

\$250,000,000 7.000% Senior Notes due 2018

We, Rialto Holdings, LLC and Rialto Corporation (collectively, the "Issuers"), are offering \$250,000,000 aggregate principal amount of our 7.000% senior notes due 2018 (the "Notes"). The Notes will mature on December 1, 2018. We will pay interest on the Notes on June 1 and December 1 of each year, commencing June 1, 2014, and at maturity.

The Issuers may redeem some or all of the Notes on or after December 1, 2015 at the redemption prices described in this offering memorandum, plus accrued and unpaid interest through, but not including, the date of redemption. The Issuers may redeem some or all of the Notes, at any time before December 1, 2015, at a redemption price equal to 100% of their principal amount, plus a make-whole premium and accrued and unpaid interest. Before December 1, 2015, the Issuers may redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of public offerings of equity at a redemption price equal to 107% of the principal amount of the Notes, plus accrued and unpaid interest. The Notes will not have the benefit of any sinking fund.

The Notes will be our senior unsecured and unsubordinated obligations, will rank equally with all of our other unsecured and unsubordinated indebtedness, and will be senior to any of our future indebtedness that is expressly subordinated in right of payment to the Notes and junior to any of our secured indebtedness to the extent of the value of the assets securing that indebtedness. The Notes will at all times be guaranteed by three directly or indirectly 100% owned subsidiaries that currently are our principal subsidiaries, and will be guaranteed by other existing and future directly or indirectly 100% owned subsidiaries unless such subsidiary is an unrestricted subsidiary. When they are issued, the Notes will be guaranteed by all our 100% owned subsidiaries other than subsidiaries that are Unrestricted Subsidiaries. See "Description of Notes—The Guarantees."

Upon a Change of Control Triggering Event, we will be required to make an offer to repurchase all the outstanding Notes at a price in cash equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest to, but not including, the repurchase date.

For a more complete description of the Notes, see the "Description of Notes" section of this offering memorandum. The Notes are a new issue of securities and there currently is no established trading market for the Notes. We do not intend to apply to list the Notes on any securities exchange or to include them in any automated quotation system. It is possible that no active trading market for the Notes will develop, or that if it develops, it will not be maintained.

Rialto Corporation is one of our wholly owned subsidiaries. It has nominal assets and does not and will not conduct any operations or have any employees. It was formed in 2013 for the sole purpose of acting as an issuer or co-obligor of debt securities that we may issue or guarantee from time to time. Rialto Corporation acts as issuer or co-obligor for the Notes solely to allow certain institutional investors that might otherwise not be able to invest in our securities, by reason of the legal investment laws of their states of organization or their charters, to invest in our debt securities.

Investing in the Notes involves significant risk. See the section entitled "Risk Factors" beginning on page 19 of this offering memorandum.

We have not registered the Notes or the guarantees under the federal securities laws or the securities laws of any state. Rialto Holdings, LLC is not registered (and does not intend to register) under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The initial purchasers named below are offering the Notes only to persons reasonably believed to be qualified institutional buyers in Rule 144A under the Securities Act of 1933, as amended ("Rule 144A"), and that are qualified purchasers in Section 2(a)(51) of the Investment Company Act (each, a "Qualified Purchaser").

Price of Notes: 100% plus accrued interest, if any, from the issue date.

The Notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about November 14, 2013.

Joint Book-Running Managers

Wells Fargo Securities

J.P. Morgan Deutsche Bank Securities

Co-Manager

Goldman, Sachs & Co.

We have not authorized any dealer, salesperson or other person to give any information or represent anything to you other than the information contained in this offering memorandum (which includes the information incorporated by reference into it). You must not rely on unauthorized information or representations.

This offering memorandum does not offer to sell or ask for offers to buy any of the securities in any jurisdiction where such an offer or sale would be unlawful or where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities.

The information in this offering memorandum is current only as of the date on its cover, and may change after that date. We do not represent that at any time after the date of this offering memorandum our affairs will be the same as what is described in this offering memorandum or that the information in this offering memorandum otherwise will continue to be correct — nor do we imply those things by delivering this offering memorandum or selling securities to you.

TABLE OF CONTENTS

	Page
Important Notice to Readers	1
Notice to New Hampshire Residents	3
Special Note Regarding Forward-Looking Statements	3
Summary	4
Summary Financial Information	16
Risk Factors	19
Absence of Public Market	32
Use of Proceeds	32
Other Indebtedness	32
Capitalization	33
Selected Financial Information	34
Management's Discussion and Analysis	37
Description of Business	59
Management	68
Security Ownership of Certain Beneficial Owners and Management	70
Certain Relationships and Related Party Transactions	70
Description of Notes	72
Book-Entry, Delivery and Settlement	115
Material U.S. Federal Income Tax Considerations	117
Certain Erisa Considerations	122
Plan of Distribution	124
Notice to Investors; Transfer Restrictions	127
Legal Matters	131
Independent Auditors	131
Available Information	131
Index to Consolidated Financial Statements	F-1



IMPORTANT NOTICE TO READERS

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the securities described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the securities being offered. This offering memorandum is highly confidential. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise the prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum. If you do not purchase any of the Notes, or if this offering is terminated, you agree to return this offering memorandum and all documents delivered in connection with this offering memorandum to Wells Fargo Securities, LLC, 550 S. Tryon St., Charlotte, NC 28202 Attn: High Yield Syndicate.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation by the initial purchasers as to the past or future. We have furnished the information contained in this offering memorandum. The initial purchasers have not independently verified any of the information contained in this offering memorandum (financial, legal or other) and assume no responsibility for the accuracy or completeness of any of that information.

None of the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission or any other regulatory authority has approved or disapproved the securities offered by this offering memorandum nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The Notes and the guarantees are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities laws pursuant to registration or exemption from the need to register. Also, the Notes and guarantees may only be transferred to persons who are "qualified purchasers" for purposes of the Investment Company Act of 1940, as amended (the "Investment Company Act"). As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of Distribution" and "Notice to Investors; Transfer Restrictions."

In making an investment decision, prospective investors must rely on their own examinations of Rialto Holdings, LLC ("Holdings") and its subsidiaries (together "we" or the "Company") and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In this offering memorandum, we rely on and refer to information and statistics regarding our industry. We obtained this market data from independent industry publications or other publicly available information. Although we believe that these sources are reliable, we have not independently verified, and do not quarantee, the accuracy and completeness of this information.

This offering memorandum contains summaries that we believe to be accurate of certain documents, but reference is made to the actual documents for complete information. All of those summaries are qualified in their entirety by that reference. Copies of documents referred to in this offering memorandum will be made available to prospective investors upon request to us or the initial purchasers.

By receiving this offering memorandum and by purchasing Notes, you acknowledge that (1) you have had the opportunity to ask us for and to review, and you have received and reviewed, all information considered by you to be necessary to verify the accuracy of or to supplement the information presented in this offering memorandum, (2) you have not relied on the initial purchasers or any person affiliated with any initial purchaser in connection with your investigation of the accuracy of that information or your investment decision and (3) no person has been authorized to give information or to make any representation concerning Holdings and its subsidiaries or the Notes other than as contained in this offering memorandum. You cannot rely on any other representation.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this offering memorandum are "forward-looking statements." These forward-looking statements include statements regarding this offering, as well as our business, financial condition, results of operations, cash flows, strategies and prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" in this offering memorandum. We do not undertake any obligation to update forward-looking statements, except as required by federal securities laws.

SUMMARY

The following summary highlights information contained elsewhere in this offering memorandum. This summary is not complete and does not contain all the information that you should consider before investing in the Notes. Before making a decision to invest in the Notes, you should read this entire offering memorandum, including the section entitled "Risk Factors" and our audited and unaudited consolidated financial statements and related notes appearing elsewhere in this offering memorandum. Unless the context requires or otherwise indicates, references in this offering memorandum to "we," "our," "us," "our company", the "Company" or "Holdings" refer to Rialto Holdings, LLC and its consolidated subsidiaries, including Rialto Capital Management, LLC, Rialto Investments, LLC and Rialto Mortgage Finance LLC. References to the "Issuers" refer to Rialto Holdings, LLC and Rialto Corporation.

Our Company

We are a leading commercial real estate investment, investment management, and finance company focused on raising, investing and managing third party capital, originating and securitizing commercial mortgage loans, as well as investing our own capital in real estate related mortgage loans, properties and related securities. We have a vertically-integrated operating platform consisting of over 280 professionals located in 9 offices across the U.S. Our principal subsidiary was founded in 2007 and we are a wholly-owned subsidiary of Lennar Corporation ("Lennar"), one of the largest homebuilders in the U.S. At August 31, 2013, Lennar had \$715 million of capital invested in our business to support our growth.

Our primary business strategy has been to raise, invest and manage third-party capital, as well as to invest our own capital, in three major business lines:

- Asset and Investment Management: our real estate investment and asset management business allows us to be a sponsor of and an investor in private equity vehicles that invest in and manage real estate related assets;
- Conduit Loan Origination Program: the origination and securitization of first mortgage loans secured by commercial real estate; and
- <u>Direct Investments in Real Estate Related Assets</u>: direct investments in distressed and value-add assets including real estate related mortgage loans and properties and primarily new-issue commercial mortgage-backed securities ("CMBS").

We apply a comprehensive risk management approach across our business lines, which is rooted in our management's deep understanding of fundamental real estate values and proven ability to manage these complementary business lines through multiple economic and credit cycles. To date, many of our investment and management opportunities have arisen from the dislocation in the U.S. real estate markets from 2007 to 2010 and the efforts to restructure and recapitalize those markets. Going forward, we believe that we are well-positioned to capitalize on the opportunities arising from the diminished supply of commercial real estate debt capital and the substantial demand for new financings in the commercial real estate sector. We believe our comprehensive, highly experienced management team of industry veterans supplemented by Lennar's knowledge of regional and local real estate conditions in many parts of the country, will allow us to continue to grow our business prudently as we endeavor to capitalize on opportunities in the more than \$3.0 trillion commercial real estate finance market.

Asset and Investment Management

We have 152 professionals in our investment and asset management segment who manage approximately \$4 billion of equity capital, service over \$30 billion of real estate loans and securities and manage the ongoing workout of over 9,000 real estate mortgage loans. We also have obtained a CMBS special servicer rating of CSS2- by Fitch and an "Above Average" ranking by S&P rating services. Our real

estate investment and asset management business allows us to be a sponsor of and an investor in private equity vehicles that invest in and manage real estate related assets.

Beginning in 2009, we became a sub-advisor to AllianceBernstein L.P. in its role as one of the eight firms selected by the U.S. Treasury to manage investment funds created under a Public-Private Investment Program ("PPIP") that was designed to invest in legacy commercial and residential mortgage securities in order to help provide liquidity to the nation's banks. As part of this arrangement, we participated in the successful deployment of \$4.3 billion of capital that generated a total net internal rate of return of 18.7% for the U.S. Treasury and participating private investors. In addition, we are managing two private distressed real estate funds and one mezzanine loan fund with total capital commitments to date of approximately \$1.7 billion. We earn recurring management fees for our role as a manager of private equity and debt funds and for providing investment management and other services to those vehicles and other third parties. Our vertically integrated loan underwriting and loan and REO asset management platform, our extensive relationships with loan originators, brokers and other third parties, and our access to Lennar's regional and local real estate expertise, provide unique insight into local markets nationwide and allow us to develop customized investment management solutions that we expect should enable us to generate superior results.

Conduit Loan Origination Program

We began commercial mortgage loan origination activities through our Rialto Mortgage Finance ("RMF") operating segment in July 2013 by hiring a group of 22 seasoned professionals. This platform is focused on originating first mortgage loans, secured by stabilized, income-producing commercial real estate properties, and selling those loans in quarterly or more frequent securitizations. Our targeted loan sizes range from \$10 million to \$20 million. We source lending opportunities by leveraging a deep network of direct borrower and broker relationships in the real estate industry, including local, regional and national developers, mortgage brokers, asset managers and other institutional property owners, and through correspondent originators. Through October 31, 2013, we have originated 39 loans totaling \$551 million across 15 states. Additionally, we have contributed approximately \$372 million of first mortgage loans to two CMBS securitizations at a premium to the face value of the loans. We expect to finance our loan originations for this segment with approximately \$150 million of capital (including much of the proceeds of the sale of the Notes) and an anticipated \$750 million, up to \$1 billion, of committed warehouse loan facilities to be provided by several lending institutions. Currently, we have \$500 million of these committed warehouse loan facilities in place.

Direct Investments in Real Estate-Related Assets

Through our direct investments segment, we have been among the most active acquirers of portfolios of distressed real estate loans and assets from banks, government entities and other financial institutions. We partnered with the Federal Deposit Insurance Corporation ("FDIC") in February 2010 to invest in and manage non-performing and distressed real estate loans with an aggregate unpaid principal balance of \$3 billion that the FDIC had acquired through its conservatorship of 22 banks. Through a structured transaction with the FDIC, we acquired 40% managing member equity interests in each of two limited liability companies ("LLCs") for an investment of \$243 million while the FDIC contributed the loans and retained 60% equity interests in each of the LLCs. The FDIC provided the LLCs with \$626.9 million of debt financing with 0% interest, which was non-recourse to the LLCs and to us, in the form of purchase money notes, to finance the \$1.2 billion investment. Cash collected on the loans, net of expenses and other items, went first to pay down the \$626.9 million in purchase money notes, which was fully repaid in October 2013, after which the remaining cash flow is being shared 60% for the FDIC and 40% for us.

We are led by a highly seasoned management team that has 23 years of average industry expertise. That team is led by Jeffrey Krasnoff, our Chief Executive Officer, who has over 36 years of experience in residential and commercial real estate investment, finance, and development, and has led companies that have managed over \$300 billion of real estate assets around the world, and Jay Mantz, our President, who

was most recently the head of Real Estate at Morgan Stanley and has 23 years of industry experience. Many of the members of our leadership team worked together for many years at LNR Property Corporation, which was founded in the early 1990's by Lennar, and was spun off by Lennar to its stockholders in 1997, and was a separately managed publicly traded corporation until it was acquired by a private equity group in 2004.

Industry Overview and Market Opportunity

Commercial real estate is a capital-intensive business that relies heavily on debt capital to develop, acquire, maintain and refinance commercial properties. We believe that demand for commercial real estate debt financing, together with a reduction in the supply of traditional bank financing targeting the commercial real estate sector, presents compelling opportunities to generate attractive returns as we look to invest our own capital or capital we raise from third parties.

As of June 30, 2013, per the Federal Reserve, there was more than \$3.0 trillion of commercial mortgage loans outstanding in the United States. The commercial real estate market faces significant near-term debt maturities, with over \$1.6 trillion of currently outstanding commercial and multifamily real estate debt scheduled to mature from 2014 through 2018. The following chart shows commercial real estate debt maturities as of March 31, 2013:

Commercial Real Estate Debt Maturities (\$ in billions) \$400 \$376 \$366 \$355 \$349 \$353 \$347 \$330 \$329 \$350 \$322 \$300 \$270 \$238 \$250 \$223 \$198 \$200 \$150 \$100 \$50

2012

2013F

2014F

2015F

2016F

2017F

2018F

2010

2011

Source: Trepp LLC

2006

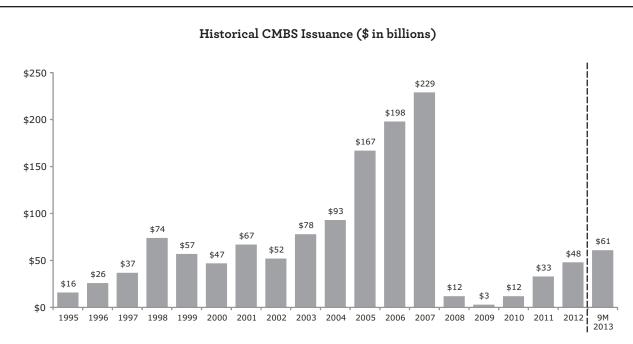
2007

2008

2009

\$0

Improving commercial property values as well as resurgent investor demand for CMBS have contributed to a more positive environment for commercial real estate assets over the last several years. This improved market has driven significant growth in new loan origination. As a result, new issuances in the CMBS market expanded from \$11.6 billion in 2010 to \$48.4 billion in 2012, an increase of over 300%. In the first nine months of 2013, this growth trend has showed signs of accelerating as \$61 billion of new CMBS were issued during that period. However, despite recent growth trends, the primary CMBS market volumes remain a small fraction of historical issuance levels. The following chart shows historical CMBS issuance from 1995 through the first nine months of 2013.



Source: Commercial Mortgage Alert

Additionally, many traditional commercial real estate lenders that have historically competed for loans within our target market are facing tighter capital constraints due to changes in banking regulations. Given this confluence of market dynamics, we believe that we are well positioned to capitalize on commercial mortgage related activities as we invest our own capital and capital we raise from third parties.

Our Strategy

We intend to capitalize on the market dynamics in the commercial real estate sector by expanding our balance sheet-light strategy to grow our investment management platform and expand our conduit origination program, which was initiated in July 2013. Growing our asset management business will increase the recurring fees we earn on the capital we manage for third parties. Our conduit origination program enables us to recycle capital with attractive risk-adjusted returns as we sell first mortgage loans into a growing CMBS securitization market. We intend to monetize our direct investments over the next few years to unencumber capital previously invested in these assets. In addition, we may opportunistically retain or acquire other commercial real estate related investments including non-investment grade tranches of CMBS, if we believe those investments will result in attractive risk-adjusted returns.

Our Competitive Strengths

We believe that our competitive strengths include the following:

Diversified Commercial Mortgage Franchise with National Presence: We are a significant commercial real estate investment, finance and investment management company. Our vertically-integrated real estate related operating platform consists of over 280 professionals located in nine offices across the U.S. As a result of our diversified platform, we have various sources of revenue, including 22.6% of our revenue from our investment management activities for the nine months ended August 31, 2013. We currently service over \$30 billion of real estate loans and securities, have raised approximately \$1.7 billion of third-party capital in three private funds, partnered with the FDIC to manage distressed real estate assets (which we manage), obtained a CMBS special servicer rating of CSS2- by Fitch and "Above Average" by S&P rating services and commenced a commercial real estate loan origination and securitization platform.

We have significant expertise managing real estate related assets for U.S. government entities as well as institutional investors. In 2009, we participated as a sub-advisor to one of eight firms selected by the U.S. Treasury to manage investment funds created under PPIP, a public private investment program, that was designed to invest in legacy commercial and residential mortgage securities. We believe our comprehensive, vertically-integrated infrastructure, highly experienced management team of industry veterans and access to information about regional and local real estate markets from Lennar will allow us to continue prudently growing our business as we endeavor to capitalize on opportunities in the \$3.0 trillion commercial real estate finance market.

Experienced Management Team: Our senior management team has an extensive track record in the real estate finance and asset management sector and averages 23 years of industry experience. Our Chief Executive Officer has been involved in the evaluation and oversight of over \$300 billion of real estate assets around the world. He was the President of LNR Property Corporation from the time of its spin-off from Lennar as a separate public company in 1997 until 2007, and its Chief Executive Officer from 2002 to 2007. He was also instrumental in taking that company private in a \$4 billion transaction in early 2005. Just prior to joining us in 2011, our President was the Head of Real Estate at Morgan Stanley from 2010 to 2011 and served as Global Co-Head of Morgan Stanley's Merchant Bank Group, which includes Morgan Stanley Real Estate Investing Funds, the Morgan Stanley Infrastructure Fund and other private equity funds, from 2007 to 2009. Our key leadership team has significant continuity, many of them having worked together for a number of years at LNR Property Corporation. We believe the depth and experience of our management team coupled with extensive industry relationships provides us unique access to investment opportunities and positions us to capitalize on the evolving market landscape.

Extensive Infrastructure with Intense Focus on Risk Management: We have a robust infrastructure with many layers of risk management and oversight of our operations. This provides a rigorous and detailed framework within which we operate our business. We are a subsidiary of a publicly traded company, which subjects us to significant oversight requirements. Additionally, we are registered as an investment adviser with the SEC and are a rated special servicer with ratings of "Above Average" from S&P and CSS2- by Fitch. To complement this infrastructure, we actively manage the risk of our diverse lines of business through numerous committees, including our executive committee which meets weekly to discuss business initiatives; our investment committee that monitors and approves transactions for our investment management business; our credit committee that monitors and approves our mortgage origination and securitization business; and our risk management committee that meets bi-weekly to review and discuss hedging activities, portfolio composition, credit quality and general market conditions and trends. Additionally, our asset management and servicing platform allows for utmost flexibility in monitoring, managing and working out assets. We believe this infrastructure coupled with a rigorous approach to risk management is a competitive advantage and allows us to generate superior risk adjusted returns for our investors and our own capital.

Strong Financial Profile with Significant Liquidity, Conservative Leverage and Diversified Revenue Sources: At August 31, 2013, we had \$715 million of long-term capital invested by Lennar in the business and a \$250 million committed warehouse loan facility. Subsequent to August 31, 2013, we entered into another warehouse loan facility of \$250 million, bringing our total committed warehouse loan facilities to \$500 million. Additionally, we manage three private equity funds that to date have, or have commitments totaling, over \$1.7 billion of equity capital from which we generate investment management fees. Our investment management activities provide us capital to invest on behalf of institutional investors while minimizing our on-balance sheet leverage. For the nine months ended August 31, 2013, we generated 60.4% of our revenues from interest income, 15.8% from REO rental income, 22.6% from investment management activities and 1.2% from other sources.

Benefit of Lennar Experience in Real Estate: We benefit from access to the regional and local real estate market expertise of the people who head Lennar's homebuilding and residential mortgage lending activities across the country. Lennar was founded in 1954 and is one of the largest homebuilders in the U.S. with over 500 active residential communities at August 31, 2013. We also benefit from oversight by Lennar's seasoned management team. To date, Lennar has provided all the funding for the \$772 million of income producing investments made by Rialto Investments and Rialto Capital Management. As of August 31, 2013, the outstanding balance of Lennar's investment in us was \$715 million, of which \$659 million represented loans due to Lennar and \$56 million represented equity. While it is not anticipated that Lennar will continue to fund our operations or our investments, other than pursuant to a credit agreement to be entered into before November 30, 2013 under which Lennar has agreed to advance up to \$75 million on an unsecured revolving basis, Lennar has agreed that on the day the Notes are issued, Lennar will contribute to our equity the entire outstanding balance of the amount it has invested in us or our subsidiaries in excess of \$235 million. The remaining \$235 million will constitute indebtedness of us to Lennar. However, we expect to apply up to 40% of the gross proceeds of the sale of the Notes to reduce this indebtedness. On a pro forma basis after giving effect to that repayment, our indebtedness to Lennar would have been \$135 million at August 31, 2013. This indebtedness will be a senior unsecured obligation of Holdings and will rank equally with the Notes.

Before November 30, 2013 we will enter into a Support Services Agreement with Lennar regarding services Lennar provides to us, including assistance in reviewing investment opportunities and some administrative and management services. Before November 30, 2013, we also will enter into a credit agreement with Lennar pursuant to which Lennar will agree, subject to customary lending conditions, to make advances to us on an unsecured revolving basis of up to \$75.0 million. We will pay interest with regard to, and be required to repay, the advances. We and Lennar may mutually agree to amend or terminate such credit agreement at any time. Also, because Holdings does not pay Federal income taxes and Lennar, as the sole member of Holdings, is required to include at least most of our Federal taxable income in Lennar's Federal taxable income, we will enter into a Tax Reimbursement Agreement prior to November 30, 2013, pursuant to which Holdings has agreed to pay Lennar, each time Holdings would be required to pay Federal or state income taxes if it were a taxable corporation, the sum equal to the Federal or state income tax Holdings would have been required to pay if it and its subsidiaries were all taxable corporations, minus any Federal or state income taxes Holdings or its subsidiaries actually pay.

Third Party Investments

We have sponsored two distressed real estate investment funds that to date have raised \$1.6 billion in investor commitments (including \$175 million committed by Lennar through Rialto Investments) and are currently raising third party capital for a targeted \$300 million mezzanine loan fund (including \$25 million committed by Lennar through Rialto Investments). We expect to sponsor additional funds in the future, and expect normally to contribute approximately 10% of the equity capital of each fund. We receive management fees from the funds we sponsor and usually have carried interests in the funds, which give us an opportunity to participate in the profits of the funds after the investors have received their capital back plus specified returns.

Our Parent

We are a wholly-owned subsidiary of Lennar, one of the largest homebuilders in the U.S with almost 60 years of operating history. Lennar is headquartered in Miami, Florida and employs over 5,000 professionals across 29 offices in the U.S. As of August 31, 2013, Lennar had total assets of \$11.0 billion, \$4.2 billion of long term capital, including \$715 million invested in us.

Investment Company Act Exception

We intend to conduct our operations so that, if possible, we will not be required to register as an investment company under the Investment Company Act, because we will qualify under an exception to the definition of what constitutes an investment company for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. See "Description of Business — Regulation —Investment Company Act Exemption." However, because real estate related securities are not necessarily considered to be mortgages or other interests in real estate, we may have difficulty qualifying for that exception. Additionally, in August of 2011, the SEC solicited public comment on a wide range of issues relating, among other things, to the nature of the assets that qualify for purposes of the exception from the statutory definition of an investment company for mortgages and other liens on and interests in real estate. Some of the possible changes as to which the SEC sought comment could make it even more difficult for us to qualify for exemption from the need to register under the Investment Company Act. Given the uncertainty as to this exception, we have imposed restrictions on transfers of the Notes for purposes of the Investment Company Act so that we will qualify for the exception to the definition of investment company for issuers whose outstanding securities, at the time of the acquisition of such securities, were held exclusively by "qualified purchasers" (as defined in the Investment Company Act). The restrictions on transfer of the Notes solely to qualified purchasers for these purposes are in addition to restrictions on transfers for purposes of the Securities Act.

