: 46886

February 7, 2002

John F. Royce, President  
Royce Capital Group  
1281 Terminal Way, Suite 200  
Reno, Nevada 89502

Re: Tax Opinion re  
Royce Mortgage Investment Fund, Limited Partnership

Dear Mr. Royce:

You have asked me to opine on the tax consequences of an investment in Royce Mortgage Investment Fund, Limited Partnership, herein the "Issuer", as well as to give an opinion on the taxable status of the Issuer. I understand that this letter will be part of the Offering Circular for the Issuer, and I consent to the use and filing of this opinion letter.

I am licensed to practice law in California, and have practiced tax and corporate law since 1970. I graduated from Hastings College of the Law, San Francisco, California, in 1969, where I took every tax class that the school had at that time. Immediately following graduation, I worked from 1969 to 1970 as a Tax Law Specialist, Individual Income Tax Branch, Individual Income Tax Section ["T:I:I:1:1"], in the National Office of the Internal Revenue Service, Washington, D.C. Following that, I worked at Wayne Hea Law Corporation as a tax associate, and with DeCaro, Kucera, & DeCaro, a Law Corporation; Brown, Wright & Kucera, a Law Corporation; and Kucera & Kokores, all in Palo Alto, California, as the tax partner in such firms. I have taken graduate tax courses, after law school, from Golden Gate University, San Francisco, California. I am familiar with partnership law and taxation.

As preparation for this opinion letter, I have reviewed the Limited Partnership Agreement for the Issuer, as well as the applicable Nevada and Federal laws relating to formation, organization, management, and taxability of limited partnerships. I have satisfied myself, from primary documentation, that the requirements I shall discuss later in this letter have been satisfied by both the Limited Partnership ["Issuer"], and Royce Capital Group, the General Partner of the Issuer.

This letter is intended to give an overview of the tax and general laws relating to limited partnerships, and to apply such laws and analysis to the Issuer. It cannot, and does not, address every issue that each potential investor in the Issuer may have, and I have not been given specific information concerning the financial or tax status of any potential investor. I shall assume, for purposes of this opinion letter, that each and every potential investor shall apply the opinions expressed herein to his or her individual situation and requirements, in conjunction with their individual tax and/or investment advisors.

#### Legal Status of Issuer

The Issuer is a Nevada limited partnership. It was formed in 1997 pursuant to Chapter 88, Nevada Revised Statutes ["NRS"], and has been operating under such laws since then. In 2001, the name of the Issuer was changed from D.F. Capital, L.P., to the present name: "Royce Mortgage Investment Fund, Limited Partnership". The General Partner, Royce Capital Group, is a Nevada corporation and has been the General Partner since the formation of the Issuer. The certificate required by NRS 880330 has been filed with the Office of the Nevada Secretary of State, and the information required by NRS 88-335 is kept at the office of the General Partner. The annual list of General Partner(s) required by NRS 88-395 has been properly filed each year.

It is my opinion that the Issuer is a properly formed and operating limited partnership in accordance with Chapter 88, NRS, and that the purchasers of Limited Partnership Interests ["Units"] will become limited partners in such partnership.

#### Taxable Status as a Limited Partnership

Prior to 1997, the Internal Revenue Service used six criteria, outlined in Regulations Section 301.7701, to determine whether an entity was to be taxed "as an association taxable as a corporation" or a partnership. Two of the criteria were applicable to both entities, and were, therefore, disregarded for this analysis. If an entity had a preponderance of the remaining four, it was taxed as an association taxable as a corporation.

Examining the Issuer under the old rules, it does not have 'continuity of life' nor does it have 'free transferability of interests'. "Continuity of life" means that the entity to be adjudged must have a perpetual existence, such as a corporation traditionally has. The Issuer

will terminate its' existence in 2022, and, thus, does not have 'continuity of life'. "Free transferability of interests" means that the interest involved is freely transferable without the consent of third parties. Traditionally, corporate stock is freely transferable. However, Units in the Issuer are not freely transferable as Article X, Paragraph 2, of the Limited Partnership Agreement requires the consent of the General Partner for a Limited Partnership to transfer a Unit. In addition, if, in the opinion of a tax counsel for the General Partner, the proposed transfer would jeopardize the status of the Limited Partnership as a limited partnership, no transfer may be made. Thus, free transferability of interests absent in the Issuer.

However, the determination of taxable status for the Issuer is much simpler. In 1997, the Internal Revenue Service revised Regulation Section 301.7701 to allow entities that are not classified as trusts, or expressly taxed as corporations, to make an election as to how they are to be taxed. This revision of the regulation eliminated all of the tests involving the criteria described above. Now, the entity merely checks a box on its tax return and makes an election as to how it is to be taxed. The Issuer, on its 2000 form 1065, Partnership Tax Return, elected to be taxed as a partnership.

The Internal Revenue Service can also classify a limited partnership so as to tax it as a corporation if the limited partnership meets the requirements of a 'publicly traded partnership' as defined in Section 7704(b) of the Internal Revenue Code. Generally, a publicly traded partnership is one in which the interests are readily traded on an established securities market, or readily tradable on a secondary market or the substantial equivalent thereof. Certain transfers of partnership interests, such as at death, are exempt from the determination of 'publicly traded'. There are also some 'safe harbors' which preclude a determination of 'publicly traded', and provide for redemption of partnership interests if certain regulations to Section 7704 are met.

As mentioned, the Limited Partnership Agreement provides that a Limited Partner may not transfer his or her Units except with the consent of the General Partner, and, if tax counsel for the Partnership determines that such transfer would jeopardize the tax status of the Partnership, such Units may not be transferred. It is, therefore, my opinion that Units in the Issuer will not be traded on an established market as defined in IRC 7704, and that the operation of the Partnership, with respect to the transfer of Units, will qualify for the 'safe harbor' provisions of the Internal Revenue Code. Therefore, the Partnership will not be classified so as to be taxed as a corporation.

Based on the above, it is my opinion that the Limited Partnership is not an "association taxable as a corporation" and that it will be taxed as a partnership.

Taxability of Limited Partnership

The determination of whether the Issuer will be taxed as a partnership or as "an association taxable as a corporation" is crucial because partnerships generally eliminate one level of taxation.

Corporations generally pay corporate income tax on their net earnings, and the after tax income remaining is available for dividends to the corporate shareholders. When received by the shareholders, those dividends are generally treated as ordinary income. On the other hand, partnerships are 'pass through' entities, i.e., they generally do not pay income taxes. Instead, each partner, limited or general, pays his or her share *pari passu* of the partnership income. Thus, if a limited partner owns 5% of the partnership, that partner would include 5% of the partnership income in his or her individual return, whether or not such income was distributed by the partnership to the partner. The preceding sentence is also tempered somewhat in that distributions to partners that are deemed returns of capital are generally not taxed and only distributions in excess of capital accounts are considered taxable income to the receiving partner.

It is important to note that if some or all of the cash available for distribution to the partners is, instead, reinvested in the partnership so that the partners receive additional Units in the Limited Partnership in lieu of cash, the Limited Partners may have taxable income without the cash being distributed from the Issue to pay the taxes on such income.

The above assumes that the Issuer will have distributable income to its partners. However, if the Issuer has losses or credits, such losses or credits also will be distributed to the partners, pro rata.

As income is earned by the Partnership, it is credited, pro rata, to the Partner's capital accounts, and deemed taxable income to the partners.. As it is distributed to a partner, or if additional Units are purchased for that partner, it becomes recognized income to that partner. The capital account of each Limited Partner will be, at any time, the initial purchase price for Units purchased, less any distributions made or credited to such Limited Partner, plus any additional sums contributed by such Limited Partner to the Issuer, plus the allocation of that Limited Partner's share of profits . All distributions or credits to a Limited Partner after that partner's capital account has been reduced to zero will be taxable to such partner, and the tax basis of the Units held by such partner will also be zero for purposes of sale or transfer of the Units. Thereafter any sale or transfer of the Units by a partner with no tax basis in the Units will result in a taxable event.