Corporate Information

Rialto Holdings, LLC is a Delaware limited liability company, formed in 2013 in order to facilitate the offering made by this offering memorandum. Rialto Corporation is one of our wholly owned subsidiaries, formed in 2013 for the sole purpose of acting as a co-issuer. It has nominal assets and does not and will not conduct any operations or have any employees. However, Rialto Capital Management, LLC and Rialto Investments, LLC were founded in Delaware in 2007 and 2009, respectively. Our principal offices are at 790 Northwest 107th Avenue, Miami, Florida 33172. Our telephone number at these offices is (305) 485–2077. Our website address is www.rialtocapital.com. The information on our website is not part of this offering memorandum.

Recent Developments

In September 2013, RMF sold \$198 million of its originated commercial real estate loans into a securitization trust. Additionally, in November 2013, RMF contributed collateral of \$174 million of its commercial real estate loans into a securitization trust. These transactions yielded a premium over the face amount of the loans that were sold to the CMBS conduit trusts. RMF anticipates securitizing loans within its portfolio at least quarterly as it seeks to take full advantage of the strong demands for commercial real estate debt financing.

In October 2013, four months ahead of schedule, the LLCs we own in partnership with the FDIC finished repaying the loans the FDIC made to the LLCs when they were formed. Going forward, all cash flow from the disposition of the legacy assets in the portfolio will be split 40% to us and 60% to the FDIC. We expect the assets to completely run-off by the end of calendar year 2015.

Also in October 2013, we secured a second \$250 million warehouse financing agreement for our RMF segment from a large U.S. bank, bringing total RMF warehouse financing capacity to \$500 million.

Through October 31, 2013, we closed on an additional \$264 million in commitments in Fund II, bringing total capital commitments thus far for Fund II to approximately \$907 million (including our commitment of \$100 million).

The Offering

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to limitations and exceptions. The "Description of Notes" section of this offering memorandum contains a more detailed description of the terms and conditions of the Notes.

With respect to the discussion of the terms of the Notes on the cover page, in this section and in the section entitled "Description of Notes," references to "Holdings," "us," "we" and "our" refer only to Rialto Holdings, LLC, and not any of its subsidiaries.

due 2018.

Maturity Date December 1, 2018

accrue from November 14, 2013.

Interest Payment Dates June 1 and December 1 of each year, beginning on June 1, 2014,

payable to holders of record at the close of business on the May 15 and November 15, as the case may be, immediately preceding each interest payment date. Interest will also be

payable on the Maturity Date.

Sinking Fund None.

Ranking The Notes will be our senior, unsecured and unsubordinated

obligations and will rank equally with all of our other senior unsecured and unsubordinated indebtedness that is outstanding from time-to-time, senior to any of our future indebtedness that is expressly subordinated in right of payment to the Notes, and junior to any of our secured indebtedness to the extent of the value of the assets securing that indebtedness. The Notes are structurally subordinated to all existing and future obligations (including trade payables) of our subsidiaries which are not guaranteeing the Notes. See "Description of Notes — The Guarantees." See also "Risk Factors — Because the Notes are structurally subordinated to the obligations of our non-guarantor subsidiaries, your ability to be repaid may be adversely affected to the extent particular subsidiaries are not guaranteeing the Notes" and "— The fact that the Notes are unsecured may increase the possibility that you will not be fully repaid if we become insolvent."

As of August 31, 2013, our subsidiaries had \$882.7 million of indebtedness, including \$133.1 million of secured indebtedness. Of this amount, \$133.1 million (all secured indebtedness under warehouse loan facilities) was indebtedness of subsidiaries that will not be guaranteeing the Notes when they are issued.

Currently, we have \$500 million of committed warehouse loan facilities in place and anticipate that we will enter into additional

warehouse loan facilities. Our subsidiaries that are the borrowers under the existing and any future warehouse loan facilities are not guaranteeing the Notes. Accordingly, the Notes are structurally subordinate to all existing and future borrowings under these warehouse facilities.

Guarantees

Rialto Capital Management, LLC, ("Rialto Capital"), Rialto Investments, LLC ("Rialto Investments") and Rialto Mortgage Finance, LLC ("RMF" and, together with Rialto Capital and Rialto Investments, the "Principal Guarantors") will guarantee the Notes. Rialto Capital and Rialto Investments are 100% owned by us and RMF is 100% owned by Rialto Capital. Currently all our activities are conducted by, all our assets are owned by, and all our liabilities are obligations of, the Principal Guarantors and their subsidiaries. See "Description of Notes — The Guarantees."

The Notes will also be guaranteed by all of our existing and future directly or indirectly 100% owned subsidiaries unless such Subsidiary is an Unrestricted Subsidiary (together with the Principal Guarantors, the "Guarantors"). While a subsidiary is guaranteeing the Notes, it will be a "Restricted Subsidiary," which will cause it to be subject to various covenants in the indenture governing the Notes, but will enable it to enter into transactions with us and with other Restricted Subsidiaries that otherwise might not be permitted by the indenture. We will have the right at any time to cause any Guarantor, other than a Principal Guarantor, to cease guaranteeing the Notes if it becomes an Unrestricted Subsidiary.

Two of our subsidiaries who serve as borrowers under the warehouse facilities are Unrestricted Subsidiaries and thus do not guarantee the Notes.

When the Notes are issued, they will be guaranteed by all our directly or indirectly 100% owned subsidiaries, other than subsidiaries that are Unrestricted Subsidiaries.

As of and for the twelve months ended August 31, 2013, the subsidiaries that will not guarantee the Notes at the time of issuance accounted for 0% of our consolidated net income, 11.2% of our total assets and had \$133.1 million of aggregate total indebtedness.

Lennar is not a guarantor of the Notes nor will it provide additional credit support to us in connection with servicing the principal of, premium, if any, or interest or any other payment obligations on, the Notes.

Redemption at our Option

The Issuers may redeem some or all of the Notes on or after December 1, 2015 at the redemption prices described in this offering memorandum, plus accrued and unpaid interest through, but not including, the date of redemption. The Issuers may redeem some or all of the Notes, at any time before December 1, 2015, at a redemption price equal to 100% of their principal amount, plus a

make-whole premium and accrued and unpaid interest. Before December 1, 2015, the Issuers may redeem up to 35% of the aggregate principal amount of the notes with the proceeds of public offerings of equity at a redemption price equal to 107% of the principal amount of the Notes, plus accrued and unpaid interest. Covenants in Indenture The indenture governing the Notes will contain covenants limiting, among other things, our and our Restricted Subsidiaries' ability to incur indebtedness, to make investments, to make distributions to, or enter into transactions with, our owners or to create liens. These covenants are subject to important exceptions and qualifications. See "Description of Notes — Certain Covenants." Offer to Repurchase Upon a Change of Control Triggering Event If there is a Change of Control Triggering Event, we will be required to make an offer to repurchase all the outstanding Notes at a price in cash equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest to, but not including, the repurchase date. See "Description of Notes -Change of Control Offer." The Notes have not been registered under the Securities Act or any other securities laws and therefore are subject to restrictions on transfer. The Notes may not be offered or sold other than pursuant to an exemption from, or in a transaction not subject to, the registration requirements of these laws. In addition, to help ensure that we will not become required to register under the Investment Company Act, unless and until we make a public offering of securities or we register as an investment company under the Investment Company Act, the Notes may be transferred only to persons that are "qualified purchasers," as that term is defined in the Investment Company Act. See "Notice to Investors; Transfer Restrictions." We do not intend to register resales of the Notes under the No Registration Rights Securities Act or to offer to exchange Notes that are registered under the Securities Act for the Notes that are offered by this offering memorandum. As a result, the Notes can only be sold by holders in transactions that are exempt from the registration requirements of the Securities Act. The legend on the Notes to the effect that Notes may only be transferred to qualified purchasers will not be removed, and we will not be required to suffer any penalty because of that legend. Obligation to Provide Information We will be required to file with the SEC (or otherwise provide to holders as described below) within the dates set forth below: (i) within 90 days (120 days in the case of the first fiscal year ending after the initial issue date of the Notes) after the end of each fiscal year, an annual report of the Company

containing the annual audited financial statements prepared

in accordance with GAAP that would be required to be contained in an Annual Report on Form 10-K if we were required to file such form under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (but only to the extent similar information is included in this offering memorandum);

- (ii) within 45 days (60 days in the case of the first fiscal quarter ending after the initial issue date of the Notes) after the end of each of the first three fiscal quarters of each fiscal year, quarterly reports of the Company containing the unaudited financial statements prepared in accordance with GAAP that would be required to be contained in a Quarterly Report on Form 10-Q if we were required to file such form under the Exchange Act (but only to the extent similar information is included in this offering memorandum); and
- (iii) within 10 days after the occurrence of each event that would have been required to be reported in a Current Report on Form 8-K under the Exchange Act, current reports containing substantially all of the information that would have been required to be contained in a Current Report on Form 8-K under the Exchange Act if the Company had been a reporting company under the Exchange Act; provided, however, that no such current report will be required to be furnished if the Company determines in its good faith judgment that such event is not material to holders of indebtedness of the Company or the business, assets, operations, financial positions or prospects of the Company and its Restricted Subsidiaries, taken as a whole.

So long as the Notes are outstanding and the reports described above are not filed with the SEC, the Company will maintain a website (that may be password protected), which will require a confidentiality acknowledgement, and to which noteholders, prospective investors, broker-dealers and securities analysts are given access after agreeing to treat such information as confidential and to which all of the reports and press releases required are posted. The Company will hold a conference call for the Holders and securities analysts to discuss such financial information no later than 15 calendar days after filing the annual financial information described in clause (i) above and after filing the quarterly financial information described in clause (ii) above. The Company will announce any such conference call at least three business days in advance and not more than ten business days after filing of the foregoing financial information. See "Description of Notes - Certain Covenants - Reporting."

Governing Law State of New York.

DTC Eligibility The Notes will be issued in fully registered book-entry form and will be represented by permanent global notes. The global notes

will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"). Beneficial interests in global notes will be shown on, and transfers of Notes will be effected only through, records maintained by DTC and its direct and indirect participants, and an interest in any global note may not be exchanged for certificated notes, except in limited circumstances. See "Book-Entry, Delivery and Settlement."

Form and denomination The Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000.

Investing in the Notes involves significant risks. See the "Risk Factors" section beginning on page 19 and other information in this offering memorandum for a discussion of the factors investors should carefully consider before deciding to invest in the Notes.

We expect to receive net proceeds of approximately \$245 million from the sale of the Notes, after deducting the initial purchaser discount and expenses of the offering. We intend to use most of those proceeds to provide working capital to RMF, which is wholly owned by Rialto Capital. However, we expect to use an amount up to 40% of the gross proceeds to repay sums that were advanced by Lennar to enable RMF to begin originating and securitizing loans, and we may use some of the net proceeds to make investments in funds or entities managed or advised by Rialto Capital or its subsidiaries. To the extent we do not use the proceeds for these purposes, we will add them to our working capital and use them for general corporate purposes. See "Use of Proceeds."

15

SUMMARY FINANCIAL INFORMATION

The following tables set forth our summary consolidated financial data as of and for the periods indicated. The balance sheet, operating and cash flow data as of and for the years ended November 30, 2012 and 2011 are derived from our audited consolidated financial statements and related notes included in this offering memorandum. The balance sheet, operating and cash flow data as of and for the year ended November 30, 2010 are derived from our unaudited consolidated financial statements and related notes that are not included in this offering memorandum. The balance sheet, operating, and cash flow data as of and for the nine months ended August 31, 2013 has been derived from our unaudited consolidated financial statements included in this offering memorandum.

In August 2013, Rialto Holdings, LLC was formed to consolidate the ownership of two legal entities, Rialto Investments, LLC (formerly Lennar Distressed Investments, LLC) and Rialto Capital Management, LLC, that had operated as a single combined business segment of Lennar Corporation.

The following summary consolidated financial data are qualified in their entirety by reference to, and should be read in conjunction with, our audited consolidated financial statements and related notes and the information under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Financial Information" and other financial information included in this prospectus. Historical results included below and elsewhere in this offering memorandum are not necessarily indicative of our future performance, and the results for any interim period are not necessarily indicative of the operating results to be expected for the full fiscal year.

				e months ended gust 31,
			2013	2012
				(unaudited) in thousands)
Operating Data: Interest income Management fees Rental income Other income Total Revenues Total Expenses Equity in earnings from unconsolidated entities Gain on sale of investments held-to-maturity Net earnings (loss) attributable to non-controlling in Net earnings before provision for income taxes Net earnings after provision for income taxes	interests		21,195 14,807 1,146 93,921 99,240 15,877 4,570 5,988	\$ 75,689 27,185 12,149 — 115,023 145,788 37,578 — (14,582) 21,395 12,925
	For	the nine months August 31, 2013		months ended August 31,
	As Reported	Adjustment(1)	As Adjusted(1)	2012
	(unaudited)	(unaudited) (dollars in	(unaudited) thousands)	(unaudited)
Cash Flow Data: Operating activities Investing activities Financing activities Total cash (outflows) inflows	\$(297,177) 360,220 (96,329) \$ (33,286)	\$ _ 145,000 \$145,000	\$(297,177) 360,220 48,671 \$111,714	\$ (58,462) 252,530 (205,327) \$ (11,259)

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

							Trailing twelve months ended			For the years November			
							31, 2013	2012		2011		2010	
						(unau	ıdited) (d	lollars in t	ho	ousands)	(un	audited)	
Operating Data:								4	_				
Interest income							4,997			\$153,186	\$	90,717	
Management fees							8,953	34,94		11,557		1,880	
Rental income							9,134	16,47	6	7,185		171	
Other income							1,146	155,332	_	171 000		-	
Total Revenues							134,230			171,928		92,768	
Total Expenses							8,698	185,246		105,300		50,824	
Equity in earnings (loss) Gain on sale of investme							9,782 —	41,48	<u>5</u>	(7,914) 4,743		15,363 —	
Net earnings (loss) attrib							— 4.769	(14,38		28.930		33.152	
Net earnings (loss) attrice.							4,765 0,545	25,95	/	34,527		24,155	
Net earnings after provis							5,897	15.468		22,716		24,133 14,979	
Tvet cariffings after provid	,1011						0,007	- /		,		11,070	
		Irail		welve month gust 31, 201		eα	for the years ended November 30,						
	F	As Reported	Adjı	ustment(1)	As A	djusted(1)	20	12	2	2011		2010	
	(u	naudited)	(u	naudited)		naudited) ollars in the	ousands`				(un	audited)	
Cash Flow Data:													
Operating activities	\$	(258,367)	\$	_	\$	(258,367)	\$ (19,652) \$		(24,229)	\$	(13,144)	
Investing activities		394,662		_		394,662	28	36,972		(12,122)		,468,522)	
Financing activities	_	(136,950)		145,000		8,050	(24	45,948) _		43,877	_1	,558,078	
Total cash (outflows) inflows	\$	(655)	Ф	145,000	¢	144,345	ф 4	21,372 \$		7,526	¢	76,412	
111110W5	Ψ	(033)	Ψ	143,000	Ψ		Ψ .	Ξ1,57Z Ψ ====================================		7,520	Ψ		
							For the nine months end August 31, 2013				rs ended er 30,		
						As Report	ed As	Adjusted(1)	2012	201	1 2010	
								naudited))				
Other Data:								. .					
Net debt(2) to Parent's e	anit	v ratio				16.4		1.4		16.5	30.2	2 80.3	

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

⁽²⁾ Total net debt represents Due to Parent plus Total notes payable less Defeasance cash to retire notes payable.

(dollars in thousands)		As of August 31,	As of November 30,					
	As Reported	Adjustment(1)	As Adjusted(1)	2012	2011	2010		
	(unaudited)	(unaudited)	(unaudited)			(unaudited)		
Balance Sheet Data:								
Cash	\$ 72,024	\$ 145,000	\$ 217,024	\$ 105,310	\$ 83,938	\$ 76,412		
Defeasance cash to retire notes								
payable	78,032	_	78,032	223,813	219,386	101,309		
Total investments	1,353,652	_	1,353,652	1,294,870	1,577,950	1,581,481		
Total assets	1,554,140	150,000	1,704,140	1,647,360	1,897,148	1,777,614		
Total notes payable	346,627	250,000	596,627	574,480	765,541	752,302		
Due to Parent	658,698	(523,698)	135,000	526,129	592,191	551,842		
Total liabilities and non-								
controlling interests	1,497,623	(273,698)	1,223,925	1,594,197	1,859,453	1,762,635		
Parent's equity	56,517	423,698	480,215	53,163	37,695	14,979		
Total equity	504,371	423,698	928,069	498,449	497,364	445,719		
Non-GAAP Disclosure:								
Total assets(2)	1,554,140	(580,674)	973,466					

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

⁽²⁾ Reflects adjustment for the reclassification of the FDIC consolidated joint ventures as if they were reported under the equity method of accounting to reflect only our proportionate 40% share of the net assets of the FDIC LLCs.

RISK FACTORS

In this section, we describe what we believe to be the material risks relating to us and to the Notes. If any of those risks develop into actual events, our business, financial condition, results of operations, cash flows, strategies or properties, and the Notes, could be materially adversely affected.

Risks Relating to our Business Activities

Although our investments in distressed real estate assets normally are acquired at significant discounts, if the real estate markets deteriorate significantly, we could suffer losses.

Rialto Capital Management, LLC ("Rialto Capital") and its subsidiaries (the "Rialto Companies") focus on identifying and underwriting real estate related investment opportunities, making real estate related investments, directly or through funds they manage, and overseeing those investments, including in particular the workout of non-performing or underperforming loans and improvement and disposition of properties acquired through foreclosure or in a similar manner. Until 2011, the principal activity of the Rialto Companies involved acquisitions of portfolios of, or interests in portfolios of, distressed debt instruments and foreclosed properties, using primarily funds provided by Rialto Investments, LLC ("Rialto Investments") and its subsidiaries (the "Investor Companies"). Since 2011, distressed asset investments have been made primarily by investment funds managed by the Rialto Companies, but the Investor Companies have been investors in these funds. Investing in distressed debt and foreclosed properties presents many risks in addition to those inherent in normal lending activities, including the risk that the anticipated restructuring and recapitalization of the United States real estate markets will not be completed for many years, the risk that defaults on debt instruments in which the Rialto Companies and the funds they manage and invest will be greater than anticipated and the risk that if the Rialto Companies or any of the funds they manage has to liquidate its investments into the market, it will suffer severe losses in doing so. There is also the possibility that, even if the investments made by the Rialto Companies or the funds they manage perform as expected, absence of a liquid market for these investments will result in a need to reduce the values at which they are carried on our financial statements.

Our concentration on real estate related investments makes us vulnerable to changes in real estate markets and in the value of real estate related investments.

Although we and the funds we manage invest in a wide variety of real estate assets and real estate related securities, almost everything we do involves investments in real estate. Real estate markets are generally viewed as being cyclical, and, as happened in 2007 and 2008, there can be abrupt changes in the value and the liquidity of real estate related investments. These can be caused by a variety of factors, many of which are related to financial markets at least as much as they are to real estate markets. If there is an abrupt decline in values with regard to a significant segment of the real estate market, and we are unable to respond rapidly and effectively, the value of the funds we manage, and of our investments in those funds, could fall sharply. That would affect both the proceeds we could obtain with regard to assets we own and our ability to create new funds as a source of future fee income.

Most of our activities are sensitive to changes in interest rates.

Almost all of our activities are sensitive to changes in interest rates. The value of mortgage loans and mortgage-backed securities is affected by the level of market interest rates. Similarly, when we originate loans, either for ourselves or for funds we manage, the yields on those loans will depend to a significant extent on market interest rates. Also, when RMF commits to make a mortgage loan with regard to a particular property, it usually specifies a formula for determining what the interest rate will be, and when it makes the loan, it fixes the interest rate. However, the price for which the loan can be sold to a securitization trust will depend on market interest rates at the time the loan is sold, which may be several months after the loan is made. We try to hedge exposures to interest rate changes with regard to at least some of our assets and with regard to the loans we originate, but those hedges are not perfect, and we could be adversely affected by unexpected changes in interest rates.

Because the Investor Companies invest in funds and entities managed by the Rialto Companies, if those funds and entities do poorly, both the Investor Companies and the Rialto Companies could be hurt.

All the investments currently held by the Investor Companies are interests in funds or entities that are managed by the Rialto Companies. At August 31, 2013, the Investor Companies had \$116.5 million invested, and commitments to invest an additional \$83.5 million, in funds and entities managed by the Rialto Companies. If those funds and entities do poorly, the value of the Investor Companies' investments could fall, and, in addition, it could become difficult for the Rialto Companies to find third party investors in future funds it sponsors, which could adversely affect their ability to generate fee income.

Because many of the assets held by us or by funds we manage are or will be contractually or structurally subordinated to other indebtedness, we and those funds could be particularly severely hurt if those assets perform badly.

We and the funds advised by the Rialto Companies have substantial investments in subordinated tranches of CMBS issuances. Under the subordination provisions, all principal received with regard to the assets underlying the CMBS must be paid to holders of more senior tranches until the senior tranches are fully paid. Only after the more senior tranches are fully paid will we receive distributions with regard to the principal of the tranches we hold. Further, we recently had an initial closing of a fund that will invest in mezzanine loans. Those are loans secured by equity of the entities that own particular real estate assets, but not by the assets themselves. Therefore, the security for the loans we make is structurally subordinated to any liens on the assets themselves. Debt that is subordinated to other debt, whether by contract or structurally, bears the first risk of loss if the assets on which the lenders are relying do not perform well. Because of that, the yields on subordinated debt are substantially higher than the yields on senior debt or debt that is secured by first liens on assets. We believe that our experience in underwriting loans and in working out non-performing loans enable us to reduce the losses on the assets underlying debt that we hold below what is anticipated when that debt is priced. However, if we are not able to minimize the losses on those assets, we could suffer serious losses due to the subordination of the positions we hold.

If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses and we are required to increase our valuation reserves, our earnings would be reduced.

When a loan is foreclosed upon and we take title to the property, we obtain a valuation of the property and base its book value on that valuation. The book value of the foreclosed property is periodically compared to the updated market value of the foreclosed property if it is classified as held-and-used, or the market value of the foreclosed property less estimated selling costs if it is classified as held-for-sale (fair value), and a charge-off is recorded for any excess of the property's book value over its fair value. If the valuation we establish for a property proves to be too high, we may have to record charge-offs, or additional charge-offs, in subsequent periods. Material charge-offs could have an adverse effect on our results of operations, and possibly even on our financial condition.

There is substantial competition for the types of investments on which we are focused, and this may limit our ability or that of the investment funds we manage to make investments on terms that are attractive to us or them.

The Rialto Companies and the funds that they create and manage have been focused in substantial part on investments in distressed mortgage debt, foreclosed properties and other real estate related assets that have been adversely affected by the dislocations during the last several years in the markets for real estate, mortgage loans and real estate related securities (although they have recently expanded their activities beyond that). Some of the opportunities to acquire distressed assets have arisen under programs involving co-investments with and financing provided by agencies of the Federal government. There are many firms and investment funds that are trying to acquire the types of assets on which the Rialto Companies and the investment funds they manage are focused, and it is likely that a significant number of additional investment funds will be formed in the future with the objective of acquiring those types of

assets. At least some of the firms with which the Rialto Companies compete, or will compete, for investment opportunities have, or will have, a cost of capital that is lower than that of the Rialto Companies or the investment funds they manage, and therefore those firms may be able to pay more for investment opportunities than would be prudent for the Rialto Companies or the investment funds they manage.

We could be adversely affected by court and governmental responses to improper mortgage foreclosure procedures.

During recent years it appears that mortgage lenders and mortgage loan servicers have in a number of instances failed to comply with the requirements for obtaining and foreclosing mortgage loans. Although we own or manage entities that own large numbers of mortgage loans, those loans all were acquired by us and the entities we manage within the past three years, and we have training programs designed to ensure that all mortgage foreclosures which we undertake will comply with all applicable requirements. However, even if neither we nor any servicing organization we use does anything improper in foreclosing mortgages held by us or by entities we manage, reaction by courts and regulatory agencies against apparently widespread instances of improper mortgage foreclosure procedures could make it more difficult and more expensive for us to foreclose mortgages that secure loans that we or entities we manage own.

We may be adversely impacted by legal and regulatory changes.

New or modified regulations and related regulatory guidance focused on the regulation of the financial industry, including those under the Dodd-Frank Wall Street Reform Act, may have adverse effects on our industry. For example, the Dodd-Frank Act requires the federal banking agencies to promulgate rules requiring mortgage lenders to retain a portion of the credit risk related to securitized loans. Although those rules have not yet been finalized, there appears to be a substantial possibility that they will apply to our mortgage origination and securitization activities. If we are required to retain a portion of the mortgages that we originate, that may have a significant adverse effect on the profitability of those activities. Laws, regulations or policies, including accounting standards and interpretations, currently affecting us may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Our business could be adversely affected by changes in laws, regulations, policies or interpretations or by our inability to comply with them without making significant changes in our business.

We may be required to repurchase loans or indemnify securitization trusts or other purchasers if representations and warranties we give in connection with sales of loans are not correct.

When we sell loans to securitization trusts or other purchasers, we give limited representations and warranties about the loans. If those representations and warranties prove to be incorrect as to particular loans, we may be required to repurchase the loans or replace them with substitute loans. Additionally, in the case of loans and real estate that we have sold, we may be required to indemnify persons for losses or expenses incurred as a result of breaches of representations and warranties we give. Any significant repurchases or indemnification payments could adversely affect our business or financial condition.

Our ability to collect upon mortgage loans may be limited by the application of state laws.

Our mortgage loans typically permit us to accelerate the debt upon default by the borrower. The courts of all states will enforce acceleration clauses in the event of a material payment default, subject in some cases to a right of the court to revoke the acceleration and reinstate the mortgage loan if a payment default is cured. The equity courts of a state, however, may refuse to allow the foreclosure of a mortgage or to permit the acceleration of the indebtedness in instances in which they decide that the exercise of those remedies would be inequitable or unjust or the circumstances would render an acceleration unconscionable.