### Property Held Primarily For Sale

Any entity that holds property primarily for sale to customers in the ordinary and normal course of business is deemed to be, for Federal tax purposes, a 'dealer', and the income received from the disposition of such property normally is classified as ordinary rather than capital gain or loss. Ordinary income rates are higher than those for capital gains. However, property held for investment purposes is not property held for sale to customers, and incidental sales of partnership loans, in the sole discretion of the General Partner, would not submit the Partnership to a classification as a dealer in loans. It is my opinion that the Partnership will not be classified as a 'dealer' in such loans.

### Portfolio Income

The Partnership will invest in real estate secured mortgages which produce interest income for the Partnership. Normally, the Internal Revenue Service considers interest income to be 'portfolio' income. Portfolio income is not 'passive income' such that the Limited Partners can offset such income against 'passive losses' such as from an unrelated real estate investment. It is my opinion that the income from the Issuer will be portfolio income taxable as ordinary income to the Limited Partners.

### Unrelated Business Income

Some of the Limited Partners purchasing Units pursuant to the Offering Circular may be tax exempt entities such as pension plans, profit-sharing plans, or individual retirement plans. Generally these types of entities do not pay Federal income taxes on the income received by them unless they engage in a type of business which produces 'unrelated business income' as such is defined in Section 513 of the Internal Revenue Code. The Issuer, and, through the Issuer, the Limited Partners, will receive primarily interest income from the real estate secured notes which form the assets of the Issuer. Interest income is not unrelated business income unless it is derived from 'debt financed property'. Although it is authorized to, the Issuer does not anticipate borrowing any funds to purchase notes. Instead, it will use the funds from the sale of Units to purchase the notes which will form the asset pool of the Issuer. Accordingly, if the General Partner does not borrow funds to purchase notes, the interest earned by the Issuer should not be taxable, for Federal income tax purposes, to entities which normally would not pay Federal income tax on their income.

It is also possible for these types of entities to realize unrelated business income upon the sale or other disposition of property if the property is held primarily for sale to customers, or is acquired in the manner described in Section 514(c)(9) of the Internal Revenue Code. This code section relates to transactions between the tax exempt entities and



persons related to them. The Issuer will not hold loans primarily for sale to customers or any one else, and will not acquire loans from anyone related to a tax exempt entity.

Based on the above, it is my opinion that the Limited Partners which are tax exempt entities should not receive unrelated business income as a result of the Partnership activities projected by the General Partner.

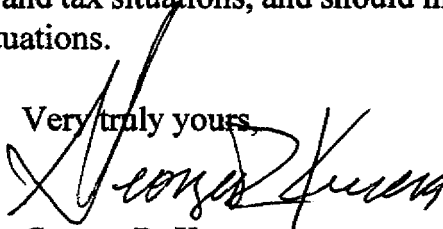
#### SUMMARY

It is my opinion that:

1. The Issuer, Royce Mortgage Investment Fund, Limited Partnership, is a validly formed and operating limited partnership in accordance with the laws of the State of Nevada.
2. Purchasers of Units [Limited Partnership Interests] will become Limited Partners in such Issuer.
3. The Issuer will be taxed as a limited partnership and not as an association taxable as a corporation.
4. The income received by the Limited Partners from Partnership operations will be ordinary portfolio income.
5. The Partnership will not be determined as holding property primarily for sale to customers.
6. Any tax exempt entity purchasing Units in the Partnership should not receive unrelated business income so as to incur Federal income upon such income.