Further, the ability to collect upon mortgage loans may be limited by the application of state and federal laws. For example, Nevada has enacted a law providing that if an assignee of a note secured by real property paid less than the face amount of the note, the creditor cannot recover more in a deficiency action

than the amount it paid for the note. If the Nevada law is upheld, or similar laws are enacted in other jurisdictions, that could materially and adversely affect our results of operations.

We may face difficulties in obtaining required authorizations or licenses to do business.

In order to implement our business strategies, we have to maintain certain licenses and authorizations from governmental entities (including licenses with respect to loan origination). While we have or expect to be able to obtain reasonably expeditiously at least most of the licenses and other authorizations we need, if we are unable to obtain or to maintain any licenses or other authorizations we need, that could delay or prevent us from engaging in activities in areas where those licenses or authorizations are needed.

Our new commercial loan origination business may not be as successful as we anticipate.

In July 2013, we began commercial loan origination activities through RMF by hiring a group of 22 professionals. The mortgage origination business represents a new business line for us distinct from the direct investments and investment management and asset management activities upon which we have traditionally focused. Going forward, we anticipate that RMF will constitute a significant portion of our business. Although the new team we hired to start and run the mortgage origination business is seasoned, this new business, as a start up operation, may not be as successful as we anticipate or as successful as our existing businesses. The performance and growth of RMF will depend in part on our ability to integrate the business with our existing operations.

Our business plan for RMF contemplates that we enter into additional warehouse facilities to expand our mortgage origination activities. If we are unable to enter into additional warehouse facilities on favorable terms, our results of operations will be adversely affected.

As our business model continues to evolve, our future results of operations may not be comparable to our historic results of operations.

Our initial focus when we began operations at the end of 2009 was directly acquiring distressed loan portfolios and real estate related assets at a discount and turning them into profits for us. In 2010, we continued to work through these direct investments and added a second type of revenue stream by investing in and managing real estate funds. During 2013, we continued our focus on raising investment capital from third parties. In addition, we formed Rialto Mortgage Finance earlier this year and, in July 2013, we began to originate and securitize commercial first mortgage loans, earning profits by selling the loans to securitization trusts for more than what we invest in them. The limited liability companies in which we have invested along with the FDIC began distributions of capital in 2013, and those distributions will increase in 2014. However, revenues and earnings from our direct investment in the FDIC LLCs and in portfolios of distressed residential and commercial real estate loans we acquired from banks on balance sheet will decrease as the assets underlying these investments continue to wind down. As our business model continues to evolve and our business mix changes, our future results of operations may not be comparable to our historic results of operations.

We may be subject to potential liabilities under environmental laws.

Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site also may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site that affects other properties. Certain environmental laws also impose liability in connection with the handling of or

exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal illnesses associated with asbestos-containing materials. While a secured lender is not likely to be subject to these forms of environmental liability, when we foreclose on real property, we become an owner and are subject to the risks of environmental liability.

Our ability to profit from the investments we make may depend to a significant extent on our ability to manage resolution of distressed mortgages and other real estate related assets.

A principal factor in a prospective purchaser's decision regarding the price it will pay for a portfolio of mortgage loans or other real estate related assets is the cash flow the prospective purchaser expects the portfolio to generate. The cash flow a portfolio of distressed mortgage loans and related assets will generate can be affected by the way the assets in the portfolio are managed. We believe the backgrounds and experience of our personnel will frequently enable us to generate better cash flows from the distressed assets we manage than what is generally expected with regard to similar assets. When we decide whether to purchase particular distressed assets and what we are willing to pay for them, one consideration is whether, and to what extent, we think we will be able to obtain above average returns in resolving the assets. If we are not able to achieve those above average returns, we probably will not generate the level of profits we seek.

The supply of real estate related assets available at discounts from normal prices will likely decrease if the real estate markets continue to improve, which could require us to change our investment strategy.

A significant part of our current strategy is to seek above normal risk adjusted returns for us and for the investment funds we manage by focusing on investments in real estate related assets that are available at below market prices because of the effects of the dislocations in the United States real estate markets over the past several years. A continued recovery of the real estate markets would probably benefit the investments we and the funds we manage have made, but it probably would substantially reduce or end the availability of the types of distressed asset investments we seek. We are currently beginning to engage in activities that are more suitable for periods of healthy real estate markets. But those types of activities may not offer the same profit potential as investing in distressed real estate assets.

We are dependent on debt financing and securitizations to operate our mortgage origination and securitization business, and our inability to access this funding or to securitize the loans we originate could force us to curtail, or even to discontinue, that business.

We are building a business of originating loans secured by income producing properties and selling those loans to CMBS trusts and other securitization vehicles. We anticipate that normally we will sell loans within two or three months after we originate them. We use warehouse borrowing lines to finance the mortgage origination activities of our RMF segment until we are able to securitize them, and then use the proceeds of the securitizations to repay the borrowings, which makes the warehouse lines available for more loan originations. We have, or are in the process of arranging, warehouse financing arrangements that would enable us to make up to \$1 billion of loans before we securitize them. And currently, there are adequate securitization vehicles to enable us to operate at that volume. However, if we were unable to obtain warehouse financing, or were unable to securitize mortgage loans we originate and use the proceeds to repay the borrowings, we would have to curtail significantly our mortgage originations.

A widespread decline in the value of commercial real estate could require us to provide cash to avoid defaults under RMF's warehouse lending facilities.

RMF's current warehouse lending agreements provide, and any future warehouse lending agreements are likely to provide, that if the lenders determine that the value of the real estate that secures loans that are collateral for borrowings under the warehouse lending agreement is less than specified percentages of the sums borrowed, RMF must either provide additional collateral (probably in the form of cash) or reduce the amount of the borrowings. Because RMF's borrowings with regard to mortgages secured by particular properties are expected to be outstanding for a maximum of only two or three months, the risk of a

significant decline in the value of a property while the mortgage loan secured by that property is collateral for borrowings under a warehouse lending agreement should be lessened. However, if there were a sharp and widespread decline in the value of commercial properties, that might both reduce the value of properties while the mortgage loans they secure are collateral under the warehouse financing lines and delay the securitizations of those mortgage loans that are expected to provide the funds with which to repay the borrowings under the warehouse lending lines. If that occurred, RMF might not have the cash it needs to increase the collateral, or reduce the borrowings, under the warehouse financing lines in order to prevent defaults under the warehouse financing lines.

We may not be able fully to hedge our exposure to changes in interest rates between the time we commit to make mortgage loans at specified rates and the time we actually make the loans and sell them to securitization pools.

Our RMF segment often commits to a potential borrower the interest rate on a loan we propose to make before we make the loan. That creates a risk that by the time we actually fund the loan and sell it into a securitization pool, interest rates will have increased, and therefore, the spread between the amount we lend and the price for which we can sell the loan into a securitization pool (which declines as market interest rates rise), as well as interest on the borrowings we use to make the loan, will be less than we had anticipated. We use hedging techniques to reduce this risk, but hedges are costly and it is difficult to obtain hedges that will fully protect against the effects of changes in interest rates.

The illiquidity of our portfolio assets may make it difficult for us, or the funds we manage, to sell assets.

While there are markets for various types of mortgages and mortgage backed securities, those markets do not provide complete liquidity, and in times of financial stress, may provide very little liquidity. As a result, if we or a fund we advise has to liquidate all or a significant portion of our or its portfolio quickly, in order to do that we or it may realize significantly less than the amount we or it paid for those investments or the value at which we or it carry those investments on our or its books.

We may overvalue real estate related assets when we invest in them.

We carefully underwrite each investment in mortgage loans or other real estate related investments before we make the investments. We believe our ability to underwrite investments is one of our great strengths. However, because underwriting investments involves predicting the future (for us, future borrower performance and asset values), no matter how diligent we are, there will be instances in which investments do not live up to our expectations. When it turns out that the value of assets in which we or a fund we manage has invested is less than the amount we paid for them, we or the fund may have to write down the carrying value of the investment and may suffer a loss when the investment is liquidated or sold. This is particularly a risk with regard to distressed investments, because the amount that will be received with regard to distressed investments often depends in part on the extent to which we can convince borrowers to make their own funds available to help liquidate the loans. To the extent we must write down the carrying value of investments we make, it will adversely affect our earnings.

The loss of the services of our senior management or key employees could seriously affect our business.

One of what we consider to be our key assets is the long experience of our senior management and other key employees in dealing with real estate assets. Many of the assets in which we invest our own funds or funds we manage are difficult to deal with, and a key part of our strategy is our belief that the extensive experience of our senior managements enables us to generate returns from these assets that exceed what is expected by the market as reflected in the prices for which these assets can be acquired. However, we do not have employment contracts with the members of our senior management or other key employees, and even if we had employment contracts with them, we could not compel them to work for us if they did not want to do so. If we were to lose a significant number of our senior managers and other key employees, we could have a great deal

of difficulty finding replacements with the same level of experience, and our inability to find those replacements could negatively affect our ability to generate profits from the investments we make.

Covenants in the indenture relating to the Notes could adversely affect our business.

The indenture governing the Notes contains covenants that impose significant restrictions on our activities. This may prevent us from doing things that are in our long-term, and even in our short-term, interest. Among other things, these restrictions could place us at a disadvantage compared to some of our competitors and could prevent us from making acquisitions, obtaining financing and making investments. This in turn could restrict our growth or otherwise hamper our ability to take advantage of opportunities, and could make it more difficult for us to withstand economic downturns affecting us or affecting the general economy.

The incentive fees we receive in the future from the investment funds we manage may not be as significant as we expect.

After fiscal 2015, we expect to begin receiving performance based incentive fees in our Investment and Asset Management segment as the investments in Fund I start to wind down. Incentive fees are earned, and we receive distributions with regard to carried interests, when distributions by investment vehicles exceed specified threshold returns on investors' capital, and generally begin to be distributed six years after an investment fund begins. If the value of the investments in Fund I decline or Fund I otherwise realizes less for those investments than we currently expect, we may earn significantly less with regard to our carried interest in Fund I than we anticipate.

The timing of our securitization activities will greatly affect our quarterly financial results.

We expect to distribute the loans we originate through securitizations, and, upon completion of a securitization, we will recognize certain non-interest revenues and cease to earn net interest income on the securitized loans. Our quarterly revenue, operating results and profitability could vary substantially from quarter to quarter based on the timing of our securitizations. Our quarterly revenue will also vary primarily because of the timing of the securitizations that we complete. The timing of our securitization activities will be affected by a number of factors, including our loan origination volumes, changes in loan values, quality and performance during the period such loans are on our books and conditions in the securitization and credit markets generally and at the time we seek to launch and complete our securitizations.

The market value of our investments in CMBS could fluctuate materially as a result of various risks that are out of our control and may result in significant losses.

We currently invest in and may continue to invest in CMBS through our funds. CMBS are, generally securities backed by obligations that are principally secured by commercial mortgage loans or interests therein having a multi-family or commercial use. Accordingly, investments in CMBS are subject to the various risks described in these Risk Factors which relate to the pool of underlying assets in which the CMBS represents an interest. The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage loans underlying CMBS may be highly dependent on our performance as special servicer. We will bear the risk of loss on any CMBS we purchase.

The market value of our CMBS investments could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond interest rates, capital market supply and demand factors, and many other factors that affect high-yield fixed income products. These factors are out of our control, and could influence our ability to obtain short-term financing on the CMBS. The CMBS in which we may invest may have no trading market. The financial markets in the past have experienced and could in the future experience a period of volatility and reduced liquidity which may reoccur or continue and reduce the market value of CMBS. Some or all of the CMBS that we hold may be subject to restrictions on transfer and may be considered illiquid.

Our due diligence of originated loans or potential investments may not reveal all of the liabilities associated with such investments and may not reveal other weaknesses in our investments, which could lead to losses.

Before originating a loan or making an investment, we will assess the strengths and weaknesses of the borrowers, guarantors and the underlying property values, as well as other factors and characteristics that are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we will rely on resources available to us and, in some cases, an investigation by third parties. There can be no assurance that our due diligence process will uncover all relevant facts or that any investment will be successful.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as "market discount" for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made, unless we elect to include accrued market discount in income as it accrues. Principal payments on certain loans are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Similarly, some of the CMBS that we may acquire may have been issued with original issue discount ("OID"). We will be required to report such OID based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such CMBS will be made. If such CMBS turns out not to be fully collectable, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. While we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectable, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

Other Risks Relating to Us

Lennar is able to control what we do.

We are 100% owned by Lennar. That means that Lennar can replace our management and cause us to act in accordance with Lennar's interests. Lennar's interests as our equity owner may not be the same as the interests of the holders of the Notes. Among other things, Lennar may purchase real property from us, and if it does so, we may have to seek outside valuations to ensure that the prices Lennar pays us are fair to us. Further, Stuart A. Miller, Lennar's Chief Executive Officer and a director, has voting control, through personal holdings and holdings by family-owned entities of Class B, and to a lesser extent Class A, common stock that enables Mr. Miller to cast approximately 46% of the votes that can be cast by the holders of all of Lennar's outstanding Class A and Class B common stock combined. That effectively gives Mr. Miller the power to control the election of Lennar's directors and the approval of matters that are presented to Lennar's stockholders. Because of his voting power, Mr. Miller could be able to authorize actions that affect us that may be contrary to the interests of the holders of the Notes.

Lennar is not committed to continue providing funds to us.

We have to date received all of our general funding from Lennar, including both funding for the operations of the Rialto Companies (including funds used by RMF to originate mortgage loans) and

funding for the investments made by the Investor Companies. However, aside from a credit agreement under which Lennar has agreed to advance up to \$75 million on an unsecured revolving basis, Lennar has no commitment to continue providing funding to us. We and Lennar may mutually agree to terminate the credit agreement at any time. Lennar has agreed that on the day the Notes are issued, Lennar will contribute to our equity the entire outstanding balance of the amount it has invested in us or our subsidiaries in excess of \$235 million. The \$235 million will constitute indebtedness of us to Lennar. However, we expect to apply up to 40% of the gross proceeds of the sale of the Notes to reduce this indebtedness. This indebtedness will be a senior unsecured obligation of Holdings and will rank equally with the Notes.

The principal reason we are offering the Notes is to provide us with funding for our mortgage origination and securitization business from a source other than Lennar. However, the proceeds of the offering of the Notes will not, by themselves, provide enough funds to enable us to engage in all the activities we are planning to undertake and to make investments as we have in the past. We hope to be able to fund those activities with proceeds of distributions we receive with regard to the investments we have made and as fees and proceeds of carried interests. However, if we do not realize these revenues and Lennar does not provide us additional funding, we may not be able to make the types of investment commitments we are expecting to make or to fund the expense of conducting all the activities in which we currently are planning to engage. This could adversely affect our ability to pay principal and interest on the Notes when they are required to be paid.

We might become required to register under the Investment Company Act of 1940.

We will try to conduct our operations so that we will not be required to register as an investment company under the Investment Company Act of 1940, because of an exception for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. See "Description of Business — Regulation — Investment Company Act Exemption." However, because many forms of indirect real estate related investments are not considered for purposes of the Investment Company Act to be mortgages or other interests in real estate, we may have difficulty qualifying for that exception. Additionally, in August of 2011, the SEC solicited public comment on a wide range of issues relating, among other things, to the nature of the assets that qualify for purposes of the exception from the definition of an investment company in the Investment Company Act for companies that are engaged primarily in acquiring mortgages and other liens or interests in real estate. Some of the possible changes as to which the SEC sought comment could make it even more difficult for us to qualify for that exception than currently is the case.

Given the uncertainty as to this exception, we have imposed restrictions on transfers of Notes for purposes of the Investment Company Act so that we will qualify for the exception to the definition of investment company for issuers whose outstanding securities, at the time of the acquisition of such securities, were held exclusively by "qualified purchasers" (as defined in the Investment Company Act). The restrictions on transfer of the Notes solely to qualified purchasers for these purposes are in addition to restrictions on transfers for purposes of the Securities Act. If we became required to register under the Investment Company Act, we could no longer engage in many of the activities described in this offering memorandum.

If we fail to implement and maintain an effective system of internal controls, we may not be able to determine our financial results accurately or prevent fraud.

As a private company, our financial audit was performed in accordance with auditing standards generally accepted in the United States of America rather than the standards of the Public Company Accounting Oversight Board (United States) used for the audits of many public companies. Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act requires public companies and independent auditors to report annually on the effectiveness of internal control over financial reporting. However, as a private company we are not required to comply with the auditor attestation requirements of Section 404. We may in the future discover areas of our internal controls that need improvement. We

cannot be certain that we will be successful in implementing or maintaining adequate internal control over our financial reporting and financial processes.

Risks Relating to the Notes

The Notes are subject to the normal risks applicable to debt securities, including the possibility that the issuer will not be able to make required payments when they are due. In addition, the Notes are subject to the following risks:

Because the Notes are structurally subordinated to the obligations of our non-guarantor subsidiaries, your ability to be repaid may be adversely affected to the extent particular subsidiaries are not guaranteeing the Notes at a time when you become entitled to repayment.

Our only assets are 100% of the ownership interests in Rialto Capital, the parent of the Rialto Companies (including RMF), and Rialto Investments, the parent of the Investor Companies. Further, the principal assets of Rialto Capital and Rialto Investments are direct or indirect ownership interests in their subsidiaries. Unless a subsidiary is guaranteeing the Notes as described under "Description of Notes — Guarantees" (which makes the subsidiary a "Guarantor"), holders of any indebtedness or preferred stock of that subsidiary and other creditors of that subsidiary, including trade creditors, will have access to the assets of the subsidiary that is senior to that of the holders of the Notes. Although when the Notes are issued they will be guaranteed by most of our 100% owned subsidiaries, if such subsidiary becomes an Unrestricted Subsidiary we have the right at any time to terminate the guarantees by such subsidiaries, other than Rialto Capital, Rialto Investments and RMF (together, the "Principal Guarantors"). Accordingly, the Notes could be effectively subordinated to the debts, preferred stock and other obligations of most of our subsidiaries. The indenture governing the Notes does not prohibit either the Guarantors or any of their subsidiaries from incurring trade debt or other similar liabilities.

Currently, we have \$500 million of committed warehouse loan facilities in place and anticipate that we will enter into additional warehouse loan facilities. Our subsidiaries that are the borrowers under the existing and any future warehouse loan facilities are not guaranteeing the Notes. Accordingly, the Notes are structurally subordinate to all existing and future borrowings under these warehouse facilities.

As of August 31, 2013, our subsidiaries had \$882.7 million of indebtedness, including \$133.1 million of secured indebtedness.

The fact that the Notes are unsecured may increase the possibility that you will not be fully repaid if we become insolvent.

When the Notes are issued, they will not be secured by any of our assets. Except to the extent the Notes may become secured by particular assets, in the event of our bankruptcy, liquidation, reorganization or other winding up, the holders of any secured debt would receive payments from the assets securing that debt before you receive any payments from sales of those assets. There may not be sufficient assets remaining after payment of secured debt to pay all or any of the amounts due on the Notes that are then outstanding.

Any guarantees of the Notes provided by our subsidiaries are subject to possible defenses that may limit your right to receive payment from the Guarantors with regard to the Notes.

Although guarantees by our three principal subsidiaries and other of our subsidiaries provide the holders of the Notes with a direct claim against the assets of those Guarantors, enforcement of the guarantee against a Guarantor would be subject to certain "suretyship" defenses available to guarantors generally. Enforcement could also be subject to other defenses that might be available to the Guarantors in certain circumstances. To the extent that the guarantees are not enforceable, you would not be able to assert successfully a claim against the Guarantors.

We may incur substantially more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries are permitted to incur additional debt in the future, subject to requirements in the indenture and to any restrictions contained in any of our debt instruments other than the Notes, some or all of which could be secured debt. See "Description of Notes — Certain Covenants — Limitations on Liens" and "Description of Notes — Certain Covenants — Limitation on Indebtedness."

There currently is no public market for the Notes, so you may be unable to sell the Notes.

The Notes are new securities for which there is currently no public trading market. Consequently, the Notes may be relatively illiquid, and you may be unable to sell your Notes. We do not intend to list the Notes on any securities exchange or to include the Notes in any automated quotation system. We have been informed by the initial purchasers that they intend to make a market in the Notes after the offering is completed. However, the initial purchasers may cease their market making at any time without notice. Further, those market making activities will be subject to limits imposed by the U.S. federal securities laws. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our types of businesses generally. As a result, it is possible that no active trading market for the Notes will ever develop. If any of the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price and you may be unable to resell your Notes or may be able to sell them only at a substantial discount. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition, performance and prospects.

There are restrictions on your ability to transfer or resell Notes without registration under applicable securities laws.

The Notes and guarantees have not been and will not be registered under the Securities Act or any state securities laws. The Notes and guarantees are being offered and sold pursuant to an exemption from registration under U.S. and applicable state securities laws. As a result, the Notes and guarantees may be transferred or resold only pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement. We do not intend to register the notes under the Securities Act or to offer to exchange the notes in an exchange offer registered under the Securities Act. Furthermore, we have not registered the notes under any other country's securities laws. Therefore, holders of the notes may be required to bear the risk of their investment for an indefinite period of time. In addition, the notes may only be offered, sold or transferred to investors that are qualified institutional buyers under Rule 144A that are Qualified Purchasers. See "Notice to Investors; Transfer Restrictions."

If we were required to make a Change of Control Offer with regard to the Notes, we might not be able to raise the funds necessary to finance the Change of Control Offer, which would violate the terms of the Notes.

If there is a Change of Control Triggering Event, we will be required to make an offer to repurchase all the outstanding Notes at a price in cash equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest to, but not including, the repurchase date. If we are required to offer to repurchase the Notes upon the occurrence of a Change of Control Triggering Event, we may not have sufficient funds to be able to do that. In addition, our ability to repurchase the Notes may be limited by law or the terms of agreements relating to other of our indebtedness. The failure to make a required repurchase of the Notes would result in a default under the indenture governing the Notes. A default under the indenture, or the Change of Control itself, could also lead to a default under other of our indebtedness that is outstanding at the time, and might cause some or all of that indebtedness to become due. See "Description of Notes — Change of Control Offer."

There may be doubt as to whether there has been a Change of Control Triggering Event.

Although we have agreed that if there is a Change of Control Triggering Event, we will offer to repurchase the Notes for 101% of their principal amount, plus any accrued and unpaid interest, it may not always be clear whether a Change of Control Triggering Event has or has not occurred. In particular, one type of Change of Control Triggering Event is a sale, lease or other transfer of "all or substantially all" of our assets. There has been a great deal of litigation in various states, including New York (the laws of which govern the Notes), as to whether particular events constitute a sale, lease or other transfer of all or substantially all the assets of a particular company. To a significant extent, the answer to that question depends on subjective factors about which different persons could have different views. A disagreement between Rialto and the Noteholders as to whether a sale of all or substantially all our assets has occurred could result in litigation that could be expensive for the Noteholders and for us, and could be harmful to us.

Some significant transactions may not constitute a Change of Control, in which case we would not be obligated to offer to repurchase the Notes.

If a Change of Control Triggering Event occurs, you will have the right to require us to repurchase your Notes. However, the provisions relating to a Change of Control Triggering Event will not afford protection to holders of Notes in the event of some transactions that could adversely affect the Notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a Change of Control Triggering Event requiring us to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of those transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of Notes.

If there were a default under an RMF warehouse financing line, we might have difficulty getting access to the full proceeds of securitizations of the loans that secure borrowings under that warehouse financing line.

Under RMF's current warehouse financing lines, RMF can borrow a portion (usually 75%) of the sum it lends with regard to a particular mortgage loan, but in order to do so, it must sell the mortgage loan to a wholly owned subsidiary, which will not be a Guarantor (and therefore will not guarantee our obligations with regard to the Notes), and the subsidiary then borrows the specified percentage of the value (usually the principal amount) of the mortgage loan from the lender under the warehouse financing line. Because the RMF subsidiary will have no assets other than the loans that collateralize warehouse financings, the purchase price the RMF subsidiary pays when it purchases a mortgage loan from RMF usually will be only the amount equal to the amount the subsidiary can borrow with regard to the mortgage loan, which will be less than the amount RMF lends with regard to the mortgage loan (currently, it will normally be 75% of the amount RMF lends). We will have to provide RMF with the remainder of the amount it lends with regard to the mortgage loan. When the loan is securitized, the RMF subsidiary will apply part of the proceeds of the securitization to repay the borrowings under a warehouse financing line secured by the mortgage loan, and will pay the balance to RMF as a dividend or other form of distribution. However, if there were a default with regard to a warehouse credit line, the RMF subsidiary that is the borrower under that line could be prohibited from paying dividends, or making other distributions, to RMF. Because the RMF subsidiaries that are parties to warehouse financing lines are prohibited from engaging in any activities other than obtaining mortgage loans that will collateralize borrowings under the warehouse credit lines and securitizing those mortgage loans in order to repay the borrowings under the warehouse credit lines, it is unlikely that there could be a default under a warehouse credit line unless there were a precipitous decline in the value of commercial real estate that reduced the value of the properties secured by RMF mortgage loans below the sums borrowed under the warehouse credit lines and made it impossible to securitize those mortgage loans rapidly. However, if there were a default under a warehouse credit line, we might not be able to access the value of the mortgage loans securing that warehouse credit line in order to make payments with regard to the Notes.

An unfavorable rating of the Notes might cause their trading price to fall.

If a rating service that rates the Notes subsequently were to lower its rating of the Notes or were to announce its intention to put the Notes on credit watch, the trading price of the Notes could decline. In addition, low ratings of our debt securities could make it more difficult or more expensive for us to obtain debt financing in the future, including debt we are trying to raise to enable us to pay the principal of the Notes when it is due.

Fraudulent conveyance considerations could affect the enforceability of the guarantees of the Notes.

Under fraudulent conveyance laws, a guarantee by a subsidiary of its parent's debt is more subject than most guarantees to the possibility of being subordinated to existing or future indebtedness incurred by the guarantor subsidiary, or might not be enforceable, if a court or a creditor's representative, such as a bankruptcy trustee, concluded that the subsidiary received less than fair consideration for the guarantee and:

- it was rendered insolvent as a result of issuing the guarantee;
- at the time it issued the guarantee, it was engaged in a business or transaction for which the subsidiary's remaining assets constituted unreasonably small capital;
- at the time it issued the guarantee, it intended to incur, or believed that it would incur, debts that it would not be able to pay as they matured; or
- at the time it issued the guarantee, it did that with intent to hinder, delay or defraud its or its parent's
 other creditors.

The measure of what constitutes insolvency varies depending upon the law of the relevant jurisdiction. Generally, however, a company is considered insolvent if its debts are greater than the fair value of its property, or if the fair saleable value of its assets is less than the amount that would be needed to pay its probable liabilities as its existing debts matured and became absolute.

If the Notes are issued for less than their principal amount and we become the subject of a bankruptcy proceeding, holders may not be able to claim the full principal amount of the Notes.

If the Notes are issued for less than their principal amount and we become the subject of a proceeding under the Bankruptcy Code, the claims holders of the Notes can file with regard to the Notes may be limited to

- the original price for which we sold the Notes,
- · the amount of the discount for which we sold the Notes that has been amortized into income, plus
- · any defaulted interest.

The portion of the discount for which we sold the Notes that has not been amortized would be treated as unmatured interest, not as a debt, and therefore could not be included in the sum claimed in the bankruptcy proceeding.

Lennar will not guarantee or provide additional credit support for the Notes.

Lennar will not be a guarantor of or otherwise provide credit support for the Notes. We are a wholly-owned subsidiary of Lennar and as an equity holder, Lennar will not have any liability for obligations under the Notes, and their interest may not be aligned with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Lennar might conflict with your interests as a noteholder. In addition, Lennar may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to you as a noteholder. As a result, prospective investors should not expect Lennar to participate in servicing the principal of, premium, if any, or interest or any other payment obligations on, the Notes.

ABSENCE OF PUBLIC MARKET

The Notes will be new securities for which there is no established trading market. We currently do not intend to list the Notes on any securities exchange or to arrange for the Notes to be quoted on any quotation system. Accordingly, it is possible that no active trading market for the Notes will develop and that any market that does develop will not provide significant liquidity to holders of Notes.

USE OF PROCEEDS

We expect to receive net proceeds of approximately \$245 million from the sale of the Notes, after deducting the initial purchaser discount and expenses of the offering. We intend to use most of those proceeds to provide working capital to Rialto Mortgage Finance, LLC, which is wholly owned by Rialto Capital Management, LLC. However, we expect to use an amount up to 40% of the gross proceeds to repay sums that were advanced by Lennar to enable Rialto Mortgage Finance, LLC to begin originating and securitizing loans and we may use some of the net proceeds to make investments in funds or entities managed or advised by Rialto Capital or its subsidiaries. To the extent we do not use the proceeds for these purposes, we will add them to our working capital and use them for general corporate purposes.

OTHER INDEBTEDNESS

When the Notes are issued they will be the Issuers' only indebtedness, other than \$235 million owed to our parent, Lennar Corporation, of which we expect to repay up to an amount not to exceed 40% of the gross proceeds of the sale of the Notes. This indebtedness will be a senior unsecured obligation of Holdings and will rank equally with the Notes. However, our subsidiaries have indebtedness. The indebtedness of our subsidiaries at August 31, 2013 is listed in the table in the section of this offering memorandum captioned "Capitalization." Our subsidiaries that are borrowers under RMF's warehouse finance facilities will not be guarantors of the Notes. Accordingly, the Notes are structurally subordinate to all existing and future borrowings under these warehouse facilities. Rialto Capital and Rialto Investments are guarantors of the borrowers' obligations under RMF's warehouse finance facilities. Those guarantees subject the guarantors to financial covenants and restrict payment of dividends by them during the continuance of an event of default. RMF also provides guarantees of the warehouse finance facilities, which restrict payment of dividends during the continuance of an event of default. None of the other indebtedness of our subsidiaries has any covenants that restrict our or our subsidiaries' ability to make payments on outstanding indebtedness or to pay dividends. Our subsidiaries all were in compliance with their debt covenants at August 31, 2013.

CAPITALIZATION

The table below shows our capitalization as it existed at August 31, 2013 and as adjusted to give effect to the issuance of \$250 million aggregate principal amount of the Notes offered by this offering memorandum, the contribution to our capital by our parent, Lennar Corporation, of the entire outstanding balance of what we owe it in excess of \$235 million, and the application of \$100 million of the proceeds of the sale of the Notes to repay a portion of the sum we owe Lennar. See "Use of Proceeds."

As of August 31, 2013		
(unaudited)	As Adjusted (unaudited) thousands)	
\$ 72,024	\$ 217,024	
268,595	268,595	
658,698	135,000	
	250,000	
927,293	653,595	
56,517	480,215	
\$ 983,810	\$1,133,810	
	Actual (unaudited) (dollars in \$ 72,024	

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, and (ii) application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar. See "Use of Proceeds."

⁽²⁾ Represents aggregate principal amount of Notes offered by this offering memorandum.

SELECTED FINANCIAL INFORMATION

The following tables set forth our summary consolidated financial data as of and for the periods indicated. The balance sheet, operating and cash flow data as of and for the years ended November 30, 2012 and 2011 are derived from our audited consolidated financial statements and related notes included in this offering memorandum. The balance sheet, operating and cash flow data as of and for the year ended November 30, 2010 are derived from our unaudited consolidated financial statements and related notes that are not included in this offering memorandum. The balance sheet, operating, and cash flow data as of and for the nine months ended August 31, 2013 have been derived from our unaudited consolidated financial statements included in this offering memorandum.

In August 2013, Rialto Holdings, LLC was formed to consolidate the ownership of two legal entities, Rialto Investments, LLC (formerly Lennar Distressed Investments, LLC) and Rialto Capital Management, LLC that had operated as a single combined business segment of Lennar Corporation.

			For the nine months ended August 31, 2013	For the nine months ended August 31, 2012
			(unaudited) (dollars ir	(unaudited) thousands)
Operating Data:				
Interest income			\$56,773	\$ 75,689
Management fees			21,195	27,185
Rental income			14,807	12,149
Other income			1,146	_
Total Revenues			93,921	115,023
Total Expenses	99,240	145,788		
Equity in earnings from unconsolidated entities			15,877	37,578
Gain on sale of investments held-to-maturity			–	_
Net earnings (loss) attributable to non-controlling i	nterests		4,570	(14,582)
Net earnings before provision for income taxes			5,988	21,395
Net earnings after provision for income taxes			3,354	12,925
	For	the nine months August 31, 201		For the nine months ended August 31,
	As Reported	Adjustment(1)	As Adjusted(1)	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash Flow Data:				
Operating activities	\$(297,177)	\$ -	\$(297,177)	\$ (58,462)
Investing activities	360,220	_	360,220	252,530
Financing activities	(96,329)	145,000	48,671	(205,327)
Total cash (outflows) inflows	\$ (33,286)	\$145,000	\$ 111,714	\$ (11,259)

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

			Trailing twelv	/e	r the years November	
			August 31, 20		2011	2010
			(unaudited)	1		(unaudited)
				(dollars in tl	nousands)	
Operating Data:						
Interest income			, ,		\$153,186	
Management fees			,	34,943	,	1,880
Rental income			,	16,476	,	171
Other income				_		_
Total Revenues				155,332	,	92,768
Total Expenses				185,246	,	50,824
Equity in earnings (loss) from un				41,483) 15,363
Gain on sale of investments held				_	1,7 10	_
Net earnings (loss) attributable to				(14,383	,	,
Net earnings before provision for				25,952		,
Net earnings after provision for i	ncome taxes		5,897	15,468	22,716	14,979
Trailing twelve months ended For the years ended August 31, 2013 November 30,						
	As					
	Reported	Adjustment(1)	As Adjusted(1)	2012	2011	2010
	(unaudited)	(unaudited)	(unaudited) (dollars in thous	ands)		(unaudited)
Cash Flow Data:						
Operating activities	\$(258,367)	\$ -	\$(258,367)	\$ (19,652)	\$(24,229)	\$ (13,144)
Investing activities	394,662	_	394,662	286,972	(12,122)	(1,468,522)
Financing activities	(136,950)	145,000	8,050	(245,948)	43,877	1,558,078
Total cash (outflows) inflows	\$ (655)	\$145,000	\$ 144,345	\$ 21,372	\$ 7,526	\$ 76,412
			For the nine m	onths ended	For the	e years ended
			August 3			ember 30,
			As Reported A	s Adjusted(1	2012	2011 2010
				(unaudit	ed)	
Other Data:			10 /	a ,	10.5	000
Net debt(2) to Parent's equity rat			16.4	1.4	16.5	30.2 80.3
Parent's equity to total assets			3.6%	28.2%	3.2%	2.0% 0.8%

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

⁽²⁾ Total net debt represents Due to Parent plus Total notes payable less Defeasance cash to retire notes payable.

	As of August 31, 2013		As	of Novembe	er 30,	
	As Reported	Adjustment(1)	As Adjusted(1)	2012	2011	2010
	(unaudited)	(unaudited)	(unaudited) (dollars in thou	sands)		(unaudited)
Balance Sheet Data:				·		
Cash	\$ 72,024	\$ 145,000	\$ 217,024	\$ 105,310	\$ 83,938	\$ 76,412
Defeasance cash to retire notes						
payable	78,032	_	78,032	223,813	219,386	101,309
Total investments	1,353,652	_	1,353,652	1,294,870	1,577,950	1,581,481
Total assets	1,554,140	150,000	1,704,140	1,647,360	1,897,148	1,777,614
Total notes payable	346,627	250,000	596,627	574,480	765,541	752,302
Due to Parent	658,698	(523,698)	135,000	526,129	592,191	551,842
Total liabilities and non-						
controlling interests	1,497,623	(273,698)	1,223,925	1,594,197	1,859,453	1,762,635
Parent's equity	56,517	423,698	480,215	53,163	37,695	14,979
Total equity	504,371	423,698	928,069	498,449	497,364	445,719
Non-GAAP Disclosure:						
Total assets(2)	1,554,140	(580,674)	973,466			

⁽¹⁾ Reflects adjustment to give effect to (i) \$423.7 million contribution by Lennar to our equity, which was its entire investment in us and our subsidiaries at August 31, 2013, in excess of \$235 million, (ii) the issuance of the Notes and the application of \$100 million of the proceeds of the sale of the Notes offered by this offering memorandum to reduce our remaining indebtedness to Lennar and (iii) retention of \$145 million of cash from the net proceeds of the sale of the Notes. See "Use of Proceeds." "As Reported" amounts as of and for the nine months ended August 31, 2013 and as of and for the fiscal years ended November 30, 2010 through 2012 do not reflect any such adjustments described above.

⁽²⁾ Reflects adjustment for the reclassification of the FDIC consolidated joint ventures as if they were reported under the equity method of accounting to reflect only our proportionate 40% share of the net assets of the FDIC LLCs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section of this offering memorandum captioned "Selected Financial Information," and our audited 2012 and 2011 consolidated financial statements and our unaudited interim consolidated financial statements as of and for the three and nine months ended August 31, 2013 and 2012 and accompanying notes included elsewhere in this offering memorandum.

Outlook

The current real estate markets have been profoundly impacted by what many believe to have been the worst economic downturn since the Great Depression. However, Rialto believes that the resulting distress presents an opportunity that is larger than that presented by any previous dislocation in over three decades.

It is generally believed that the current dislocation in the real estate markets is primarily the result of overly aggressive lending practices that resulted in significant borrower defaults. These defaults, which first manifested themselves in the residential sector in late 2008, are believed to have been a major cause of a broad credit crisis around the globe, and eventually a severe recession. Due to the longer-term nature of rents and low interest rates, distress in the commercial sector was slower to materialize fully, but it did eventually materialize.

By some estimates, more than \$3 trillion of asset value has disappeared from financial institutions' balance sheets due to the economic downturn, causing a freeze in capital markets around the world, which only after trillions of dollars of government stimuli have begun to thaw. While many believe that most of the catastrophic system failure is behind us, markets globally remain fragile. With so many institutions with billions of dollars of sub-performing and illiquid assets on their balance sheets, or locked in the banking systems, lending capacity has been severely curtailed.

Rialto believes that along the path to a continuing economic recovery there will be significant opportunities that fit well with its skill set of evaluating, investing in, working out, and managing troubled assets.

Since we began operations at the end of 2009, we have had a strong track record of acquiring distressed loan portfolios and real estate related assets at a discount and turning them into profits for us and our parent company, Lennar (the "Parent"). In our first year of operation, our profit was based on acquiring these loan portfolios with our Parent's capital and working out favorable loan terms with borrowers in order for them to continue to make payments. If that was not possible, we foreclosed on these properties and then worked on selling the properties for a profit. In 2011 we continued to work through these types of investments and added a second type of revenue stream by investing in and managing real estate funds. For the next two years we continued with a dual revenue stream operation, working through the loans and real estate related assets we acquired with our own capital and receiving management fees and profits from our own investments in our real estate funds.

During 2013 we continued our focus on raising investment capital from third party investors and have been able to produce profits in a difficult economic environment by investing this third-party capital in real estate related assets. Focusing on managing real estate related investments for third parties shifts the principal source of our earnings from loan interest and net gains on sales of foreclosed real estate ("REO") towards an investment management, asset management, and other service fee oriented business model. We expect this focus to carry into the future, although our new Rialto Mortgage Finance ("RMF") segment has recently begun to originate and securitize commercial first mortgage loans, earning profits by selling the loans to securitization trusts for more than what we invest in them. In our Direct Investment segment, the limited liability companies in which we have invested along with the Federal Deposit Insurance Corporation ("FDIC") began distributions of capital in 2013, and that will increase in 2014. However, revenues and earnings from our direct investment in the FDIC LLCs and in portfolios of distressed residential and commercial real estate loans we acquired from banks ("Bank Portfolios") will decrease as the assets underlying these investments continue to wind down.

Looking past 2014, we expect that we will earn more management fees and begin receiving performance based incentive fees in our Investment and Asset Management segment as the investments in our Rialto Real Estate Fund I ("Fund I") start to wind down. We also expect to earn significant incentive fees from, and to receive significant revenues from carried interests in, the other funds that we manage through our participation as a general partner or managing member. Incentive fees are earned, and we receive distributions with regard to carried interests, when distributions by investment vehicles exceed specified threshold returns on investors' capital, and generally begin to be distributed six years after an investment fund begins. As we increase the number of our investment funds and our other investment funds age, we would expect an increasing portion of our revenues to be generated by incentive fees and carried interests. If Fund I had ceased operations and liquidated all its investments for their estimated fair values on August 31, 2013, we would have received \$72.3 million with regard to our carried interest. However, Fund I did not cease operations and liquidate its investments on August 31, 2013, and the actual sum we receive with regard to our carried interest in Fund I may be substantially higher or lower than \$72.3 million. No amount has been accrued in our consolidated statement of operations with regard to our carried interest in Fund I. See Note 1, Basis of Presentation in the notes to the condensed consolidated financial statements for more information about how we record revenues attributable to carried interests.

With fewer traditional lenders, and those lenders facing stricter underwriting standards and new government-imposed regulations, we anticipate a large scale opportunity to originate commercial first mortgage loans and mezzanine debt to borrowers as a wave of commercial real estate loans matures and must be refinanced. Also, many financial institutions remain burdened by exposure to overleveraged real estate assets and must further deleverage their balance sheets before they can significantly increase new originations. Lenders have utilized distressed asset sales to rid themselves of their underwater assets, and have employed more conservative underwriting standards on new loans to transition away from riskier assets. Several balance sheet lenders have instituted hard loan-to-value caps on their senior mortgages at a time when borrowers are searching for additional leverage to refinance their upcoming maturities. The result has created an opportunity for us to partner with our broad network of senior lenders to provide full loan packages to qualified borrowers.

Throughout the recession, lending institutions benefitted from extensive accommodations from bank regulators, enabling loan restructuring practices that only delayed a large portion of the inevitable recapitalizations in the banking system. Recent regulatory attention (e.g., Basel III and the U.S. Dodd Frank Wall Street Reform and Consumer Protection Act, including the so-called "Volcker Rule") has motivated many financial institutions to implement more stringent bank capital standards, which we believe should further drive banks away from risk and toward higher underwriting standards and lower senior loan amounts. We believe this dynamic will continue to lead to an increasing number of lending opportunities for us.

Segments

We operate in three segments, Investment and Asset Management, RMF and Direct Investments. Our segments are identified based upon how management operates and manages our activities as well as the types of products sold and services performed.

Investment and Asset Management

We are the sponsor of and an investor in private funds and other investment vehicles that invest in and manage real estate related assets. In addition to receiving earnings on our investments, we also earn fees for our role as an investment manager of these vehicles and for providing investment management and other services to those vehicles and other third parties. As discussed above, these types of revenues are becoming increasingly important to us as we move away from only using our own capital to invest in real estate and real estate related assets as we have done in our Direct Investments segment, and instead, focus on raising capital for investments and then earning revenue through management and servicing fees, as well as by participating in the ownership as an investor and participating in distributions as a general partner after distributions to investors have met specified investment return thresholds. The general

partner distributions normally will not be received until an investment fund begins to wind down their investment cycles (projected to generally be approximately six years after inception). Our current projections have us exceeding these investment thresholds in Fund I and we anticipate receiving significant revenues from these incentive fees in the future from Fund I and from other current and future investment funds.

AB PPIP — In 2009, a public private investment program (the "PPIP") was instituted by the U.S. Treasury under which funds would be created to match private capital with public capital and financing provided by the U.S. Treasury, which provided an opportunity for private investors to invest in non-agency residential mortgage-backed securities and CMBS issued prior to 2009 that were originally rated AAA, or an equivalent rating, that would be purchased from banks in order to increase the banks' liquidity. AllianceBernstein L.P. formed, and one of its subsidiaries was the adviser to, one of eight funds formed under the PPIP (the "AB PPIP fund"), and we were a sub-advisor to the adviser. We received management fees for our sub-advisory services. The AB PPIP fund was monetized and liquidated during the second half of 2012. During the duration of the AB PPIP fund, we invested \$69.4 million in the AB PPIP fund and we received total distributions of \$96.6 million, in addition to the \$15.2 million in management fees, which included \$9.1 million of incentive fees earned for exceeding targeted threshold returns.

Fund I-I In 2010, we completed the first closing of Fund I, which had as its objective investing in distressed real estate assets and making other related investments that fit within its investment parameters (which were a targeted net internal rate of return exceeding 20% and a targeted net multiple on invested equity exceeding 2.0x). Investors committed and contributed a total of \$700 million of equity (including \$75 million by us) and Fund I is fully invested. During the years ended November 30, 2012 and 2011, we contributed \$41.7 million (of which \$13.9 million was distributed back to us as a return of excess contributions) and \$60.6 million (of which \$13.4 million was distributed back to us as a return of excess capital contributions). As it was fully funded, there were no investor contributions during the three and nine months ended August 31, 2013, our share of earnings of Fund I were \$3.7 million and \$14.8 million, respectively. For the three and nine months ended August 31, 2012, our share of earnings of Fund I was \$6.2 million and \$16.8 million, respectively. Through August 31, 2013, a total of \$365.5 million in distributions, equal to over 50% of their invested capital, had been made to investors (including \$39.8 million distributed to us).

Fund II — In December 2012, we completed the first closing of our second real estate investment fund, Fund II. As of August 31, 2013, Fund II had received equity commitments of approximately \$642.6 million, including \$100 million committed by us. Fund II's objective, like that of Fund I, is to invest in distressed real estate assets and other related investments that fit its investment parameters (which are a targeted gross internal rate of return of 18% to 20%). Among other things, Fund II's documents prohibit us from acquiring real estate assets that might be suitable for Fund II, before Fund II is fully invested or committed. It is expected that the Company's ultimate equity interest in Fund II will be approximately 10% as the capital commitments are targeted at \$1 billion, including our \$100 million. As of August 31, 2013, \$240.0 million in capital contributions have been funded (including \$37.4 million by us).

Mezzanine Fund — In the third quarter of 2013, we began raising capital for a fund that invests in mezzanine commercial loans (usually loans secured by the equity of the entity that owns real estate that is already subject to a first mortgage loan). These loans are notably shorter in life and carry a higher interest rate than a typical commercial mortgage loan. We created the Rialto Mezzanine Partners Fund, LP ("Mezzanine Fund") with a target of \$300 million in raised capital to invest in what are expected to be fully performing mezzanine commercial loans ranging in size from \$3 million to \$15 million and a targeted gross internal rate of return of 10% – 14%. As of August 31, 2013, the Mezzanine Fund had total equity commitments of \$82 million, including \$25 million committed by us. At August 31, 2013, the Mezzanine Fund had invested in three loans with initial principal balances totaling \$13 million. Total capital invested in the Mezzanine Fund was \$13.5 million through August 31, 2013 (including \$4.1 million by us).

Rialto Mortgage Finance

During the third quarter of 2013, we created RMF to originate and securitize 5, 7 and 10 year commercial first mortgage loans, generally with principal amounts between \$2 million and \$75 million, which will be secured by income producing properties. As of August 31, 2013, we had equity of approximately \$132 million for RMF, which had been provided by Lennar, we had secured a \$250 million warehouse financing agreement for RMF, and we were seeking over \$500 million of additional warehouse financing. We expect to provide an additional \$150 million of capital to RMF through proceeds of the debt offering that is the subject of this offering memorandum. See "Use of Proceeds." This will give our RMF segment total lending capacity of approximately \$1 billion. Our goal is to securitize loans at least quarterly, thus keeping them on our balance sheet for just a short period of time. As of August 31, 2013, RMF has originated \$245 million in total principal balance of loans. On September 30, 2013 RMF sold \$198 million of these loans to a securitization trust at a premium for more than their face amount.

Through October 31, 2013, RMF originated an additional \$306 million in total principal balance of loans. On November 1, 2013, RMF contributed collateral of \$174 million of its commercial real estate loans into a securitization trust at a premium to their face amount.

Direct Investments

Direct Investments used our own capital to purchase assets. We began making investments in 2010, when the economy and housing sector were still performing poorly and had not yet started to recover. Because of this, we were able to purchase loan portfolios and real estate related assets at significant discounts. However, investing in assets of this type requires a concentrated use of our capital, and therefore, beginning in 2011, we began to focus more on managing third party capital, primarily by sponsoring and managing real estate related investment funds. Initially, the funds we sponsored targeted distressed real estate assets. However, recently, we have sponsored a fund that will invest in mezzanine loans to developers and others that we expect to be fully performing.

FDIC Portfolios — In February 2010, we acquired 40% managing member equity interests in two limited liability companies ("LLCs") that had been formed by the LLC to hold performing and non-performing loans formerly owned by 22 failed financial institutions. The FDIC retained 60% equity interests in the LLCs and provided \$626.9 million of financing with 0% interest, which was non-recourse to the Company and to the LLCs. When we acquired our interests in the two LLCs, their portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans.

Bank Portfolios — In September 2010, we acquired from three financial institutions portfolios consisting of a total of approximately 400 distressed commercial and residential mortgage loans and over 300 properties that had been obtained through foreclosures of loans. We paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured loan provided by one of the selling institutions.

CMBS Investment — In addition, in 2010, we purchased approximately \$43 million face amount of non-investment grade commercial mortgage-backed securities ("CMBS") for \$19.4 million, representing a 55% discount from par value.

Other — Additionally, we have approximately a 5% investment in a financial service company which has a business segment that provides service and infrastructure to the residential home loan market (the "Servicer Provider"). At August 31, 2013, we were in negotiations to acquire 100% of the stock of the Servicer Provider. The Servicer Provider currently provides loan servicing support for all of our portfolios and investment management for our small balance loans. The infrastructure for our small balance loan program was developed and built at the Servicer Provider and is dependent on the Servicer Provider's operations. The Servicer Provider possesses the requisite licensing, infrastructure and staff to provide these services in the 47 states in which we own and/or manage loans. This transaction is expected to produce immediate financial benefits by eliminating the pricing markup and cost allocations currently charged by

the Servicer Provider to us, and other savings by adding efficiencies via staffing optimization and process improvement. Our overall investment will be an exchange of our existing 5% ownership interest in the company that owns the Servicer Provider, which we currently carry at \$8.3 million, plus an estimated \$0.6 million in build out and transition costs.