It should be noted that the above opinions are based on the assumption that the Partnership will operate in conformance with the Limited Partnership Agreement and the representations made in the Offering Circular. It should also be noted that the Internal Revenue Code Sections and Regulations governing partnership taxation are among the most complex in the Code and Regulations, and that this opinion is not intended, and should not be construed, as covering all possibilities or aspects of partnership taxation. Each person or entity contemplating the purchase of Units in the Issuer has different investment objectives and different financial and tax situations, and should interpret this opinion letter in light of such objectives and situations.

Very truly yours,



George R. Kucera

GRK:sl



**COLLATERAL ANALYSIS OF DEEDS OF  
TRUST PRESENTLY OWNED BY ISSUER**

**The collateral analysis of the deeds of trust presently owned  
by the Issuer follows this page as a one page document.**

Deed of Trust Collateral Analysis for Royce Mortgage Investment Fund

12/31/2001

TYPE	Loan Number	USE-OCCUPANCY	State	Market Value	Priority	Underlying Loan	Percentage Owned	Total Balance of Note	Balance on RMIF Note	Current CLTV	Current Status	Interest Rate	
FRMH	9900190	O/O	NV	\$ 9,000.00	1st	\$ -	100%	\$ 3,016.00	\$ 3,016.00	33.51%	Current	15.00%	
COMMERCIAL/IMP	9600161	Office Bldg.	CA	\$ 630,000.00	1st	\$ -	25%	\$ 81,788.00	\$ 20,447.00	12.98%	Current	14.00%	
FRCH	92,01178	O/O	CA	\$ 109,000.00	1st	\$ -	100%	\$ 21,641.00	\$ 21,641.00	19.65%	Current	16.50%	
FRCH	9807008	O/O	CA	\$ 160,000.00	2nd	\$ 84,082.00	100%	\$ 10,996.00	\$ 10,996.00	59.42%	Current	17.00%	
FRMH	9800166	O/O	NV	\$ 85,000.00	1st	\$ -	100%	\$ 61,767.00	\$ 55,590.00	72.67%	Current	12.00%	
FRMH	0000202	O/O	NV	\$ 85,000.00	1st	\$ -	100%	\$ 11,500.00	\$ 11,500.00	13.53%	Current	12.00%	
COMMERCIAL/UNIMP	0000199	SHOPPING CENTER	CA	\$ 270,000.00	1st	\$ -	21%	\$ 138,600.00	\$ 29,000.00	51.53%	1 Mo. Deliq.	16.00%	
FRMH	99090015	N/O/O	NV	\$ 84,000.00	1st	\$ -	100%	\$ 52,036.00	\$ 52,036.00	61.95%	2 Mo. Deliq.	12.00%	
FR-LO	90,00364	O/O	NV	\$ 20,000.00	1st	\$ -	100%	\$ 3,636.00	\$ 3,636.00	18.18%	Current	10.00%	
FR-LO	90,00372	O/O	NV	\$ 20,000.00	1st	\$ -	100%	\$ 28,742.00	\$ 6,813.00	34.07%	Current	10.00%	
FRMH	9700106	Motel	NV	\$ 378,000.00	1st	\$ -	100%	\$ 80,742.00	\$ 60,267.00	7.60%	Current	14.00%	
COMMERCIAL/IMP	9911001	O/O	NV	\$ 228,000.00	2nd	\$ 108,500.00	100%	\$ 80,742.00	\$ 60,267.00	83.00%	Current	14.00%	
FRMH	9701150	O/O	NV	\$ 50,000.00	1st	\$ -	100%	\$ 22,581.00	\$ 22,581.00	45.16%	Current	16.00%	
FR-LO	98100011	O/O	NV	\$ 58,000.00	1st	\$ -	100%	\$ 27,000.00	\$ 27,000.00	46.55%	Current	14.00%	
FRCH	9700115	O/O	NV	\$ 36,000.00	1st	\$ -	100%	\$ 9,529.00	\$ 9,529.00	26.47%	Current	14.00%	
FRMH	99100000	O/O	NV	\$ 50,000.00	1st	\$ -	100%	\$ 17,624.00	\$ 17,624.00	35.25%	In foreclosure	15.00%	
FRCH	98040023	O/O	NV	\$ 85,000.00	1st	\$ -	13%	\$ 45,499.00	\$ 5,882.00	53.53%	1 Mo. Deliq.	14.00%	
FR-LO	00000259	Dev Land	NV	\$ 110,000.00	1st	\$ -	100%	\$ 56,040.00	\$ 56,040.00	50.95%	Current	14.00%	
FR-LO	01000261	Dev Land	NV	\$ 50,000.00	1st	\$ -	100%	\$ 17,800.00	\$ 17,800.00	35.60%	Current	14.00%	
FRMH	9900189	O/O	NV	\$ 12,000.00	1st	\$ -	100%	\$ 7,398.00	\$ 7,398.00	61.65%	Current	15.00%	
FRMH	9401033	Dev Land	NV	\$ 100,000.00	1st	\$ -	53%	\$ 25,799.00	\$ 13,703.00	25.80%	Current	14.00%	
FRMH	9800168	O/O	NV	\$ 26,600.00	1st	\$ -	100%	\$ 7,367.00	\$ 7,367.00	27.70%	Current	10.00%	
FRMH	9900194	N/O/O	NV	\$ 59,000.00	1st	\$ -	100%	\$ 47,446.00	\$ 47,446.00	80.42%	Current	14.00%	
FRMH	01000262	O/O	NV	\$ 59,500.00	1st	\$ -	72%	\$ 68,320.00	\$ 38,597.00	90.10%	Current	8.00%	
FRMH	01060006	Unimproved land	NV	\$ 105,000.00	1st	\$ -	100%	\$ 68,250.00	\$ 68,250.00	65.00%	Current	14.00%	
FRMH	01060002	O/O	NV	\$ 82,000.00	1st	\$ -	40%	\$ 49,178.00	\$ 19,563.00	59.97%	Current	15.00%	
FRMH	01070002	O/O	NV	\$ 14,000.00	1st	\$ -	100%	\$ 12,949.00	\$ 12,949.00	91.78%	1 Mo Deliq	12.00%	
								\$ 192,582.00	\$ 969,244.00	86%			
				\$ 2,975,100.00					\$ 695,293.00				
	Total CA Loans			\$ 71,086.00				\$ 35,897.93					22
	Total NV Loans			\$ 624,205.00				\$ 57%					3
													1
	Total			\$ 695,293.00									27