Results of Operations

Overview — August 31, 2013 and 2012

Financial information relating to our operations for the three and nine months ended August 31, 2013 and 2012 was as follows:

		Months ded		ine s Ended
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
		(dollars in	thousands)	
REVENUE:				
Interest income	\$18,336	\$ 22,498	\$56,773	\$ 75,689
Management fees	8,326	14,696	21,195	27,185
Rental income	4,826	4,243	14,807	12,149
Other income	1,146		1,146	
Total revenue	32,634	41,437	93,921	115,023
EXPENSES:				
General and administrative expense	18,190	13,799	45,053	41,000
Servicing expense	8,533	9,610	26,175	38,349
Provision for loan losses	3,478	20,302	14,088	22,572
REO expense	2,989	14,306	4,997	35,824
Interest expense	1,735	1,496	3,766	4,476
Amortization of debt issuance costs	1,900	1,141	4,373	3,424
Depreciation expense	330	48	788	143
Total expenses	37,155	60,702	99,240	145,788
EQUITY IN EARNINGS FROM				
UNCONSOLIDATED ENTITIES	5,198	13,551	15,877	37,578
NET EARNINGS (LOSS) (INCLUDING NET EARNINGS (LOSS) ATTRIBUTABLE TO				
NON-CONTROLLING INTERESTS) LESS: NET (LOSS) EARNINGS ATTRIBUTABLE	677	(5,714)	10,558	6,813
TO NON-CONTROLLING INTERESTS	(791)	(13,393)	4,570	(14,582)
NET EARNINGS ATTRIBUTABLE TO RIALTO				
BEFORE PROVISION FOR INCOME TAXES	1,468	7,679	5,988	21,395
PROVISION FOR INCOME TAXES	487	3,072	2,634	8,470
NET EARNINGS ATTRIBUTABLE TO RIALTO	\$ 981	\$ 4,607	\$ 3,354	\$ 12,925

Three months ended August 31, 2013 versus three months ended August 31, 2012

We had net earnings before provision for income taxes of \$1.5 million in the third quarter of 2013 (which is comprised of \$0.7 million of net earnings and an add back \$0.8 million of net loss attributable to non-controlling interests), compared to net earnings of \$7.7 million (which is comprised of a \$5.7 million net loss and an add back of \$13.4 million of net loss attributable to non-controlling interests) in the same period in the prior year. Revenues were \$32.6 million in the third quarter of 2013, which consisted primarily

of accretable interest income associated with the Company's portfolio of real estate loans and fees for managing and servicing assets, compared to revenues of \$41.4 million in the same period last year, which included \$8.1 million in fees earned from Rialto's role as sub-advisor to the AB PPIP. Revenues decreased primarily due to lower interest income as a result of a decrease in our portfolio of loans and the fees earned related to the AB PPIP in 2012. Expenses were \$37.2 million in the third quarter of 2013, which consisted primarily of costs related to the portfolio operations, provision for loan losses of \$3.5 million primarily associated with the Company's FDIC loan portfolio (before non-controlling interests) and other general and administrative expenses. Also included in expenses were expenses of our REO operations of \$3.0 million, which consisted primarily of expenses related to maintaining REO and REO impairments of \$5.3 million, partially offset by realized gains on the sale of REO of \$9.7 million. This compares with expenses of \$60.7 million in the third quarter of 2012, which consisted primarily of costs related to our portfolio operations, provision for loan losses of \$20.3 million primarily associated with the FDIC loan portfolio (before non-controlling interests), and other general and administrative expenses. That included expenses of our REO operations of \$14.3 million, which consisted primarily of expenses related to owning and maintaining REO of \$2.4 million. Expenses decreased primarily due to a decrease in provision for loan losses and in REO expenses.

Equity in earnings from unconsolidated entities was \$5.2 million in the third quarter of 2013, which primarily included \$5.1 million of equity in earnings related to the Company's share of earnings from Fund I and Fund II Equity in earnings from unconsolidated entities was \$13.6 million in the third quarter of 2012, which included \$8.1 million of net gains primarily related to realized gains from the sale of investments in the portfolio underlying the AB PPIP fund, \$1.2 million of interest income earned by the AB PPIP fund and \$6.2 million of equity in earnings related to Fund I.

Nine months ended August 31, 2013 versus nine months ended August 31, 2012

We had net earnings before provision for income taxes of \$6.0 million in the nine months ended August 31, 2013 (which included \$10.6 million of net earnings offset by \$4.6 million of net earnings attributable to non-controlling interests), compared to net earnings before provision for income taxes of \$21.4 million (which included \$6.8 million of net earnings and an add back of \$14.6 million of net loss attributable to non-controlling interests) in the same period last year. Revenues were \$93.9 million in the nine months ended August 31, 2013, which consisted primarily of accretable interest income associated with the portfolio of real estate loans and fees for managing and servicing assets, compared to revenues of \$115.0 million in the same period in the prior year. Revenues decreased primarily due to lower interest income as a result of a decrease in the portfolio of loans. Expenses were \$99.2 million in the nine months ended August 31, 2013, which consisted primarily of costs related to our portfolio operations, provision for loan losses of \$14.1 million primarily associated with the segment's FDIC loan portfolio (before non-controlling interests) and other general and administrative expenses. Also included in expenses were expenses of our REO operations of \$5.0 million, which consisted primarily of expenses or owning and maintaining REO and impairments on REO, partially offset by realized gains on the sale of REO of \$36.9 million. This compares with expenses of \$145.8 million for the nine months ended August 31, 2012, which consisted primarily of costs related to our portfolio operations, provision for loan losses of \$22.6 million primarily associated with the FDIC loan portfolio (before non-controlling interests), and other general and administrative expenses in the same period last year. That included expenses of our REO operations of \$35.8 million, which consisted primarily of expenses related to owning and maintaining REO and REO impairments of \$7.6 million, partially offset by realized gains on the sale of REO of \$10.9 million. Expenses decreased primarily due to a decrease in loan servicing expenses and in REO expenses.

Equity in earnings from unconsolidated entities was \$15.9 million in the nine months ended August 31, 2013, which was related to the Company's share of earnings from Fund I and Fund II. Equity in earnings from unconsolidated entities was \$37.6 million in the nine months ended August 31, 2012, which included \$17.0 million of net gains primarily related to unrealized gains from investments in the portfolio underlying the AB PPIP fund, \$6.3 million of interest income earned by the AB PPIP fund and \$16.8 million of equity in earnings related to the Company's share of earnings from Fund I.

Selected Segment Financial and Operational Data

Investment and Asset Management

		As	of	
	August	31, 2013		ber 30, 12
	(dollars in thousands))
Total Assets	. \$146,047		\$112	2,988
		nths ended st 31,	Nine mon Augu	
	2013	2012	2013	2012
		(dollars in	thousands)	
Revenue	\$ 9,187	\$14,682	\$22,315	\$27,171
Net Earnings (Loss) Before Income Taxes	14,240	28,121	37,889	64,879

Three months ended August 31, 2013 versus three months ended August 31, 2012

Revenue decreased 37% in our Investment and Asset Management segment due to the AB PPIP fund starting to unwind its operations in the second half of 2012 and as a result we earned \$8.1 million in fees from our role as a sub-advisor for the three months ended August 31, 2012 that we did not receive in 2013. Net earnings (loss) before income taxes decreased due to the AB PPIP fund starting to unwind its operations in the second half of 2012 and as a result we earned \$1.2 million of interest income and \$8.1 million of net gains primarily related to realized gains from the sale of investments in the portfolio underlying the AB PPIP fund for the three months ended August 31, 2012 that we did not receive in 2013. Also, Fund I was working towards becoming fully invested towards the end of 2012, and despite having large unrealized gains, it was not yet distributing capital back to investors. As 2013 progressed, Fund I no longer had large unrealized gains as new investments were no longer being acquired and it started distributing a large amount of capital back to investors, thus decreasing the amount of capital receiving interest.

Nine months ended August 31, 2013 versus nine months ended August 31, 2012

Revenue decreased 18% in our Investment and Asset Management segment due to the AB PPIP fund starting to unwind its operations in the second half of 2012 and as a result we earned \$9.1 million in fees from our role as a sub-advisor for the nine months ended August 31, 2012 that we did not receive in 2013. Net earnings (loss) before income taxes decreased due to the AB PPIP fund starting to unwind its operations in the second half of 2012 and as a result we earned \$6.3 million of interest income and \$17.0 million of net gains primarily related to unrealized gains from investments in the portfolio underlying the AB PPIP fund for the nine months ended August 31, 2012 that we did not receive in 2013. Also, Fund I was working towards becoming fully invested towards the end of 2012, and despite having large unrealized gains, it was not yet distributing capital back to investors. As 2013 progressed, Fund I no longer had large unrealized gains as new investments were no longer being acquired and it started distributing a large amount of capital back to investors, thus decreasing the amount of capital receiving interest.

	As of					
	August	31, 20	013	Novembe	r 30,	2012
	(dollars in thousands)					
Total Assets		9,708		\$	_	
	Three months ended Nine mon August 31, Augu		iths ended ist 31,			
	2013	20	12	2013	20)12
		(dolla	ars in	thousands)		
Revenue	\$ 2,435	\$	_	\$ 2,435	\$	_
Net Earnings Before Income Taxes	(1,782)		_	(2,848)		_

Three months ended August 31, 2013 versus three months ended August 31, 2012

RMF began operations during the third quarter of 2013 and had revenues of \$2.4 million which consisted primarily of interest income of \$1.3 million and realized gains on interest rate derivatives of \$0.9 million. These derivatives are used for risk management purposes to reduce RMF's exposure to fluctuations in mortgage-related interest rates as well as lessen its credit risk. RMF had a net loss before income taxes primarily due to startup costs.

Nine months ended August 31, 2013 versus nine months ended August 31, 2012

Even though RMF began operations during the third quarter of 2013, certain start up costs were incurred prior to the start of the third quarter. For the nine months ended August 31, 2013, RMF had revenues of \$2.4 million which consisted primarily of interest income of \$1.3 million and realized gains on interest rate derivatives of \$0.9 million. RMF had a net loss before income taxes primarily due to startup costs, some of which occurred prior to the start of the third quarter.

Direct Investments

	As of									
	August	31, 2013	Novembe	r 30, 2012						
	(dollars in thousands)									
Total Assets	\$1,138,385		\$1,138,385		\$1,138,385		\$1,138,385		\$1,53	4,372
	Three months ended August 31,			nths ended ust 31,						
	2013	2012	2013	2012						
		(dollars in	thousands)							
Revenue Net Earnings (Loss) Before Income Taxes	\$21,012 2,954	\$26,755 (7,477)	\$69,171 8,926	\$87,852 (4,854)						

Three months ended August 31, 2013 versus three months ended August 31, 2012

Revenue decreased 21% in our Direct Investments segment due mainly to interest income decreasing as the portfolio of loans has decreased through loan collections, payoffs and REO conversions. This was partially offset by an increase in rental income from our REO operations. Net earnings (loss) before income taxes increased largely due to a decrease in the provision for loan losses, an increase in realized gains on REO sales and an increase in unrealized gains (losses) on transfer of loans to REO. The decrease in expenses was slightly offset by our earnings (loss) from non-controlling interest related to the FDIC LLC portfolios, which were profitable in 2013 but not in 2012, which amounts are backed out in arriving at net loss before income taxes.

During the quarter, one of the LLCs retired its note to the FDIC, and therefore distributions commenced in August 2013, 60% to the FDIC and 40% to us. During the third quarter, the FDIC LLC distributed \$3.3 million to investors, of which our portion was approximately \$1.3 million. The note issued by the other FDIC LLC was paid off in October 2013, and distributions to investors will now begin.

Nine months ended August 31, 2013 versus nine months ended August 31, 2012

Revenue decreased 21% in our Direct Investments segment due mainly to interest income decreasing as the portfolio of loans has decreased through loan collections, payoffs and REO conversions. This was partially offset by an increase in rental income from our REO operations. Net earnings (loss) before income taxes increased largely due to an increase in realized gains on REO sales, decreases in loan servicing expenses, provision for loan losses and expenses related to our REO operations. The decrease in expenses was slightly offset by our earnings (loss) from non-controlling interest related to the FDIC LLC portfolios as the portfolios were profitable in 2013 but not in 2012 and those amounts are backed out in arriving at net loss before income taxes.

Overview — Years Ended November 30, 2012 and 2011

Financial information relating to our operations for the years ended November 30, 2012 and 2011 was as follows:

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	2012	2011
	(dollars in	thousands)
REVENUE:		
Interest income	\$103,913	\$153,186
Management fees	34,943	11,557
Rental income	16,476	7,185
Total revenue	155,332	171,928
EXPENSES:		
General and administrative expense	53,730	43,463
Servicing expense	46,598	63,972
REO expense (income)	46,256	(27,283)
Provision for loan losses	27,966	13,815
Interest expense	5,943	6,553
Amortization of debt issuance costs	4,565	4,565
Depreciation expense	188	215
Total expenses	185,246	105,300
EQUITY IN EARNINGS (LOSS) FROM UNCONSOLIDATED ENTITIES	41,483	(7,914)
GAIN ON SALE OF INVESTMENTS HELD-TO-MATURITY		4,743
NET EARNINGS (INCLUDING NET (LOSS) EARNINGS(1) ATTRIBUTES TO		
NON-CONTROLLING INTERESTS)	11,569	63,457
LESS: NET (LOSS) EARNINGS ATTRIBUTABLE TO NON-CONTROLLING		
INTERESTS	(14,383)	28,930
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR		
INCOME TAXES	25,952	34,527
PROVISION FOR INCOME TAXES	10,484	11,811
NET EARNINGS ATTRIBUTABLE TO RIALTO	\$ 15,468	\$ 22,716
	=======================================	=======================================

⁽¹⁾ A substantial portion of our net earnings resulted from management fees for sub-advisory services from the AB PPIP fund and earnings from Fund I.

2012 versus 2011

In the year ended November 30, 2012, net earnings before provision for income taxes were \$26.0 million (which is comprised of \$11.6 million of net earnings and an add back of \$14.4 million of net loss attributable to non-controlling interests), compared to net earnings before provision for income taxes of \$34.5 million (which included \$63.5 million of net earnings offset by \$28.9 million of net earnings attributable to non-controlling interests) in the prior year. In the year ended November 30, 2012, revenues were \$155.3 million, which consisted primarily of accretable interest income associated with the our portfolio of real estate loans and fees for managing and servicing assets, compared to revenues of \$171.9 million in the prior year. Revenues decreased primarily due to lower interest income as a result of a decrease in the portfolio of loans slightly offset by an increase in management fee income. In the year ended November 30, 2012, expenses were \$185.2 million, which consisted primarily of costs related to its portfolio operations, provision for loan losses of \$28.0 million primarily associated with the FDIC loan portfolio (before non-controlling interests) and other general and administrative expenses, compared to expenses of \$105.3 million in the same period last year, which consisted primarily of costs related to its portfolio operations, provision for loan losses of \$13.8 million primarily associated with the FDIC loan portfolio (before non-controlling interests), due diligence expenses related to both completed and abandoned transactions, and other general and administrative expenses. Also included in expenses is the cost of REO operations, which for the year ended November 30, 2012, was \$46.3 million, consisting primarily of expenses related to owning and maintaining REO and impairments on REO, partially offset by gains from sales of REO. In the year ended November 30, 2011, REO operations had income of \$27.3 million, which consisted primarily of gains from acquisition of REO through foreclosure, as well as gains from sales of REO, partially offset by expenses related to owning and maintaining those assets,

In the year ended November 30, 2012, we had equity in earnings (loss) from unconsolidated entities of \$41.5 million, which included \$17.0 million of net gains primarily related to unrealized gains from investments in the portfolio underlying the AB PPIP fund, \$6.1 million of interest income earned by the AB PPIP fund and \$21.0 million of equity in earnings related to our share of earnings from Fund I. During the second half of 2012, all of the securities in the investment portfolio underlying the AB PPIP fund were monetized in connection with the final unwinding of its operations, resulting in liquidating distributions of \$83.5 million to us. As our role as sub-advisor to the AB PPIP fund has been completed, no further management fees will be received for these services. This compared to equity in earnings (loss) from unconsolidated entities of (\$7.9) million in the same period in the prior year, consisting primarily of \$21.4 million of unrealized losses related to our share of the mark-to-market adjustments of the investment portfolio underlying the AB PPIP fund, partially offset by \$10.7 million of interest income earned by the AB PPIP fund and \$2.9 million of equity in earnings related to Fund I. During this time period, the Company also had a \$4.7 million gain on the sale of investment securities.

Selected Segment Financial and Operational Data

Investment and Asset Management

	2012	2011
	(dollars in	thousands)
Total Assets	\$112,988	\$120,269
Revenue	34,866	11,589
Net Earnings Before Income Taxes	76.743	4.246

Revenue increased 201% in our Investment and Asset Management segment due to an increase in our management fee income from both Fund I and the PPIP fund. Net earnings before income taxes also increased significantly due to an increase in earnings from unconsolidated entities as the PPIP fund increased its gains and interest income as it unwound its operations in 2012 and Fund I had large realized and unrealized gains and became fully invested during 2012. This was slightly offset by an increase in general and administrative expenses.

Direct Investments

	2012	2011
	(dollars in	thousands)
Total Assets	\$1,534,372	\$1,776,879
Revenue	120,466	160,339
Net (Loss) Earnings Before Income Taxes	(737)	68,958

Revenue decreased 25% in our Direct Investments segment due mainly to interest income decreasing as the portfolio of loans has decreased through loan collections, payoffs and REO conversions. This was partially offset by an increase in rental income from our REO operations. Net (loss) earnings before income taxes decreased largely due to an increase in expenses related to our REO operations and an increase in our provision for loan losses related to our FDIC portfolios. These increased expenses were slightly offset by a decrease in our loan servicing expense and our earnings (loss) from non-controlling interest related to our FDIC portfolios as the portfolios were profitable in 2011 but not in 2012. We also sold a portion of our CMBS during 2011 for \$11.1 million, resulting in a gain on sale of CMBS of \$4.7 million, that we did not have in 2012. This was partially offset by a decrease in our loan servicing expenses as the portfolio of loans has decreased through loan collections, payoffs and REO conversions.

Financial Condition and Capital Resources

Liquidity — August 31, 2013

At August 31, 2013, the Company had approximately \$72.0 million in cash and another \$78.0 million in defeasance cash established for the repayment of the FDIC notes payable.

The Company's notes payables consisted of the following at August 31, 2013 and November 30, 2012 (in thousands):

	August 31, 2013	November 30, 2012
FDIC financing	\$110,000	\$470,000
Bank portfolios notes payable	90,933	90,933
Warehouse repurchase facility	133,103	
Notes payable — other	12,591	13,547
Total notes payable	\$346,627	\$574,480 ======

FDIC notes payable has a 0% interest rate. Bank portfolios notes payable have an interest rate of 4.5%. The warehouse repurchase facilities' interest rate is the higher of 2.5% or a 1 month LIBOR plus 2.25%. Other notes payable have interest rates ranging from 5.5% to 6.9%.

Currently our operations and new investments are funded largely by Lennar. As we move forward into the future, our goal is to become self-sustaining and to rely on Lennar funding only to the extent necessary (and then only to the extent Lennar is willing to provide it, which Lennar has no obligation to do, aside from up to \$75 million in interest bearing loans on an unsecured revolving basis under the Lennar Revolving Credit Agreement). We and Lennar may mutually agree to terminate that credit agreement at any time. As our FDIC and Bank Portfolios wind down, we expect to return at least a portion of the original invested capital back to Lennar. We started this process by securing a \$250 million warehouse financing agreement during the third quarter of 2013 to be used by our RMF line of business to fund origination of commercial mortgage loans, as well as offering up to the \$250 million in debt that is the subject of this offering memorandum. During October 2013, we were successful in securing an additional \$250 million warehouse financing agreement and we are seeking up to an additional \$500 million of warehouse financing from multiple financial institutions.

The FDIC financing notes are split between two notes, both maturing in February 2014. In July 2013, we paid off the remaining balance of one of the notes in the amount of \$46 million, seven months ahead of

schedule. The remaining FDIC note payable of \$110 million was paid off in October 2013, four months ahead of schedule, using the balance of the defeasance cash account and working capital.

In August 2013, we exercised our right to extend the maturity date of the Bank portfolio's note payable originally due September 30, 2013 to September 30, 2015, with payments in the amount of \$33 million now due on both December 16, 2013 and December 15, 2014, with the remaining principal balance to be paid in full on September 30, 2015.

The \$250 million warehouse loan facility originated in the third quarter (the first of our two \$250 million warehouse loan facilities) has a maturity date of August 9, 2015 with an option for a one time, one year extension. The facility is in the form of a repo line, and therefore is secured by a security interest in the loans that are funded with the facility. The borrowings are repaid with proceeds of the securitization of the loans that secure them. The interest rate on the facility is at one month LIBOR plus 2.25% (with a one month LIBOR floor of 0.25%) and is calculated on the principal amount that is outstanding from time to time. As of August 31, 2013, we had \$133.1 million outstanding under this facility.

Cash Flows

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

	Nine Months Ended August 31,	
	2013	2012
	(dollars in t	thousands)
Operating activities	\$(297,177)	\$ (58,462)
Investing activities	360,220	252,530
Financing activities	(96,329)	(205,327)
Total cash flows	\$ (33,286)	\$ (11,259)

Operating Cash Flow Activities

We had a use of cash in operating activities for both the nine months ended August 31, 2013 and 2012 of \$297.2 million and \$58.5 million, respectively. With the start of our new RMF segment, we used cash in 2013 in the amount of \$245.2 million for the origination of loans held-for-sale. Non-controlling interest expense increased \$19.2 million period over period. Realized gains on the sale of REO increased by \$26.0 million period over period. Equity in earnings from unconsolidated entities decreased \$21.7 million with \$20.9 million from the earnings from the wind down of the PPIP fund in 2012. Other assets increased \$16.6 million mostly due to the addition of our derivatives related to RMF and additions to property plant and equipment.

Investing Cash Flow Activities

We had cash provided by investing activities for both the nine months ended August 31, 2013 and 2012 of \$360.2 million and \$252.5 million, respectively. Defeasance cash decreased due to our early payment on one of the FDIC notes for \$46.0 million in 2013. Proceeds from REO sales increased by \$60.4 million in 2013 when compared to 2012. Return of capital from unconsolidated entities decreased by \$43.5 million due to the wind down of the PPIP fund in 2012. Our contributions to unconsolidated entities increased in 2013 by \$12.7 million as we started contributing to Fund II and the Mezzanine Fund which started investing in 2013.

Financing Cash Flow Activities

We had a use of cash in financing activities for both the nine months ended August 31, 2013 and 2012 of \$96.3 million and \$205.3 million, respectively. We had an increase in debt repayments on the FDIC notes of \$157.1 million in 2013 as well as paying off one of the notes early in the amount of \$46 million. We

also borrowed \$133.1 million from our RMF Facility during 2013. The amount due to our Parent increased by \$168.0 million as we received additional funding to start our new RMF operating segment and fund our investment in Fund II and the Mezzanine Fund.

Liquidity — November 30, 2012

At November 31, 2012, we had approximately \$105.3 million in cash and \$223.8 million in defeasance cash established for the repayment of the FDIC notes payable.

Our notes payables consisted of the following at November 30, 2012 and 2011 (in thousands):

	2012	2011
FDIC financing	\$470,000	\$626,906
Bank portfolios notes payable	90,933	123,933
Notes payable — other	13,547	14,702
Total notes payable	\$574,480	\$765,541

FDIC notes payable has a 0% interest rate. Bank portfolios notes payable have an interest rate of 4.5%. Other notes payable have interest rates ranging from 5.5% to 6.9%.

Cash Flows

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

	2012	2011
	(dollars in t	housands)
Operating activities	\$ (19,652)	\$(24,229)
Investing activities		
Financing activities	(245,948)	43,877
Total cash flows	\$ 21,372	\$ 7,526

Operating Cash Flow Activities

We used cash of \$19.7 million in operating activities in 2012 compared to \$24.2 million in 2011. Cash used in 2012 operating activities compared to 2011 operating activities is as follows: gains on loans foreclosure decreased \$80.8 million, gains on the sale of REO increased \$15.6 million, equity in earnings from unconsolidated entities increased \$49.4 million due to Fund I and the wind down of the AB PPIP fund, distributions of earnings from unconsolidated entities increased \$13.1 million, non-controlling interest income increased \$43.3 million and gains from the sale of investment securities decreased by \$4.7 million.

Investing Cash Flow Activities

Cash provided by investing activities of \$287.0 million in 2012 compared to a use of \$12.1 million in 2011. Cash provided by 2012 investing activities compared to cash provided by 2011 investing activities is as follows: Proceeds from the sales of REO increased \$92.8 million, proceeds from the sale of investment securities decreased \$11.1 million due to the CMBS sale in 2011, distributions of capital from unconsolidated entities increased \$69.3 million due to Fund I and the wind down of PPIP, contributions to unconsolidated entities decreased \$20.8 million due to Fund I being fully funded during 2012 and the additions to defeasance cash decreased \$113.7 million.

Financing Cash Flow Activities

We used cash of \$245.9 million in financing activities in 2012 compared to cash provided of \$43.9 million in 2011. Cash used in 2012 financing activities compared to cash provided by 2011 financing activities is as follows: the amount due to parent increased \$99.0 million and the repayment of borrowings increased \$190.8 million due to the higher payments on the FDIC Notes.

Off-Balance Sheet Arrangements

Investments in Unconsolidated Entities

Between March 2009 and August 31, 2013, we made investments in the AB PPIP, Fund I, and Fund II described above. In addition, as also described above, we own approximately 5% of a service provider. We have accounted for each of these investments by the equity method, and therefore the accounts of these entities are not included in our consolidated financial statements.

Summarized condensed financial information on a combined 100% basis related to our investments in unconsolidated entities that are accounted for by the equity method was as follows (in thousands):

Balance Sheets	Augus	t 31, 2013	Novembe	er 30, 2012
Assets: Cash and cash equivalents Loans receivable Real estate owned Investment securities Investments in real estate partnerships Other assets	4 2 3 1 1	.07,918 .06,473 .47,389 .52,237 .14,258 .86,760 .15,035	36 16 25 19	99,172 31,286 31,964 55,302 72,903 99,839 77,563
Liabilities and equity: Accounts payable and other liabilities Notes payable Partner loans Debt due to the U.S. Treasury Equity	2 1 8	67.813 31,960 63,940 551,322 .15,035	12 16 	55,928 20,431 33,516 37,688 77,563
Statements of Operations	Three months ended August 31, August 31,		st 31,	
Revenues Costs and expenses Other income (expense) — net(1) Net earnings (loss) of unconsolidated entities	2013 \$69,856 65,357 34,186 \$38,685	\$115,800 75,233 366,696 \$407,263	\$189,155 190,066 128,973 \$128,062	\$357,328 178,414 670,471 \$849,385
Equity in earnings (loss) from unconsolidated entities	\$ 5,199	\$ 13,551	\$ 15,877	\$ 37,578

⁽¹⁾ Other income (expense) — net for the three and nine months ended August 31, 2012 includes the AB PPIP Fund's mark-to market unrealized gains and losses, all of which our portion was a small percentage.

Contractual Obligations and Commercial Commitments

The following table summarizes certain of our contractual obligations at August 31, 2013:

Pa	aymer	nts Due by I	Period	
Less 1		1 to 3 Years	3 to 5 Years	More than 5 years
(dollars in thousands)				
\$ 1	573	\$204 673	\$6,000	\$1 278

	Total	1 year	Years	Years	5 years
		(dolla	rs in thousa	ınds)	
Notes payable(1)	\$213,524	\$ 1,573	\$204,673	\$6,000	\$1,278
Warehouse repurchase facility(2)	133,103	133,103	_	_	_
Investment commitments(3)	83,518	20,777	62,741	_	_
Operating leases	8,412	343	2,163	2,438	3,468
Total contractual obligations	\$438,557 	<u>\$155,796</u>	\$269,577	<u>\$8,438</u>	\$4,746

- (1) Amount includes \$110.0 million of notes payable that was consolidated as part of the LLC consolidation related to the FDIC transaction and is non-recourse to the Parent; however, at August 31, 2013, \$78.0 million of cash collections on loans in excess of expenses had been deposited in a defeasance account established for the repayment of the FDIC notes payable. Subsequent to August 31, 2013, the FDIC notes payable was fully repaid.
- (2) During October 2013, we entered into an additional \$250 million warehouse repurchase facility.
- (3) Amount includes our capital commitments to Fund II and the Mezzanine Fund.

Economic Conditions

Rialto believes that the Company will benefit from the market opportunity to acquire real estate loans, assets, and debt securities through its investment funds resulting from (i) the need for financial institutions and government entities to reduce their exposure to commercial real estate debt and distressed assets; (ii) the unprecedented volume of near-term loan maturities on overleveraged assets; and (iii) the overall decrease in the availability of debt financing from traditional lending sources. In the decade leading up to the 2007-2009 global financial crisis, the real estate capital markets experienced an aggressive expansion in debt capitalization and a proliferation of new debt products, while commercial property values escalated to historic peak levels. As a result of the significant market correction that began in 2008, many financial institutions and government entities are currently burdened by significant exposure to overleveraged and distressed assets.

As of March 2012, total outstanding U.S. commercial real estate debt equated to \$3.1 trillion, of which \$229 billion was categorized as distressed and that Rialto believes will likely need to be recapitalized over the next several years. Institutions are undergoing a deleveraging process, including through the sale of legacy debt positions, to improve their balance sheets and restore healthy capital ratios. An estimated \$1.8 trillion of U.S. commercial real estate debt matures between 2012 and 2016, of which approximately \$510 billion or 30% is estimated to have loan-to-value ("LTV") ratios in excess of 100% and therefore may face refinancing challenges upon. Moreover, as the volume of maturing debt accelerates, the global pool of available capital for debt financing has diminished as many traditional lenders (including European banks, specialty finance companies, and conduit lenders) have reduced lending activity due to balance sheet, regulatory or other pressures. Through its investment funds, Rialto will capitalize on this market environment primarily by focusing on acquiring and managing complex, diversified portfolios of distressed loans and assets.

Rialto believes that it will benefit from the market opportunity to originate first mortgage loans through its RMF segment and subordinated debt through its investment funds, resulting from (i) rising real estate values, (ii) the unprecedented near-term loan maturities, (iii) low interest rates; and (iv) an evolving lending landscape that Rialto believes will make debt opportunities attractive to borrowers. The global financial crisis has had a severe impact on the commercial real estate sector, but the U.S. property markets have rebounded from their lows and continue to edge further into recovery. However, due to the aggressive lending practices of 2005–2007 and subsequent market dislocation, Rialto expects that a significant wave of commercial real estate loans will mature in the near future and will require capital beyond what senior lenders are able to provide. Rialto expects that demand to refinance maturing debt will remain elevated between 2013-2017, but because many of these maturing loans were made during the peak of the last cycle, with lower equity requirements, inflated valuations, and/or aggressive underwriting standards, Rialto believes that many credit-worthy borrowers will struggle to refinance their overleveraged assets. To encourage new lending, the U.S. Federal Reserve (the "Fed") has enacted accommodative monetary policies to keep senior mortgage rates historically low, creating a favorable dynamic for mezzanine and other first mortgage lenders to fill the capital void while preserving attractive all-in costs for borrowers. While Rialto expects that the Fed's strategy will assist with the surge of maturing debt, Rialto believes that the lending landscape is dramatically different following the market dislocation, and that the pool of financing options has shrunk significantly as many traditional lenders (i.e., European banks and specialty finance companies) exited the market entirely. Rialto believes that the remaining lending institutions continue to be cautious, employing more conservative underwriting standards and lower leverage in the aftermath of the recession.

Market and Financing Risk

We finance our contributions to investing activities, general operating needs and REO improvements primarily with cash generated from operations, debt issuances, as well as borrowings from our Parent. We have to date received a large portion of funding for our operating and investment capital from our Parent. However, our Parent has no commitment to continue providing funding to us, aside from up to \$75 million in interest bearing loans on an unsecured revolving basis under the Lennar Revolving Credit Agreement (which we and Lennar may mutually agree to terminate at any time). We are exploring alternative financing to provide funding in addition to what we have received from our Parent. However, the proceeds of any debt offering may not, by themselves, provide enough funds to enable us to engage in all the activities we are planning to undertake and to make investments as we have in the past. This will require additional funds that we anticipate receiving with regard to the investments we have made and as fees and carried interests. However, if we do not realize these revenues we are expecting and our Parent does not provide us additional funding, we may not be able to make the types of investment commitments we are expecting to make or to fund the expense of conducting all the activities in which we currently are planning to engage.

We engage in the business of originating commercial mortgage loans that by their nature are vulnerable to interest rate risk, credit risk and market risk. Resulting variability in asset values and cash flows might impact the results of operations and financial position of us. Our hedging strategy is intended to reduce, to the extent possible, unpredictable financial changes within the markets and to sustain the values of certain financial instruments that may be sold prior to maturity. Areas that we believe are exposed to market risk include the following:

- · The portfolio of loans held-for-sale
- · The underlying collateral of portfolio loans
- The purchase of hedges to mitigate both interest and credit risk
- The access to revolving credit facilities (repurchase agreements)

RMF uses various hedging instruments and techniques in an attempt to mitigate interest rate risk from the time a borrower rate locks the loan until the time the loan is securitized. While a perfect hedge (resulting in the appearance of zero gain or loss) is rarely attainable, the goal is to minimize any gains or losses. RMF also manages a portion of its credit exposure through buying protection within the CMBX market. All hedging is performed on a portfolio basis as opposed to a loan by loan basis. Hedging instruments are executed only with dealers authorized by the credit committee. Only individuals authorized by the credit committee can execute trades. The credit committee resolution listing all authorized traders is provided to all dealers. Trades are executed based on a daily position using sequentially numbered trade tickets. Trades are executed using a competitive bidding process generally involving at least three dealers unless market conditions do not allow this. A separate Rialto associate will independently verify all trades.

All hedging activities are documented to provide independent parties the ability to verify the process. Hedge positions are monitored daily. On a monthly basis, RMF assesses the effectiveness of existing hedges and ensure the appropriate accounting treatment is reflected in the financial statements.

Seasonality

We do not feel that seasonality is an important factor in our results of operations.

Interest Rates and Changing Prices

Until 2011, the principal activity of Rialto involved acquisitions of portfolios of, or interests in portfolios of, distressed debt instruments and foreclosed properties, using primarily funds provided by the Investor Companies. Since 2011, investments have been made primarily by investment funds managed by the Rialto Companies, but the Investor Companies have been investors in these funds. This can cause management fees and earnings from unconsolidated entities to be effected by these changing conditions.

While the market has seen some significant upward movement in interest rates over the past several months, the purchase of non-performing loans ("NPL") is not highly sensitive to market conditions and interest rate movements, as the underlying loans and assets are purchased at a significant discount (generally 40% - 50% of unpaid principal balance) and are typically acquired based on the underlying real estate value. Recently, we have seen a higher percentage of performing and sub-performing loans included in the NPL pools. The borrowers on these categories of loans are making monthly interest and principal payments. As most of the NPL's monthly payments are based on LIBOR, small increases in LIBOR should increase the investment's monthly cash flows. However, a very large increase in interest rates (+/- 400 basis points) may have a negative impact on the value of the underlying real estate (absent any recovery in the economy or increase in inflation) or in the ability of a borrower to refinance, it is not expected to have a material impact on returns.

The distressed asset component is primarily exposed to changes in interest rates at the time of investment realization. Large increases in interest rates may increase real estate capitalization rates thereby decreasing the potential proceeds from a sale of the asset. This is largely mitigated by underwriting assumptions that include capitalization rate sensitivities due to higher interest rates. Furthermore, most of acquisitions in distressed assets include a higher capitalization rate at sale (in anticipation of higher interest rates). In addition, some of the distressed assets may be financed with floating rate debt. In these cases, increases in short term interest rates will increase monthly debt service payments and reduce the underlying investment's cash flows. Rialto manages this direct interest rate exposure on a case by case (via the purchase of LIBOR caps) and on a portfolio basis.

New Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, ("ASU 2011-04"). ASU 2011-04 amends ASC 820, Fair Value Measurements, ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 was effective for our fiscal year beginning December 1, 2011. The adoption of ASU 2011-04 did not have a material effect on our consolidated financial statements, but did require certain additional disclosures.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, ("ASU 2011-05"). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 will be effective for our fiscal year beginning December 1, 2012. The adoption of ASU 2011-05 is not expected have a material effect on our consolidated financial statements.

Critical Accounting Policies and Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and such differences may be material to our consolidated financial statements. Listed below are those policies and estimates that we believe are critical and require the use of significant judgment in their application.

Management fee revenue

We provide services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-invests, and other private equity structures to manage their respective investments. As a result, we earn and receive management fees, underwriting fees and due diligence fees. These fees are included in Rialto Investments revenue and are recorded over the period in which the services are performed, fees are determinable and collectability is reasonably assured. We receive investment management fees from investment vehicles based on (1) a percentage of committed capital during the commitment period and after the commitment period ends. (2) a percentage of drawn commitments less the portion of such drawn commitments utilized to acquire investments that have been sold (in whole or in part) or liquidated (except to the extent such drawn commitments are subsequently reinvested in other investments) or completely written off and (3) after meeting certain investment return thresholds, we will earn incentive fees that will be paid out as funds begin to wind down their investment cycle (projected to generally be six years after inception). We currently are exceeding these investment thresholds in Fund I and anticipate booking significant revenues from these incentive fees in the future, from Fund I and from other current and future investment funds. Fees earned for underwriting and due diligence services are based on actual costs incurred. We believe it to be a significant accounting policy because it represents a material portion of our revenue and is expected to comprise a growing portion of our future revenue as we manage more assets and sponsor new investment funds.

Loans Receivable — Revenue Recognition

All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) for which it was deemed probable that we would be unable to collect all contractually required principal and interest payments were accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, ("ASC 310-30"). For loans accounted for under ASC 310-30, management determined upon acquisition the loan's value based on due diligence on each of the loans, the underlying properties and the borrowers. We determined fair value by discounting the cash flows expected to be collected adjusted for factors that a market participant would consider when determining fair value. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral, classification status and current discount rates. Since the estimates are based on projections, all estimates are subjective and can change due to unexpected changes in economic conditions and loan performance.

Under ASC 310-30, loans were pooled together according to common risk characteristics. A pool is then accounted for as a single asset with a single component interest rate and as aggregate expectation of cash flows. The excess of the cash flows expected to be collected over the cost of the loans acquired is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans using the effective yield method. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

We periodically evaluate our estimate of cash flows expected to be collected on our portfolios. These evaluations require the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash

flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further deterioration will generally result in an impairment recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference is not affected.

We believe that the accounting related to loans with deteriorated credit quality and that the accounting for accretable yield are critical accounting policies because of the significant judgment involved.

Nonaccrual Loans — Revenue Recognition & Impairment

At November 30, 2012 and 2011, there were loans receivable with a carrying value of \$40.4 million and \$73.7 million, respectively, for which interest income was not being recognized as they were classified as nonaccrual. When forecasted principal and interest cannot be reasonably estimated at the loan acquisition date, management classifies the loan as nonaccrual and accounts for these assets in accordance with ASC 310-10, Receivable, ("ASC 310-10"). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events; it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell. For these reasons, we believe that the accounting for nonaccrual loans is a critical accounting estimate.

Real Estate Owned

REO represents real estate that we have taken control or has effective control of in partial or full satisfaction of loans receivable. At the time of acquisition of a property through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held-for-sale or at fair value if classified as held-and-used, which becomes the property's new basis. The fair values of these assets are determined in part by placing reliance on third party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity. The third party appraisals and internally developed analyses are significantly impacted by the local market economy, market supply and demand, competitive conditions and prices on comparable properties, adjusted for date of sale, location, property size, and other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, we analyze historical trends, including trends achieved by our local homebuilding operations, if applicable, and current trends in the market and economy impacting the REO. Using available trend information, we then calculate our best estimate of fair value, which can include projected cash flows discounted at a rate we believe a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

Changes in economic factors, consumer demand and market conditions, among other things, could materially impact estimates used in the third party appraisals and/or internally prepared analyses of recent offers or prices on comparable properties. Thus, estimates can differ significantly from the amounts ultimately realized by us from disposition of these assets. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain on foreclosure in our consolidated statement of operations. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is initially recorded as an impairment in our consolidated statement of operations.

Additionally, REO includes real estate which Rialto has purchased directly from financial institutions. These REOs are recorded at cost or allocated cost if purchased in a bulk transaction.

Subsequent to obtaining REO via foreclosure or directly from a financial institution, management periodically performs valuations using the methodologies described above such that the real estate is carried at the lower of its cost basis or current fair value, less estimated costs to sell if classified as held-forsale, or at the lower of its cost basis or current fair value if classified as held-and-used. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are also recognized in our Rialto Investments other income, net. REO assets classified as held-and-used are depreciated using a useful life of forty years for commercial properties and twenty seven and a half years for residential properties. Our REO assets classified as held-for-sale are not depreciated. Occasionally an asset will require certain improvements to yield a higher return. In accordance with ASC 970-340-25, *Real Estate*, construction costs incurred prior to acquisition or during development of the asset may be capitalized.

We believe that the accounting for REO is a critical accounting policy because of the significant judgment required in the third party appraisals and/or internally prepared analysis of recent offers or prices of comparable properties in the proximate vicinity used to estimate the fair value of the REOs.

Loans held-for-sale

These originated mortgage loans are accounted for in accordance with ASC Topic 825, *Financial Instruments*, and consist of commercial loans that are carried at fair value in the accompanying balance sheets. Changes in fair values of the loans and the derivative instruments used to hedge their economic exposure are reflected in revenue in the accompanying consolidated statements of operations. Interest income on these loans is calculated based on the interest rate of the loan and is recorded in revenue in the accompanying consolidated statements of operations. Substantially all of the mortgage loans originated are sold within a short period of time in a securitization on a servicing released, non-recourse basis; although, the Company remains liable for certain limited industry-standard representations and warranties related to loan sales.

In the normal course of business, the Company uses derivative financial instruments to hedge its exposure to risks during the period from when the Company has originated a loan until the time in which the loan is sold. These derivatives are used for risk management purposes to reduce the Company's exposure to fluctuations in mortgage-related interest rates as well as lessen its credit risk. The Company hedges its interest rate exposure through entering into interest rate swap futures and had a notional outstanding of \$195.7 million as of August 31, 2013. Credit exposure is managed at a portfolio level through entering into credit default swaps. As of August 31, 2013, Rialto held \$170.0 million of notional, consisting of both single "A", "AAA" and "BBB" rated CMBX swaps. The Company does not enter into or hold derivatives for trading or speculative purposes.

Derivatives and Hedging

RMF engages in the business of originating commercial mortgage loans that by their nature are vulnerable to interest rate risk, credit risk and market risk. Resulting variability in asset values and cash flows might impact the results of operations and financial position of RMF. The RMF hedging strategy is intended to reduce, to the extent possible, unpredictable financial changes within the markets and to sustain the values of certain financial instruments that may be sold prior to maturity. Areas where RMF is exposed to market risk include the following: The portfolio of loans held-for-sale; the underlying collateral of portfolio loans; the purchase of hedges to mitigate both interest and credit risk; and the access to revolving credit facilities (repurchase agreements). To mitigate risk, RMF uses various derivative products such as interest rate swaps, interest rate futures and credit default swaps. RMF also has processes in place to monitor compliance with loan covenants and to monitor the cash flow of the underlying collateral.

RMF follows a structured internal control process that requires a set of specific authorizations and procedures. Included in the process are unique policies outlining levels of authority granted to associates to negotiate review approve and execute derivative transactions. The policies and procedures governing derivative activities must be communicated to all associates involved and such communication is formally

acknowledged. Procedures and controls for recording and monitoring all derivative transactions are specifically outlined, including how the underlying asset and risk components of derivative instruments are analyzed, records will be maintained, counter-parties will be prequalified and approved, and derivative exposure will be proactively reviewed.

We have a credit committee, comprised of senior executives from us and our Parent, to evaluate new investments, monitor existing investments and oversee the Company's derivatives and hedging process. We also have a risk committee that consists of senior members of the RMF management, as well as Rialto legal, management and finance associates and representatives of our Parent. On a bi-weekly basis, the risk committee reviews the risks associated with our credit hedging, the existing hedge ratio, pricing surrounding new issues that have taken place in the market, upcoming securitizations, and new originations which are in the pipeline.

RMF uses various hedging instruments and techniques in an attempt to mitigate interest rate risk from the time a borrower rate locks the loan until the time the loan is securitized. While a perfect hedge (resulting in assurance of zero gain or loss) is rarely attainable, the goal is to minimize any gains or losses. RMF also manages a portion of its credit exposure through buying protection within the CMBX market. All hedging is performed on a portfolio basis as opposed to a loan by loan basis. Hedging instruments are executed only with dealers authorized by the credit committee. Only individuals authorized by the credit committee can execute trades. The credit committee resolution listing all authorized traders is provided to all dealers. Trades are executed based on a daily position using sequentially numbered trade tickets. Trades are executed using a competitive bidding process generally involving at least three dealers unless market conditions do not allow this. A separate Rialto associate will independently verify all trades. All hedging activities are documented to provide independent parties the ability to verify the process. Hedge positions are monitored daily. On a monthly basis, RMF assesses the effectiveness of existing hedges and ensure the appropriate accounting treatment is reflected in the financial statements.

Consolidations of Variable Interest Entities

In 2010, we acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), with the FDIC owning the other 60%. We determined that each of the LLCs met the definition of a variable interest entity ("VIE") and we were the primary beneficiary. In accordance with ASC 810-10-65-2, Consolidations, ("ASC 810-10-65-2"), we identified the activities that most significantly impact the LLCs' economic performance and determined that we have the power to direct those activities. The economic performance of the LLCs is most significantly impacted by the performance of the LLCs' portfolios of assets, which consist primarily of distressed residential and commercial mortgage loans. Thus, the activities that most significantly impact the LLCs' economic performance are the servicing and disposition of mortgage loans and real estate obtained through foreclosure of loans, restructuring of loans, or other planned activities associated with the monetizing of loans.

The FDIC does not have the unilateral power to terminate our role in managing the LLCs and servicing the loan portfolio. While the FDIC has the right to prevent certain types of transactions (i.e., bulk sales, selling assets with recourse back to the selling entity, selling assets with representations and warranties and financing the sales of assets without the FDIC's approval), the FDIC does not have full voting or blocking rights over the LLCs' activities, making their voting rights protective in nature, not substantive participating voting rights. Other than as described in the preceding sentence, which are not the primary activities of the LLCs, we can cause the LLCs to enter into both the disposition and restructuring of loans without any involvement of the FDIC. Additionally, the FDIC has no voting rights with regard to the operation/management of the operating properties that are acquired upon foreclosure of loans (e.g. REO) and no voting rights over the business plans of the LLCs. The FDIC can make suggestions regarding the business plans, but we can decide not to follow the FDIC's suggestions and not to incorporate them in the business plans. Since the FDIC's voting rights are protective in nature and not substantive participating voting rights, we have the power to direct the activities that most significantly impact the LLCs' economic performance. In accordance with ASC 810-10-65-2, we determined that we had an obligation to absorb

losses of the LLCs that could potentially be significant to the LLCs or the right to receive benefits from the LLCs that could potentially be significant to the LLCs based on the following factors:

- Rialto/Lennar owns 40% of the equity of the LLCs. The LLCs have issued notes to the FDIC totaling \$626.9 million. The notes issued by the LLCs must be repaid before any distributions can be made with regard to the equity. Accordingly, the equity of the LLCs has the obligation to absorb losses of the LLCs up to the amount of the notes issued.
- · Rialto/Lennar has a management/servicer contract under which we earn a 0.5% servicing fee.
- Rialto/Lennar has guaranteed, as the servicer, its obligations under the servicing agreement up to \$10.0 million.

We are aware that the FDIC, as the owner of 60% of the equity of each of the LLCs, may also have an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs. However, in accordance with ASC Topic 810-10-25-38A, only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE. Since both criteria for consolidation in ASC 810-10-65-2 are met, we consolidated the LLCs. We believe that our assessment that we are the primary beneficiary of the LLCs is a critical accounting policy because of the significant judgment required in evaluating all of the key factors and circumstances in determining the primary beneficiary.

Valuation of Deferred Taxes

The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. Interest related to unrecognized tax benefits is recognized as a component of provision for income taxes in the accompanying consolidated statements of operations.

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed each reporting period by the Company based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

We believe that the accounting estimate for the valuation of deferred tax assets and liabilities is a critical accounting estimate because judgment is required in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results and future business results, which may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents our best estimate of future events.

DESCRIPTION OF BUSINESS

The Company, through Rialto Capital Management, LLC ("Rialto Capital") and its subsidiaries (the "Rialto Companies"), focuses on real estate related investments and management of real estate related assets. Until recently, the Company's focus has been almost entirely on distressed assets, but it is beginning, itself and through a fund it is has launched, to originate new loans, which it expects will be performing loans. Also, through Rialto Mortgage Finance LLC ("RMF"), the Rialto Companies have begun to originate and securitize first mortgage loans secured by income producing properties. Through Rialto Investments, LLC ("Rialto Investments") and its subsidiaries (the "Investor Companies"), the Company has made investments in funds and entities as to which the Rialto Companies are the manager or an advisor. Rialto Capital and Rialto Investments are 100% owned by the Company, and RMF is 100% owned by Rialto Capital. Rialto Capital, Rialto Investments and RMF each will fully and unconditionally guarantee the Notes. See "Description of Notes — The Guarantees."

The Company is wholly owned by Lennar Corporation, a national homebuilder, the shares of which are traded on the New York Stock Exchange. To date, Lennar has provided the funding for the Company, including the funding for investments made by the Rialto Companies and for all the investments made by the Investor Companies. However, Lennar has no obligation to continue funding the activities of the Company or its subsidiaries and it believes that the net proceeds of the sale of the Notes, together with proceeds of investments that have already been made, proceeds of carried interests and fee income should enable the Company to be self-funding. Lennar is not in any way obligated with regard to the Notes, and has no commitment to ensure that the Company has the funds it needs to meet its obligations with regard to the Notes.

The Rialto Companies

Founded in 2007, the Rialto Companies carry out a vertically-integrated investment and operating business with over 280 professionals operating from nine offices throughout the United States. Its team of professionals includes specialists in loan sourcing, loan underwriting, loan management and workouts, loan origination, real estate management, finance, reporting, legal and special servicing. The Rialto Companies' resources and expertise have allowed them to take advantage of an array of real estate investment opportunities arising from the recent dislocation in real estate markets, including senior and subordinate debt investments, structured real estate debt securities such as commercial mortgage-backed securities ("CMBS") and portfolios of distressed real estate loans and foreclosed assets acquired from banks, government entities and other financial institutions. Recently, however, as real estate markets have strengthened, the Rialto Companies have entered into additional areas, including mezzanine lending to real estate developers and originating and securitizing first mortgage commercial loans.

The Rialto Companies focus on identifying and underwriting real estate related investment opportunities, making real estate related investments, directly or through funds they manage, and overseeing those investments, including in particular the acquisition and workout of non-performing or underperforming loans and improvement and disposition of properties acquired through foreclosure or in a similar manner. Initially, the Rialto Companies invested primarily funds provided by the Investor Companies. However, currently, the prime focus of the Rialto Companies is on managing third party capital and originating and securitizing first mortgage commercial loans. Since 2009, the Rialto Companies have overseen the investment in, and the oversight and workout of, billions of dollars of real estate assets across the United States, including residential and commercial properties, CMBS and other mortgage-backed securities and the properties securing them. To date, many of the Rialto Companies' investment opportunities have arisen from the dislocation in real estate markets in the United States and the restructuring and recapitalization of those markets. However, the Rialto Companies have recently launched a fund that has begun making small (typically \$3 million to \$15 million) mezzanine loans (i.e., loans that are senior to the borrowers' equity but junior to the borrowers' senior secured debt) to commercial real estate development companies secured by the equity in the borrowers as well as originating and securitizing first mortgage commercial loans.

We generate revenue from (i) investment management fees; (ii) net interest income; (iii) carried interests in funds we sponsor and manage, (iv) gains on our investments in funds we manage, (v) gains on the securitization or other sale of commercial mortgage loans we originate and (vi) loan origination and other fees. Asset management fees are generated from our servicing activities as well as management of the third-party capital we raise. Net interest income on loans is interest revenue earned from loans prior to the time that we sell the loans less costs of borrowings used in loan origination. Loan sales are made primarily through securitizations, although we may occasionally make whole-loan sales, and the principal source of profit to us from our commercial loan origination activities will be the amount by which the proceeds from securitizations or other loan sales exceed the amounts we lend (or pay to acquire loans) and the cost of hedging related to the loans.

We take advantage of the variety of our real estate investment activities in underwriting the assets in which we invest on our own behalf and on behalf of funds and entities we manage. Among other things, the people who underwrite potential investments in distressed loans also oversee workout efforts regarding loans of these types and dispositions of foreclosed real estate, which the Rialto Companies believe makes them better able to understand the types of loans they are underwriting. And several members of the committee that decides whether we should make particular commercial mortgage loans for sale to securitizers have extensive experience in investing in unrated tranches of CMBS, which gives them insight into how investors analyze the assets acquired by securitization pools.