Collateral Definitions:

MFR-IMP	OID	Multi-Family Homes-Improved
SFR-IMP	OID	Single Family Residence Mobile Home owner occupied
SFR-IMP	OID	Single Family Residence Mobile Home not owner occupied
SFR-IMP	OID	Single Family Residence Mobile Home and Land owner occupied
SFR-IMP	OID	Single Family Residence Mobile Home and Land not owner occupied
SFR-LO	OID	Single Family Residence Land only owner occupied
SFR-CH	OID	Single Family Residence Conventional Home owner occupied
SFR-CH	OID	Single Family Residence Conventional Home not owner occupied
DL		Developed Land
COMMERCIAL/IMP		Commercial Land Improvement
COMMERCIAL/UNIMP		Undeveloped Commercial Land

DR CDR Note Balances Percentages		Dollar Amount Loans	
# Loans	%	Dollar Amount	%
3	11%	76,189.00	11%
9	33%	241,877.00	35%
15	56%	312,227.00	54%
27	100%	695,293.00	100%

Average		Weighted Average	
	81%		12.52%
	11%		12.77%
	4%		
	4%		
	100%		

Average Loan Size		Weighted Average CLTV	
	93%		
	7%		
	100%		

LENDER SERV. &  
ESCROW INSTR.  
4PGS

**THE LOAN SERVICING AGREEMENT BETWEEN THE ISSUER  
AND FIDELITY ESCROW FOLLOWS THIS PAGE**

FIDELITY ESCROW AND COLLECTIONS  
1281 TERMINAL WAY  
RENO, NEVADA 89502

**LENDER SERVICING AGREEMENT**

LOAN NO: All loans in Royce Mortgage Loan portfolio herein described as Note or Notes

Date: January 1, 2002

THIS LOAN SERVICING AGREEMENT IS MADE BETWEEN FIDELITY ESCROW AND COLLECTIONS, (HEREAFTER REFERRED TO AS "COMPANY" AND THE UNDERSIGNED, (HEREAFTER REFERRED TO AS "LENDER", WHETHER ONE OR MORE) WHO ARE ABOUT TO BECOME THE OWNERS OF A PROMISSORY NOTE ("THE NOTE") SECURED BY A DEED OF TRUST ("THE DEED OF TRUST") OR OTHER SECURITY AGREEMENTS, UNDER THE ABOVE REFERENCED LOAN NUMBER.

LENDER HEREBY AUTHORIZES AND INSTRUCTS COMPANY AND COMPANY AGREES TO SERVICE THE COLLECTION IN THAT CONNECTION, TO DO THE FOLLOWING:

- A. To receive any and all payments due Lender on the Notes;
- B. To endorse to Company's Trust Account any checks or money orders payable to Lender and to immediately deposit same in Company's Trust Account which is to be maintained in accordance with such laws and rules applicable thereto and as to which Company will not commingle its assets;
- C. To transmit Lender's portion of such payments of principal and interest to Lender within 5 days after receipt at the address shown herein and to not use such payment for any other transaction other than the transaction for which the funds are received;
- D. If the source of payment is not the maker of the note, to so inform the Lender;
- E. To cause Company's Trust Account utilized for this transaction to be inspected as required by such laws, rules and regulations as are applicable thereto;
- F. To take any other action which Company deems necessary or convenient to the collection and servicing of the Note including but not limited to instituting foreclosure proceedings in the event of default or making such payments for the Lender's account or taking such other action as Company deems necessary or desirable to protect the security of the Deed of Trust or the priority thereof;
- G. To execute and deliver on Lender's behalf and in Lender's name any documents necessary or convenient for the exercise of any rights or duties which Lender may have under the Deed of Trust, including but not limited to Request for Reconveyance; Payoff Demands, Beneficiary Statements, Declarations and Notices of Default, bidding authorizations and other instructions to the Trustee of the Deed of Trust;
- H. To receive Notices of Default of prior encumbrances and to promptly notify Lender of any default upon the Note and any prior encumbrances;

- I. To grant such extensions as Company deems reasonably appropriate;
- J. To track insurance on the property if it is an improved property.
- K. To periodically check to see if the real estate taxes are paid on the property.

Any payment (other than the forwarding of a borrower's payment) made by Company to or on behalf of Lender, to senior liens or to otherwise protect or enforce the Lender's security or rights hereunder, will be repaid by Lender upon Company's written demand together with interest on said payment at the Note rate and it holds for the benefit of Lender. Company is neither obligated to make any such payment nor to continue making such payments should it elect to make one or more such payments on behalf of Lender.

As consideration for the services to be rendered by Company for Lender, Lender authorizes Company to make and retain from funds received a monthly loan servicing charge equal to 1/12th of 1 % of the outstanding principal balance of the Note, down to a minimum of \$6.00 per month and to retain any assumption demand, beneficiary and processing fees. Late charges and prepayment penalties shall be split 50% by Company and Lender.