We also have a rigorous multi-step investment approval and investment management review process which includes a requirement of senior executive approval of every significant investment and weekly meetings with senior executives to review significant investment assets that are held by the Rialto Companies or the funds or entities they are managing.

Investment Management Activities

AllianceBernstein PPIP. In 2009, the Rialto Companies were appointed a sub-advisor with regard to a Public Private Investment Fund ("PPIP"), of which a subsidiary of AllianceBernstein L.P. was the principal advisor, which was one of eight PPIPs formed under a program promulgated by the U.S. Department of the Treasury to purchase residential and commercial mortgage-backed securities from banks and other financial institutions in order to provide them with funds that they could use in their lending and other activities.

The AllianceBernstein PPIP raised \$1.2 billion from private sources (including \$69.4 million from the Investor Subsidiaries). The U.S. Treasury matched this with its own \$1.2 billion equity investment and loaned the PPIP an additional \$2.3 billion, which enabled the AllianceBernstein PPIP to purchase mortgage-backed securities for a total of \$4.3 billion. In September 2012, the AllianceBernstein PPIP completed the liquidation of its assets, having generated a total profit of almost \$1 billion. The Investor Companies received distributions totaling \$96.6 million with regard to their \$69.4 million investment. In addition, the Rialto Companies received fees totaling \$6.1 million for serving as a sub-advisor and rendering other services to the PPIP or its principal advisor and received \$9.1 million with regard to a carried interest in the PPIP.

Real Estate Fund I. In November 2010, the Rialto Companies launched a fund ("Fund I"), which had as its principal objective acquiring portfolios of U.S. distressed real estate loans, real estate assets, primarily new issuance commercial mortgage-backed securities ("CMBS") and other real estate related securities. Its intention was to pursue investment opportunities resulting from (i) the significant amount of non-performing real estate related assets on the balance sheets of financial institutions and governmental agencies that they were seeking to monetize, and (ii) an unprecedented volume of near term maturities of loans secured by highly leveraged assets that have to be refinanced and recapitalized. Fund I received \$700 million of investor commitments, including \$75 million from the Investor Companies. It was fully invested by January 2013. Its investments included 34 distressed loan portfolios, 17 investments in B-pieces (i.e., non-investment grade tranches) of CMBS, and 8 direct acquisitions of distressed real estate assets. The purchase prices totaled 37% of the face values of the acquired assets.

The Rialto Companies receive an investment management fee from Fund I equal to 1.5% per annum of the assets committed to it until the end of the commitment period, after which it began receiving investment management fees equal to 1.5% per annum of the equity that remains invested in investments in Fund I from time to time (net of amounts distributed to investors). In addition, the Rialto Companies have a "carried interest" in Fund I that entitles them to 20% of all sums distributed by Fund I after the investors have received their equity back plus a specified return on their investments.

Real Estate Fund II. In December 2012, the Rialto Companies held the initial closing of investments in a second fund ("Fund II") that has essentially the same investment objectives as Fund I. By August 31, 2013, the Rialto Companies had subscriptions for investments in Fund II totaling \$643 million, including a subscription for \$100 million from the Investor Companies. The Rialto Companies are seeking total subscriptions of approximately \$1 billion. By August 31, 2013, Fund II had invested a total of \$281 million in 17 transactions. Of this, \$132 million had been used to acquire B-pieces in CMBS, \$117 million had been used to purchase portfolios of distressed loans and \$32 million had been used for direct investments in distressed assets.

Until the end of the commitment period for Fund II, the Rialto Companies will receive an investment fee from Fund II equal to 1.5% per annum of the assets committed to it, after which it will receive a fee equal to 1.5% per annum of the equity that remains invested in investments in Fund II from time to time (net of amounts distributed to investors). In addition, the Rialto Companies have a carried interest in Fund II that entitles them to 20% of all sums distributed by Fund II after the investors have received their equity back plus a specified return on their investments.

Mezzanine Loan Fund. The Rialto Companies have recently launched a fund that will invest in loans of \$3 million to \$15 million each secured by equity interests in the borrowers. The loans will be what is referred to as "mezzanine" loans, because they typically will be senior to the equity in the borrowers but, because they will be secured only by the equity in the borrowers, will in effect be junior to loans secured by assets of the respective borrowers. The initial closing of the Mezzanine Fund took place in July 2013, with \$82 million of investor subscriptions. The Rialto Companies are seeking \$300 million in investor funds, including \$25 million to be invested by the Investor Companies. Before the initial closing, the Investor Companies had made two mezzanine loans, funded by an advance from Lennar, which it has sold to the Mezzanine Fund. Between the initial closing and August 31, 2013, the Mezzanine Fund made three more loans, and at August 31, 2013, it had commitments to make five more loans. The Rialto Companies will receive fees from the Mezzanine Fund equal to 1.0% per annum of the amounts invested by the Mezzanine Fund in debt and preferred equity securities, net of the principal amount of payments received, and securities sold, liquidated or written off. In addition, the Rialto Companies have a carried interest in the Mezzanine Fund that entitles them to 20% of all sums distributed by the Mezzanine Fund after the investors have received their equity back plus a specified return on their investments.

Private Investment Management. The Rialto Companies have been in discussions with an institutional investor about its retaining the Rialto Companies to select and manage approximately \$200 million of real estate related investments on its behalf. The Rialto Companies may seek to enter into similar managed account arrangements with other institutional investors.

Origination and Securitization of Commercial Real Estate Loans.

We formed RMF to originate and securitize five, seven and ten year first mortgage loans secured by income producing properties, such as office buildings, retail store properties, hotels, multifamily residential buildings, industrial sites and manufactured housing. The typical loan will be in between \$2 million and \$75 million, although RMF may participate in larger loans. RMF is headed by two persons who worked together in loan origination and securitization for more than 15 years at two large financial institutions before joining RMF. At August 31, 2013, RMF had 22 professionals, including the two principal persons, in offices in New York City, Los Angeles and Miami, who were engaged in loan origination, underwriting, capital markets and securitization and legal.

RMF has two \$250 million warehouse lines, and is in the process of arranging a third \$150 million warehouse line, which when combined with \$150 million of working capital (consisting primarily of proceeds of sale of the Notes), would give it a total of approximately \$800 million of lending capacity. We anticipate entering into additional warehouse lines which would bring RMF's total lending capacity to over \$1 billion. It expects to sell its loans to securitization trusts several times a year, and therefore expects that the normal period it will hold a loan will be two weeks to two months. The principal source of profits to RMF will be the amount by which the proceeds of loan securitizations exceed the amount loaned and the costs of hedging RMF will seek profits by selling loans to securitizers for more than the amounts loaned.

RMF targets loans secured by real estate that has a stable roster of tenants and sustainable cash flows. Its loan originators screen loans against a template of loan underwriting standards and only pursue opportunities that meet those standards. The underwriting standards focus on transactions with strong underlying property fundamentals, quality sponsorship, relatively low loan-to-value ratios, and high debt service coverage ratios. Each loan must be approved by one of the heads of RMF and by a credit committee consisting of the two heads of RMF and three senior executives of Rialto. RMF structures loans to make them appropriate for securitization, and generally targets a specific securitization each time it decides to make a loan. Pricing on loans is determined using a proprietary, dynamic pricing model that takes into account location and property-specific details, market conditions, and our assessment of the attractiveness of the loan for securitization. In September 2013, RMF completed its first securitization by selling 18 loans totaling \$198.2 million into a CMBS trust and generating a \$7.6 million, or 4%, margin on the sale. Going forward, RMF expects to complete four to six securitizations per year.

Direct Investment Activities

FDIC LLCs. In February 2010, the Rialto Companies acquired for \$243 million, 40% interests in, and became the managing member of, two limited liability companies that were formed by the Federal Deposit Insurance Company ("FDIC") to acquire and hold mostly non-performing loans that had been owned by failed financial institutions. The FDIC retained the other 60% interests in the LLCs. The two LLCs then purchased from the FDIC for \$1.2 billion, two portfolios of loans that had previously been owned by 22 failed institutions and that together consisted of approximately 5,500 distressed residential and commercial real estate loans. The purchase prices were paid with \$243 million from the Rialto Companies for their 40% interests in the two LLCs, \$364.5 million of implied purchase price for the 60% interests in the two LLCs retained by the FDIC and \$626.9 million of loans from the FDIC that were non-interest bearing and were non-recourse to the Rialto Companies and to the LLCs.

All net proceeds received by an LLC were to be used to repay the FDIC loan to that LLC before any distributions could be made with regard to the equity interests in the LLC held by the Company and by the FDIC. After the FDIC loans to an LLC are repaid in full, the net proceeds received by that LLC would be distributed to the Rialto Companies and to the FDIC in proportion to their 40% - 60% ownership interests. At August 31, 2013, the two LLCs had total combined assets of \$880 million and combined liabilities of \$133 million. However, the assets included \$78 million that was being held in a defeasance account, to be applied to make scheduled repayments of the FDIC loans. The final remaining balances of the FDIC loans were paid in October 2013 and all net proceeds received by the LLCs after that date will be distributed 40% to the Rialto Companies and 60% to the FDIC.

The Rialto Companies manage the FDIC LLCs, and receive management fees from them equal to 0.5% per year of the average unpaid balance of the loans held by the LLCs, including the loans transferred to REO. However, because the two LLCs are deemed for accounting purposes to be variable interest entities of which the Rialto Companies have controlling interests, the assets, liabilities, revenues and expenses of the two LLCs are included in the Company's consolidated financial statements, and the management fees the Rialto Companies receive from the two LLCs are not reflected as revenues on the Company's consolidated statement of operations.

Regional Bank Loan Portfolios. In September 2010, the Rialto Companies acquired from three financial institutions approximately 400 distressed residential and commercial real estate mortgage loans

and more than 300 properties that had been acquired by those financial institutions by foreclosing mortgage loans. The total purchase price was \$310 million, of which \$124 million was financed through a 5-year unsecured loan provided by one of the selling institutions. The purchase price was equal to approximately 43% of the unpaid principal balance of the loans when they were acquired (valuing the foreclosed real estate at its fair market value at the date of foreclosure less any charges for subsequent impairment). By August 31, 2013, the remaining unpaid balance of the loans and foreclosed real estate totaled \$460 million (compared with \$711 million when the Rialto Companies acquired the loans and properties), and the loan from one of the selling institutions had been reduced to \$91 million.

The Investor Companies

The Investor Companies were formed solely to make investments in funds or entities managed or advised by the Rialto Companies.

At August 31, 2013, the Investor Companies had the following investments (dollars in thousands):

Subject of Investment	August 31, 2013 Balance
FDIC LLCs(1)	\$299,326
Real Estate Fund I	73,883
Real Estate Fund II	38,263
Mezzanine Fund	4,133
Total	\$415,605

⁽¹⁾ Because the accounts of the FDIC LLCs are consolidated in our financial statements, this is not reflected as a joint venture investment in those financial statements.

At August 31, 2013, the Investor Companies had the following commitments to make investments (dollars in thousands):

Subject of Commitment	Total Commitment	Balance Not Yet Funded
Real Estate Fund I	\$ 75,000	\$ -
Real Estate Fund II	100,000	62,649
Mezzanine Fund	25,000	20,869
Total	\$200,000	\$83,518

To date, the Investor Companies have obtained all their funds through equity contributions by Lennar, and the Investor Companies have distributed any excess cash to Lennar. However, Lennar has no commitment to make additional funds available to the Investor Companies. The Investor Companies anticipate that all or most of the funds they use for future investments will be proceeds of investments they have already made, supplemented by proceeds of the sale of the Notes and fees and carried interests received by the Rialto Companies. We have agreed in the Indenture, that after the Notes are issued and while they are still outstanding, neither we nor our subsidiaries (including the Investor Companies) will make distributions to Lennar, except (i) at a time when the Consolidated Non-Funding Debt to Equity Ratio (as such term is defined in the section "Description of Notes") is 1.50 to 1.00 or less, (ii) out of 50% of our consolidated net income beginning with the fiscal quarter in which we issue the Notes, or (iii) under other circumstances specified in the indenture governing the Notes. See "Description of Notes — Limitation on Restricted Payments." Lennar has agreed that at the time we issue the Notes, Lennar will contribute to our capital all sums we owe Lennar in excess of \$235 million (which we estimate will be approximately \$425 million). Lennar expects that as much as 40% of the gross proceeds of the sales of Notes will be applied to repay a portion of the sums Lennar has advanced to RMF to enable it to purchase mortgages, which could reduce the balance we owe Lennar to \$135 million. See "Use of Proceeds."

Risk Management

We have a robust infrastructure with many layers of risk management and oversight of our operations. This provides a rigorous and detailed framework within which we operate our business. We are a subsidiary of a publicly traded company which subjects us to significant oversight requirements. Additionally, we are registered as an investment advisor with the SEC and are a rated special servicer with ratings of "Above Average" from S&P and CSS2- by Fitch. To complement this infrastructure, we actively manage the risk of our diverse lines of business through numerous committees, including our executive committee which meets weekly to discuss business initiatives; our investment committee that monitors and approves transactions for our investment management business; our credit committee that monitors and approves our conduit mortgage origination business; and our risk management committee that meets weekly to review and discuss hedging activities, portfolio composition, credit quality and general market conditions and trends. Additionally, our high-touch servicing platform allows for utmost flexibility in monitoring, managing and working out assets. We believe this infrastructure coupled with a rigorous approach to risk management is a competitive advantage and allows us to generate superior risk adjusted returns for our investors and our own capital.

Our principal tool of risk management is a rigorous underwriting of each asset in which we are considering investing for our own account or for the account of investment funds we manage. This includes underwriting each loan in a loan portfolio we are thinking of acquiring, including each loan in the asset pool underlying a CMBS issue for which we are considering bidding. In a large majority of instances with regard to loans in excess of \$100,000, the underwriting generally includes an inspection of the property that secures the loan. A substantial portion of the underwriting is done by people who also are involved in working out non-performing loans or managing and disposing of foreclosed real estate that we acquire, which enables them to apply the experience they obtain in working out loans or managing and disposing of properties to estimating the likelihood that particular loans will become delinquent and how much is likely to be recovered with regard to foreclosed properties when they are sold (including amounts that can be obtained from guarantors, in instances in which there are guarantors).

We have a group of approximately 80 people who are responsible for working out non-performing loans and another group of approximately 72 people who are responsible for overseeing the management and sale of REO we obtain either as parts of distressed real estate asset portfolios we acquire or through foreclosures of non-performing loans.

We have convened a credit committee, comprised of senior executives from us and our Parent, to evaluate new RMF loans originated, monitor existing investments and oversee the Company's derivatives and hedging process. Rialto has also convened a risk committee that consists of senior members of the RMF management team, as well as Rialto legal, management and finance associates and members of Lennar management. On a bi-weekly basis, the risk committee reviews the associated risks of credit hedging, the existing hedge ratio, pricing surrounding new issues that occurred within the market, upcoming securitizations as well as new originations which are in the pipeline.

Relationship with Lennar

Holdings is a wholly owned subsidiary of Lennar. Until Holdings was formed in August 2013, Rialto Capital Management, LLC and Rialto Investments, LLC were direct wholly owned subsidiaries of Lennar. To date, Lennar has provided all the funds that have been used by the Investor Companies, the Rialto Companies and RMF, other than funds generated from assets they own, or fees or proceeds of carried interests they receive. At August 31, 2013, Lennar's investment in the Rialto Companies, the Investor Companies and RMF totaled \$715 million.

Lennar has agreed that on the day the Notes are issued, Lennar will contribute to our equity the entire outstanding balance of the amount it has invested in us or our subsidiaries in excess of \$235 million. The \$235 million will constitute indebtedness of us to Lennar. However, we expect to apply up to 40% of the gross proceeds of the sale of the Notes to reduce this indebtedness. This indebtedness will be a senior unsecured obligation of Holdings and will rank equally with the Notes.

Lennar will have no obligation to provide additional funds to us, the Rialto Companies, the Investor Companies or RMF, other than pursuant to the credit agreement between Lennar and us that will be entered into before November 30, 2013. Under that credit agreement, Lennar will agree, subject to customary lending conditions, to make advances to us on a revolving basis of up to \$75.0 million. We will pay interest with regard to, and be required to repay, the advances. We and Lennar may mutually agree to amend or terminate such credit agreement at any time.

The indenture relating to the Notes limits the ability of the Company or any of our Restricted Subsidiaries to make distributions, other than the repayment of indebtedness owed, to Lennar. However, these limits will not apply at any time when the Company and its Restricted Subsidiaries have a Consolidated Non-Funding Debt to Equity Ratio (as such term is defined in the section "Description of Notes") of 1.50 to 1.00 or less.

Lennar also provides management, treasury, information technology, income tax, payroll and administrative services to us and to our subsidiaries. In the past, Lennar has not charged us or our subsidiaries for those services (although Lennar did require us to reimburse it for rent and other operating costs it advanced on our behalf). However, before November 30, 2013, Lennar and we will enter into a Support Services Agreement under which Lennar will agree to provide specified accounting, information technology, tax, legal, human resources, treasury, occupancy, office and other administrative services to us and our subsidiaries and we will agree to pay a fee equal to the lower of the actual cost or fair market value of those services to Lennar.

We and most of our subsidiaries are not recognized as taxpayers for Federal and, in some states, for state income tax purposes. Instead, our taxable income and the taxable income of our subsidiaries are generally included as taxable income of Lennar. In addition, some subsidiaries are recognized as taxpayers for Federal and state income tax purposes, however they are required to be included in the Lennar consolidated taxable income.

Also, because Holdings does not pay Federal income taxes and Lennar, as the sole member of Holdings, is required to include at least most of our Federal taxable income in Lennar's Federal taxable income, we will enter into a Tax Reimbursement Agreement before November 30, 2013, pursuant to which we have agreed to pay Lennar, each time we would be required to pay Federal or state income taxes if it were a taxable corporation, the sum equal to the Federal or state income tax we would have been required to pay if it and its subsidiaries were all taxable corporations, minus any Federal or state income taxes we or our subsidiaries actually pay.

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. In addition, certain of our subsidiaries' businesses may rely on exemptions from various requirements of the Securities Act, the Exchange Act, the Investment Company Act and ERISA. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third-parties who we do not control.

We are a wholly owned subsidiary of a publicly traded company. Our parent is subject to the reporting requirements under the Exchange Act.

Regulation as an investment adviser

We conduct investment advisory activities in the U.S. through our subsidiaries, Rialto Capital Management, LLC ("Rialto Capital"), which is regulated by the SEC as a registered investment adviser under the Advisers Act. A registered investment adviser is subject to federal and state laws and regulations primarily intended to benefit its clients. These laws and regulations include requirements relating to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, record keeping and reporting requirements, disclosure requirements, political

contribution and similar "pay-to-play" limitations, limitations on agency cross and principal transactions between an investment adviser and its advisory clients and general anti-fraud prohibitions. In addition, these laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from conducting our advisory activities in the event we fail to comply with those laws and regulations. Sanctions that may be imposed for a failure to comply with applicable legal requirements include the suspension of individual employees, limitations on our engaging in various advisory activities for specified periods of time, the revocation of registrations, other censures and fines.

We may become subject to additional regulatory and compliance burdens as our investment adviser subsidiaries expand their product offerings and investment platform. For example, if Rialto Capital were to advise a registered investment company under the Investment Company Act, such registered investment company and our subsidiary that serves as its investment adviser would be subject to the Investment Company Act and the rules thereunder, which, among other things, regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. This additional regulation could increase our compliance costs and create the potential for additional liabilities and penalties.

Investment Company Act Exemption

We presently conduct our operations so that we are not required to register as an investment company under the Investment Company Act, because of an exception for companies that are engaged primarily in acquiring mortgages and other liens on and interests in real estate. However, because many forms of indirect real estate related investments are not considered for purposes of the Investment Company Act to be mortgages or other interests in real estate, we may have difficulty qualifying for that exception. Additionally, in August of 2011, the SEC solicited public comment on a wide range of issues relating, among other things, to the nature of the assets that qualify for purposes of the exception from the definition of an investment company in the Investment Company Act for companies that are engaged primarily in acquiring mortgages and other liens or interests in real estate. Some of the possible changes as to which the SEC sought comment could make it even more difficult for us to qualify for that exception than currently is the case. Given the uncertainty as to this real estate related exception, we may also rely on the exception provided under Section 3(c)(7) of the Investment Company Act.

Pursuant to Section 3(c)(7) of the Investment Company Act, we are excepted from the definition of "investment company" under the Investment Company Act because: (i) our securities will be owned exclusively by persons who we reasonably believe, at the time of acquisition of such securities, are Qualified Purchasers (or "knowledgeable employees" within the meaning of Rule 3c-5 under the Investment Company Act); and (ii) we are not making (and do not propose to make) a public offering of our securities.

Licensing

We are currently licensed, or in the process of obtaining licenses, to act as a commercial mortgage lender in jurisdictions that require licensing. In the future, we may be required to obtain, maintain or renew certain licenses and authorizations (including "doing business" authorizations and licenses to act as a commercial mortgage lender) from federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of our mortgage-related activities.

Dodd-Frank

Dodd-Frank imposes certain regulatory requirements that may affect our operations in the future. Dodd-Frank generally requires sponsors of securitizations and, in certain circumstances, originators of assets being securitized to retain not less than five percent of the credit risk for any asset transferred into a securitization unless certain asset tests or underwriting standards to be imposed by applicable regulators are met. These requirements of Dodd-Frank are not yet in effect, pending adoption of implementing regulations. For additional information, see "Risk Factors — Risks Relating to our Business Activities — We may be adversely impacted by legal and regulatory changes."

Compliance Policy

Because we are a wholly owned subsidiary of Lennar, all of our employees are subject to Lennar's Code of Business and Ethics. However, because Rialto Capital Management, LLC is registered under the Investment Advisers Act of 1940, as amended, it is required to have its own Compliance Manual and has a Supplemental Code of Conduct that applies to it and to its employees.

The Lennar Code of Business Conduct requires that every associate (i.e., employee) at all times deal fairly with the company's customers, subcontractors, suppliers, competitors and associates, and states that all Lennar 's (and therefore our) associates, officers and directors are expected to comply at all times with all applicable laws, rules and regulations. Lennar's Code of Business and Ethics also has procedures that allow whistleblowers to submit their concerns regarding its (which includes our) operations, financial reporting, business integrity or any other matter anonymously to the Audit Committee of Lennar's Board of Directors or to the non-management members of that Board of Directors, which is intended to give whistleblowers a means of making their concerns known without a possibility of retaliation.

The Rialto Capital Management Compliance Manual (i) sets forth the compliance-related policies and procedures of the firm; (ii) designates certain individuals with supervisory responsibilities for compliance processes; (iii) describes the relevant laws, rules and regulations governing Rialto's business; and (iv) sets forth certain record keeping and reporting requirements. The Compliance Manual contains policies and procedures relating to, among other things, the role of the Chief Compliance Officer, marketing, custody, principal transactions, valuation, electronic communications, and information security.

The Rialto Capital Management Supplemental Code of Ethics establishes the standards of business conduct that all associates must follow and, among other things, specifically addresses insider trading, market manipulation, front-running and rumors. The Supplemental Code of Ethics also sets forth specific policies and procedures associates must adhere to when engaging in certain activities, including but not limited to, personal trading, outside business activities, making political contributions and the giving or receiving of business-related gifts and entertainment.

Associates

At August 31, 2013, we had 280 associates in nine offices. Of these 280 associates, 152 are in our investment and asset management segment, 22 are in our RMF segment and the remaining 106 serve in corporate or back office roles.

Legal Proceedings

We are subject to legal proceedings in the ordinary course of our business. Our management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations, liquidity or cash flows.

MANAGEMENT

Name	Age	Position
Jeffrey P. Krasnoff	58	Chief Executive Officer
Jay Mantz	49	President
Eric Feder	43	Vice Chairman, Head of Business Development
Matt Salem	39	Managing Director, Investment Management
Thekla B. Salzman	52	Chief Administrative Officer
Cheryl Baizan	49	Chief Financial Officer
Brett Ersoff	51	Vice President

Jeffrey P. Krasnoff, our founder and Chief Executive Officer since 2007, has over 36 years of experience in residential and commercial real estate investment, finance, development and management. Mr. Krasnoff is the co-founder of LNR Property Corporation, was its President since its spin-off from Lennar as a separate public company in 1997, and its Chief Executive Officer from 2002 to 2007. He was also instrumental in taking the company private in a \$4 billion transaction in early 2005. Mr. Krasnoff joined Lennar in 1986 and from 1990 until LNR spun off from Lennar, Mr. Krasnoff was responsible for the growth of Lennar's commercial real estate and joint venture businesses as well as the formation of LNR Partners and its loan workout and special servicing operations, which became the world's largest CMBS special servicer under his leadership.

Jay Mantz has served as our President since 2011. Prior to joining Rialto, Mr. Mantz worked for Morgan Stanley in various positions from 1993 to 2011, including as the Head of Real Estate from 2010 to 2011 and as Global Co-Head of Morgan Stanley's Merchant Bank Group, which includes Morgan Stanley Real Estate Investing Funds, the Morgan Stanley Infrastructure Fund and other Private Equity Funds, from 2007 to 2009. In addition, Mr. Mantz previously served as Global Co-Head of Morgan Stanley Real Estate overseeing the firm's global real estate business, including banking and capital raising activities, as well as the firm's real estate investing program.

Eric Feder began working with the Rialto leadership in 2008 and has served as our Vice Chairman and Head of Business Development since 2012. With deep-rooted relationships in the banking world, Mr. Feder has been responsible for overseeing the origination of Rialto's nonperforming loan acquisitions. A seasoned real estate investor, Mr. Feder is an industry expert and business leader with nearly a 20 year track record in acquisitions of real estate and distressed debt. In 1995, Mr. Feder founded a real estate investment company that specialized in the acquisition, servicing, workout and disposition of residential and commercial distressed debt which has acquired over \$500 million in debt from national, regional and local financial institutions.