The following provisions (1) - (4) apply only to loans in which Lender holds an undivided fractional interest:

- (1) Lender acknowledges that it holds or will hold an undivided interest in the Note and Deed of Trust as a tenant in common with another or other Lenders all of whom are executing counterparts (except as to vesting and payment instructions) of this loan servicing agreement. When so executed, all such counterparts shall constitute an agreement between all holders of interests in the Note and Deed of Trust as well as between Lender and Company.
- (2) A default upon any interest in the Note shall constitute a default upon all interests. A majority in interest of Lenders may determine and direct the actions to be taken on behalf of all Lenders in the event of default or with respect to other matters requiring the direction or approval of Lenders, and such majority may designate the Company to so act in their behalf.
- (3) Company shall furnish to Lender a list of names and addresses of all Lenders holding an interest in the Note upon five (5) days written notice.
- (4) A majority in interest of Lenders may terminate Company's authority hereunder at any time upon 10 days written notice and upon repayment of any outstanding payments made by Company on Lender's behalf and accrued expenses incurred by the Company in connection with servicing the Note.

The parties acknowledge to each other that the President of the Lender and the President of the Company are John F. Royce, and that they are affiliated companies, sharing directly or indirectly common ownership.

I/We designate, that the undersigned's undivided interest of the described Note and Deed of Trust be vested as follows:

Royce Mortgage Investment Fund, L. P.



I/We represent that all of the persons designated above are over the age of 18 and are competent and are residents of the State of NEVADA. Payments should be disbursed to the following payee(s) at the following address(es):

1281 Terminal Way, Suite 201  
Reno, Nevada, 89502

### ARBITRATION OF DISPUTES

All controversies or claims between the parties hereto arising out of our relating to the loan contemplated by this agreement, including but not limited to the arranging thereof, shall be determined by arbitration in accordance with applicable rules of the American Arbitration Association. Judgment on the arbitrator's award may be entered in any court having jurisdiction.


"NOTICE: BY SIGNING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS SUCH RIGHTS ARE SPECIFICALLY INCLUDED IN THE ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE APPLICABLE NEVADA NRS OR CALIFORNIA CODE OR CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

DATE: Jan 1, 2002

Royce Mortgage Investment Fund, L. P.

BY: Royce Capital Group

  
BY: John F. Royce, President  
Fidelity Escrow and Collections

  
BY: John F. Royce, President

# ESCROW INSTRUCTIONS

January 1, 2002

TO: Fidelity Escrow and Collections  
1281 Terminal Way, Suite 200  
Reno, Nevada 89502

You are instructed to open an interest bearing Trust Subscription Account, fbo of Royce Mortgage Investment Fund, Limited Partnership, at the Bank of America, Reno, Nevada. You will be receiving subscription agreements in the form attached hereto as Exhibit "A", together with checks from investors desiring to subscribe to the public offering of Royce Mortgage Investment Fund, Limited Partnership. Please advise us as each subscription is received, and deposit any funds received in an amount of \$10,000 or more into this account. Please keep records of interest accruing for each separate investor and the date on which a check is received by you.

We will notify you when we wish to accept an investor's funds, together with accrued interest thereon, at which time you will transfer the money to us by your check and we will accept the subscription.

If an investor's money has not been accepted by us within sixty (60) days of it being deposited with you, upon demand from the investor you will return the money credited to such investor, together with accrued interest thereon, to the investor. Please notify us of these withdrawals.


There is no minimum aggregate subscription amount that must be received other than one subscription in the minimum amount of \$10,000, or more. We will pay all charges for this escrow.

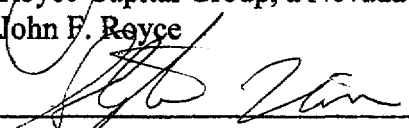
Royce Mortgage Investment Fund, Limited Partnership  
By: Royce Capital Group, General Partner

  
\_\_\_\_\_  
John F. Royce, President

The Issuer has duly caused this offering to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Reno, State of Nevada, on February 8, 2002.

**ROYCE MORTGAGE INVESTMENT FUND, LIMITED PARTNERSHIP**  
A Nevada Limited Partnership

  
\_\_\_\_\_  
Royce Capital Group, a Nevada corporation, by its President and sole Director,  
John F. Royce

  
\_\_\_\_\_  
Royce Capital Group, a Nevada corporation, by Steve Nisen, Chief Financial  
Officer