Matt Salem has served as our Managing Director, Investment Management since 2012. In his position, Mr. Salem oversees the Company's real estate debt security and capital markets activities. Prior to joining Rialto, from 2006 to 2011, Mr. Salem held various positions at Goldman Sachs, including Managing Director and Head of Commercial Mortgage Backed Security (CMBS) trading. Before joining Goldman Sachs, Mr. Salem was a vice president at Morgan Stanley where he worked on the issuance and distribution of CMBS. Previously, Mr. Salem also worked for Citigroup Alternative Investments where he acquired CMBS B-pieces, subordinate mortgages and mezzanine loans on behalf of Travelers Insurance.

Thekla B. Salzman has served as our Chief Administrative Officer since 2011 and Chief Financial Officer of RREF I and RREF II since 2009. Prior to joining Rialto, Ms. Salzman worked for LNR Property Corporation as the Chief Financial Officer of two divisions, one based in Miami beginning in 1992 and the other based in London in 2002. Prior to joining LNR Property Corporation, Ms. Salzman was the CFO for a South Florida commercial real estate developer from 1986 to 1992 and was a senior auditor for KPMG, LLP from 1983 to 1986.

Cheryl Baizan has served as our Chief Financial Officer since 2011, and previously served as our Chief Accounting Officer from 2008 to 2011. Ms. Baizan has also served as the Chief Accounting Officer of

RREF I and RREF II since 2011. Prior to joining Rialto, Ms. Baizan worked with the Accounting and Finance Groups of LNR Property Corporation in various capacities from 2000 to 2007. Prior to LNR, Ms. Baizan spent 12 years in the Financial Services line of business of the assurance practice at KPMG, LLP.

Brett Ersoff has served as President of RMF since 2013. Mr. Ersoff has over 27 years of experience in the commercial real estate industry and mortgage lending business. He most recently served as Co-Head of the Commercial Mortgage Business at UBS, and prior to UBS, he was Co-Head of the Commercial Conduit group at Credit Suisse. Previously, Mr. Ersoff was employed by Lehman Brothers from 1996 to 2008, where he was the Co-Head of the Commercial Mortgage Conduit Program, and was directly responsible for the creation of the platform as well as the conception and implementation of the ongoing business strategy.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Rialto Holdings, LLC is a direct, 100% owned subsidiary of Lennar Corporation.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

Relationship with Lennar

Holdings is a wholly owned subsidiary of Lennar. Until Holdings was formed in August 2013, Rialto Capital Management, LLC and Rialto Investments, LLC were direct wholly owned subsidiaries of Lennar. To date, Lennar has provided all the funds that have been used by the Investor Companies, the Rialto Companies and RMF, other than funds generated from assets they own, or fees or proceeds of carried interests they receive. At August 31, 2013, Lennar's investment in the Rialto Companies, the Investor Companies and RMF totaled \$715 million.

Lennar has agreed that on the day the Notes are issued, Lennar will contribute to our equity the entire outstanding balance of the amount it has invested in us or our subsidiaries in excess of \$235 million. The \$235 million will constitute indebtedness of us to Lennar. However, we expect to apply up to 40% of the gross proceeds of the sale of the Notes (\$100 million) to reduce this indebtedness. This indebtedness will be a senior unsecured obligation of Holdings and will rank equally with the Notes.

Lennar will have no obligation to provide additional funds to us, the Rialto Companies, the Investor Companies or RMF, other than pursuant to the credit agreement between Lennar and us that will be entered into before November 30, 2013. Under that credit agreement, Lennar will agree, subject to customary lending conditions, to make advances to us on a revolving basis of up to \$75.0 million. The maturity date will be two years from the date of signing and we will pay an interest rate on the advances of LIBOR plus 3.5% for the applicable interest period. We will be subject to certain customary covenants, including, but not limited to, limitations on fundamental changes, limitations on changes to line of business and transactions with affiliates. We may prepay outstanding amounts at any time, without premium or penalty, on 10 business days' prior notice. We and Lennar may mutually agree to amend or terminate such credit agreement at any time.

The indenture relating to the Notes limits the ability of the Company or any of our Restricted Subsidiaries to make distributions, other than the repayment of indebtedness owed, to Lennar. However, these limits will not apply at any time when the Company and its Restricted Subsidiaries have a Consolidated Non-Funding Debt to Equity Ratio (as such term is defined in the section "Description of Notes") of 1.50 to 1.00 or less.

Holdings Operating Agreement

Pursuant to our Operating Agreement, our sole member, Lennar, has the authority, power, and discretion to manage and control the business, affairs, and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts customary or incident to the management of our business.

Additionally, in our Operating Agreement, we agree to indemnify our members, manager, officers, and employees against losses, claims, damages and liabilities except in certain circumstances outlined in the Operating Agreement (e.g., in instances of gross negligence, willful misconduct or fraud).

Support Services Agreement

Lennar provides management, treasury, information technology, income tax, payroll and administrative services to us and to our subsidiaries. In the past, Lennar has not charged us or our subsidiaries for those services (although Lennar did require us to reimburse it for rent and other operating costs it advanced on our behalf). However, before November 30, 2013, Lennar and we will enter into a Support Services Agreement under which Lennar will agree to provide specified accounting, information technology, tax, legal, human resources, treasury, occupancy, office and other administrative services to us and our subsidiaries and we will agree to pay a fee equal to the lower of the actual cost or fair market value of those services to Lennar.

Tax Reimbursement Agreement

We and most of our subsidiaries are not recognized as taxpayers for Federal income tax purposes or for income tax purposes in some states. Instead, our taxable income and the taxable income of our subsidiaries that are limited liability companies and other types of non-corporate entities, is treated as taxable income of Lennar. Because Lennar, as our sole member, is required to include at least most of our Federal taxable income in Lennar's Federal taxable income, we will enter into a Tax Reimbursement Agreement before November 30, 2013, pursuant to which we will agree to pay Lennar, each time we would be required to pay Federal or state income taxes if it were a taxable corporation, the sum equal to the Federal or state income tax we would have been required to pay if it and its subsidiaries were all taxable corporations, minus any Federal or state income taxes we or our subsidiaries actually pay. We will make such payment to Lennar 5 days prior to the date on which such tax return is filed. This agreement will terminate if we are no longer a subsidiary of Lennar.

DESCRIPTION OF NOTES

The Issuers will issue the Notes under an indenture (the "Indenture") to be dated as of November 14, 2013, among the Issuers, the Guarantors and Wells Fargo Bank, National Association, as trustee (the "Trustee") and the Notes will be issued on or after November 14, 2013 (the "Issue Date"). You should read the Indenture for additional information before you purchase any Notes. You may request a copy of the Indenture at our address shown under the caption "Available Information" in this offering memorandum. For purposes of this Description of Notes, "we," "our," "us" or "the Company" refers to Rialto Holdings, LLC and does not include our subsidiaries, except in references to financial data determined on a consolidated basis.

The following description is a summary of the material provisions of the Notes and the Indenture. We urge you to read the Indenture because that document, and not this description, will define each Holder's rights as a Holder of the Notes.

General

The Notes will be our direct, unsecured obligations and will rank equal in right of payment by us with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The Notes will be issued in denominations of \$1,000 principal amount and integral multiples of that amount and will be payable, and may be presented for registration of transfer and exchange, without service charge, at the Trustee's designated corporate trust office.

Currently, we have \$500 million of committed warehouse loan facilities in place and anticipate that we will enter into additional warehouse loan facilities. Our subsidiaries that are the borrowers under the existing and any future warehouse loan facilities are not guaranteeing the Notes. Accordingly, the Notes are structurally subordinate to all existing and future borrowings under these warehouse facilities.

The Notes are limited in aggregate principal amount to \$250 million, but we may, without the consent of the Holders, "reopen" the Notes and issue additional Notes at any time on the same terms and conditions and with the same CUSIP numbers as the Notes we offer by this offering memorandum. The period of the resale restrictions applicable to any Notes previously offered and sold in reliance on Rule 144A under the Securities Act will automatically be extended to the last day of the period of resale restrictions imposed on any such additional Notes. The Notes will mature on December 1, 2018. Interest on the Notes will accrue at 7.000% per annum and will be payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2014. Interest will also be payable with regard to the Notes on their maturity date. If any interest payment date, maturity date or redemption date is not a Business Day, then the interest payment will be postponed until the first following Business Day and no additional interest will accrue.

We will pay interest to the persons in whose names the Notes are registered at the close of business on the May 15 or November 15, as applicable, before the interest payment date; provided that the interest payable at the maturity date or on a redemption date will be paid to the person to whom principal is payable.

Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance. There is no sinking fund applicable to the Notes.

Except as described below, in connection with the Notes, we have not agreed to any financial covenants or any restrictions on the payment of dividends or the issuance or repurchase of the Notes. We have agreed to no covenants or other provisions to protect Holders (as defined below) of the Notes in the event of a highly leveraged transaction.

Redemption at Our Option

On and after December 1, 2015, the Issuers may from time to time, at our option, redeem all or a portion of the Notes at the following redemption prices (expressed as a percentage of principal) with regard to Notes redeemed during the twelve month period beginning December 1 of each of the years indicated below:

Year	Percentage
2015	103.500%
2016	
2017	100.000%

The Issuers will also have the right, at any time or from time to time prior to December 1, 2015, to redeem in aggregate up to 35% of the principal amount of the Notes issued with cash proceeds of public offerings of our equity at a redemption price equal to 107% of the principal amount of the Notes being redeemed, provided that:

- (1) at least 65% in principal amount of the Notes that we issue remain outstanding immediately after the redemption; and
- (2) each redemption occurs within 90 days after the closing of the equity offering that provided the funds for the redemption.

The Issuers may redeem some or all of the Notes, at any time before December 1, 2015, at a redemption price equal to 100% of their principal amount, plus a make-whole premium. Such make-whole premium on the redemption date with respect to any Note will equal the excess of (i) the present value on such redemption date of the redemption price of such Note at December 1, 2015 plus all required interest payments due on such Note through December 1, 2015 (excluding accrued but unpaid interest to the redemption date) computed using a discount rate equal to the comparable treasury rate as of such redemption date plus 50 basis points over (ii) the principal amount of such Note. The comparable treasury rate, as of any redemption date, is the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity that has become publicly available at least two business days prior to such redemption date most nearly equal to the period from the redemption date to December 1, 2015.

In any redemption, the Issuers will also pay accrued interest on the Notes being redeemed to the date of redemption. In determining the redemption price and accrued interest, interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Any redemption will be on at least 30, but not more than 60, days' prior notice.

If money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed is deposited with the Trustee on or before a redemption date, beginning on the redemption date interest will cease to accrue on the Notes called for redemption and those Notes will cease to be outstanding.

The Guarantees

The Notes and our other obligations under the Indenture will be guaranteed by Rialto Capital, Rialto Investments and RMF (the "Principal Guarantors") and all of our other existing and future direct or indirect 100% owned subsidiaries, other than the Unrestricted Subsidiaries (together with the Principal Guarantors, the "Guarantors"). We can withdraw the designation of a subsidiary as a Guarantor (other than a Principal Guarantor), if such subsidiary becomes an Unrestricted Subsidiary, in which case the subsidiary will cease to guarantee the Notes. A 100% owned subsidiary can only become an Unrestricted Subsidiary if it is a borrower under a warehouse facility or prohibited from guaranteeing the Notes by any applicable law, regulation or contractual restriction which cannot be removed through commercially reasonable efforts.

Two of our subsidiaries who serve as borrowers under the warehouse facilities are Unrestricted Subsidiaries and thus do not guarantee the notes. Currently, they are the only 100% owned subsidiaries that

are Unrestricted Subsidiaries, and therefore, all our other 100% owned subsidiaries will be Guarantors. If any other of our subsidiaries (other than the Principal Guarantors) become borrowers under warehouse facilities, they will become Unrestricted Subsidiaries and will not guarantee the Notes.

The Guarantors will all be 100% owned by us. Each Guarantor will unconditionally guarantee, jointly and severally with the other Guarantors, all of our obligations under the Notes and the Indenture, including our obligations to pay principal, premium, if any, and interest with respect to the Notes. The guarantees will be general unsecured obligations of the Guarantors and will rank pari passu with all existing and future unsecured indebtedness of the Guarantors that is not, by its terms, expressly subordinated in right of payment to the guarantees or to other senior indebtedness of the Guarantors. The obligations of each Guarantor will be limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of that Guarantor and after giving effect to any collections from other Guarantors in respect of their obligations under their guarantees or pursuant to their contribution obligations under the Indenture, will result in the obligations of such Guarantor under its quarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. A Guarantor that makes a payment or distribution under its guarantee will be entitled to a contribution from the other Guarantors in an amount pro rata, based on the net assets of each Guarantor, determined in accordance with United States generally accepted accounting principles, or GAAP. The guarantee obligation of each Guarantor will be full and unconditional, and joint and several with the guarantees by the other Guarantors, subject to limitations intended to prevent the guarantees from constituting fraudulent conveyances or fraudulent transfers under federal or state law. As of and for the twelve months ended August 31, 2013, the subsidiaries that will not guarantee the Notes at the time of issuance accounted for 0% of our consolidated net income, 11.2% of our total assets and had \$133.1 million of aggregate total Indebtedness.

Lennar will not be a guarantor of the Notes nor will it provide additional credit support to us in connection with the servicing the principal of, premium, if any, or interest or any other payment obligations on the Notes.

Change of Control Offer

If a Change of Control Triggering Event occurs, unless the Issuers have exercised the option to redeem the Notes by notifying the noteholders to that effect as described above, the Issuers will be required to make an offer (a "Change of Control Offer") to each Holder of Notes to repurchase all or any part (equal to \$1,000 or integral multiples of that amount) of that Holder's Notes on the terms set forth in the Notes. In a Change of Control Offer, the Issuers will be required to offer payment in cash equal to 101% of the aggregate principal amount of the Notes repurchased, plus accrued and unpaid interest, if any, on the Notes that are repurchased to the date of repurchase (a "Change of Control Payment"). Within 30 days following any Change of Control Triggering Event or, at our option, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, a notice will be mailed to Holders of the Notes, describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date that notice is mailed, other than as may be required by law (a "Change of Control Payment Date"). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

On each Change of Control Payment Date, we will, to the extent lawful:

- accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers'
Certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased
and that all conditions precedent provided for in the Indenture to the Change of Control Offer and to
the repurchase by us of Notes pursuant to the Change of Control Offer have been complied with.

The Issuers will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and the third party purchases all Notes properly tendered and not withdrawn under its offer.

To the extent that the Issuers are required to offer to repurchase the Notes upon the occurrence of a Change of Control Triggering Event, we may not have sufficient funds to repurchase the Notes for cash at that time. In addition, our ability to repurchase the Notes for cash may be limited by law or the terms of other agreements relating to our indebtedness that is outstanding at the time. The failure to make a required repurchase of the Notes would result in a Default under the Notes.

The Issuers will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other applicable securities laws and regulations, in connection with the repurchase of the Notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Issuers will comply with those securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Offer provisions of the Notes by virtue of any such conflict.

If Holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in response to a Change of Control Offer and the Issuer, or any third party making the Change of Control Offer in lieu of the Issuer as described above, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right, upon not less than 30 nor more than 60 days' prior notice, given not more than 30 days following such purchase pursuant to the Change of Control Offer described above, to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the principal amount thereof plus accrued but unpaid interest to but not including the date of redemption set forth in such notice.

Certain Covenants

Set forth below are summaries of certain covenants that will be contained in the Indenture.

Limitation on Indebtedness

We will not, and will not permit any Restricted Subsidiary to, incur any Indebtedness (including Acquired Indebtedness), other than Permitted Debt, unless, at the time we or a Restricted Subsidiary incurs the Indebtedness and after giving pro-forma effect to the incurrence of the Indebtedness and the use of its proceeds, our Consolidated Non-Funding Debt to Equity Ratio would be not greater than 1.75 to 1.00.

The following Indebtedness is "Permitted Debt":

- (1) Indebtedness under Credit Facilities we maintain with a principal amount of up to the greater of \$40.0 million or 4% of our Total Assets when the Indebtedness is incurred;
- (2) Guarantees of our Indebtedness or Indebtedness of any Restricted Subsidiaries that is permitted by the Indenture;
 - (3) Indebtedness from us to Restricted Subsidiaries or from Restricted Subsidiaries to us;
 - (4) Our Indebtedness with regard to the Notes;
- (5) Indebtedness that we or a Restricted Subsidiary incur to finance an acquisition or Indebtedness of a person that is acquired by, or merged or consolidated with, us or a Restricted Subsidiary if, after giving effect to the acquisition, merger or consolidation, either

- (a) we would be permitted to incur at least \$1.00 of additional Indebtedness without violating the Consolidated Non-Funding Debt to Equity Ratio test described above;
- (b) the Consolidated Non-Funding Debt to Equity Ratio would not be greater after the acquisition, merger or consolidation than it was immediately prior to that event; or
- (c) the Indebtedness is Acquired Indebtedness and the only obligors with regard to the Indebtedness will be the Persons who were obligors with regard to it before the acquisition, merger or consolidation;
- (6) Hedging Obligations (excluding Hedging Obligations entered into for speculative purposes);
- (7) Capital lease obligations or purchase money obligations in an aggregate principal amount which, together with all other then outstanding capital lease obligations and purchase money obligations, does not exceed the greater of (a) \$10 million, and (b) 1.0% of our Total Assets when the capital lease obligations or purchase money obligations are incurred;
- (8) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, customs, tax payment and similar bonds, and completion guarantees and warranties relating to liabilities, obligations or guarantees incurred in the ordinary course of business, (b) obligations to banks and other financial institutions with regard to checks and other instruments drawn against insufficient funds in the ordinary course of business if that Indebtedness is extinguished within five days after it is incurred, (c) customer deposits and advance payments received from customers in the ordinary course of business with regard to purchases of goods and services, (d) letters of credit, bankers' acceptances, guarantees and similar instruments relating to liabilities or obligations incurred in the ordinary course of business, or (e) cash management, netting or setting off arrangements in the ordinary course of business;
- (9) Guarantees, indemnifications, earn outs, purchase price adjustments and similar arrangements incurred in connection with the acquisition or disposition of businesses or assets (including Capital Stock of subsidiaries);
- (10) Indebtedness in an aggregate principal amount that does not exceed 100% of the Net Cash Proceeds we receive from the issuance of our Capital Stock or from contributions to our capital after the date on which we first issue Notes (not including Net Cash Proceeds that are used to make Restricted Payments);
- (11) Promissory Notes we or any of our Subsidiaries issued to current or former employees or directors of, or consultants to, us or any of our Subsidiaries that are not precluded by the covenant limiting Restricted Payments;
- (12) Indebtedness incurred to finance insurance premiums or take-or-pay obligations in supply arrangements, incurred in the ordinary course of business;
 - (13) Permitted Funding Indebtedness;
- (14) Permitted Securitization Indebtedness and Indebtedness under Credit Enhancement Agreements or arising out of purchases of the remaining asset-backed securities of a Securitization Entity in order to relieve us or a subsidiary of the cost of servicing the Securitization Entity;
 - (15) Indebtedness incurred under the Lennar Revolving Credit Agreement;
 - (16) Parent Debt;
- (17) Refinancing Indebtedness (including, in the case of the Notes and any Guarantee thereof) incurred in respect of any Indebtedness incurred pursuant to this clause (17) or clause (5) of this paragraph or incurred pursuant to the first paragraph of this covenant; and
 - (18) Other Indebtedness not exceeding at any time \$20 million in principal amount.

For purposes of the covenant regarding incurrence of Indebtedness, accrued interest or dividends, accretion of accreted value, accretion or accrual of original issue discount, the payment of interest in the form of additional Indebtedness or the payment of dividends in the form of additional Capital Stock, or the reclassification of obligations as indebtedness because of a change in generally accepted accounting principles will not be treated as incurrence of Indebtedness. The amount of Indebtedness outstanding at any date will be (a) the accreted value of Indebtedness issued with original issue discount and, (b) the principal amount, or liquidation preference, of any other Indebtedness. The maximum amount of permitted Indebtedness that we and our Restricted Subsidiaries may incur will not be deemed violated because of fluctuations in currency exchange rates.

Neither we nor any Guarantor is permitted to incur Indebtedness that is subordinated to any other of our or the Guarantor's Indebtedness unless that Indebtedness is subordinated to the same extent to the Notes.

Limitation on Restricted Payments

We will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

- (1) declare or pay any dividend or make any distribution on or in respect of our or any Restricted Subsidiary's Capital Stock except:
 - (a) dividends or distributions payable in Capital Stock of the Company (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock; or
 - (b) dividends or distributions payable to us or a Restricted Subsidiary; or
- (2) purchase, repurchase, redeem, retire or otherwise acquire or retire for value any Capital Stock of the Company or any Parent of us held by Persons other than us or a Restricted Subsidiary;
- (3) purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Indebtedness prior to maturity or scheduled payment, except (a) any such purchase, repurchase, redemption, defeasance or other acquisition or retirement in anticipation of satisfying a principal installment or final maturity, in each case, due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement or (b) any Indebtedness from us to Restricted Subsidiaries or from Restricted Subsidiaries to us; or
 - (4) make any Restricted Investment;

(any of the foregoing payments a "Restricted Payment"), unless at the time we or such Restricted Subsidiary makes such Restricted Payment

- (a) no Default shall have occurred and be continuing (or would immediately result from the Restricted Payment);
- (b) we would be able to incur an additional \$1.00 of Indebtedness without violating the Consolidated Non-Funding Debt to Equity Ratio test described under "— Limitation on Indebtedness" after giving effect to such Restricted Payment; and
- (c) the aggregate amount of all Restricted Payments made subsequent to the Issue Date (excluding all Permitted Payments described below (other than clauses (1) (without duplication of the declaration of the dividend or delivery of a redemption notice), (6), (11) and (12) of the next succeeding paragraph) would not exceed the sum of:
 - (A) the sum, for the period from the beginning on the first day of the fiscal quarter in which the Issue Date occurs and ending the last day of our most recently completed fiscal quarter for which our consolidated financial statements are available, with regard to each fiscal quarter during that period, of 50% of Consolidated Net Income (or, in case such Consolidated Net Income is a deficit, minus 100% of such deficit);
 - (B) the aggregate Net Cash Proceeds, and the fair market value of property or assets or marketable securities, received by us from the issue or sale of our Capital Stock or as the

result of a merger or consolidation with another Person subsequent to the Issue Date or otherwise contributed to our equity subsequent to the Issue Date;

- (C) the aggregate Net Cash Proceeds, and the fair market value of property or assets or marketable securities, received by us or any Restricted Subsidiary from the issuance or sale, and conversion or exchange, by us or any Restricted Subsidiary of any Indebtedness subsequent to the Issue Date that has been converted into or exchanged for Capital Stock of the Company;
- (D) the aggregate amount received in cash and the fair market value of marketable securities or other property received by us or our Restricted Subsidiaries by means of the sale or other disposition of Restricted Investments and repurchases and redemptions of such Restricted Investments, and repayments of loans or advances, and releases of guarantees which constitute Restricted Investments, in each case after the Issue Date; and
- (E) in the case of the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger or consolidation of an Unrestricted Subsidiary into us or a Restricted Subsidiary or the transfer of all or substantially all of the assets of an Unrestricted Subsidiary to us or a Restricted Subsidiary after the Issue Date, the fair market value of the Investment in such Unrestricted Subsidiary (or the assets transferred), as we determine in good faith (other than to the extent of the amount of the Investment in such Unrestricted Subsidiary that constituted a Permitted Investment).

The foregoing provisions regarding Restricted Payments will not prohibit any of the following (collectively, "Permitted Payments"):

- (1) the payment of any dividend or distribution or the consummation of a redemption within 60 days after the date of declaration or notice if, at the date of such declaration or notice, the payment would have complied with the provisions of the Indenture;
- (2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Capital Stock or Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company ("Refunding Capital Stock") or a substantially concurrent contribution to the equity of the Company;
- (3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, refinancing Indebtedness permitted to be incurred;
- (4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Company or a Restricted Subsidiary made by exchange for, or out of the proceeds of the substantially concurrent sale of, Preferred Stock of the Company or a Restricted Subsidiary;
- (5) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness or Disqualified Stock or Preferred Stock of a Restricted Subsidiary:
 - (a) from Net Available Cash to the extent permitted under "— Limitation on Sales of Assets and Subsidiary Stock" below, but only if we have first purchased all Notes tendered pursuant to any required offer to repurchase all the Notes; or
 - (b) to the extent required by the agreement governing such Subordinated Indebtedness, Disqualified Stock or Preferred Stock, following the occurrence of a Change of Control, but only if we shall have first complied with the terms described under "— Change of Control Offer" and purchased all Notes tendered pursuant to the required offer to repurchase all the Notes; or
 - (c) consisting of Acquired Indebtedness (other than Indebtedness incurred to provide all or any portion of the funds utilized in connection with the transaction(s) pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by us or by a Restricted Subsidiary);

- (6) a Restricted Payment to pay for the repurchase, retirement or other acquisition or retirement for value of Capital Stock of the Company or of our Parent held by any of our, our Subsidiaries' or our Parent's present, former or future employees, directors or consultants either pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement or upon the termination of such employee, director or consultant's employment or directorship; provided, however, that the aggregate Restricted Payments made under this clause do not exceed \$10.0 million in any fiscal year (with unused amounts in any fiscal year being carried over to succeeding fiscal years subject to a maximum of \$20.0 million in any fiscal year); provided further that such amount in any calendar year may be increased by an amount not to exceed:
 - (a) the cash proceeds from the sale of Capital Stock of the Company and, to the extent contributed to our capital, Capital Stock of our Parent, in each case to any members of our, our Subsidiaries' or our Parent's management, directors or consultants that occurred after the Issue Date; plus
 - (b) the cash proceeds of key man life insurance policies received by us or any of our Restricted Subsidiaries after the Issue Date; less
 - (c) the amount of any Restricted Payments made in previous calendar years pursuant to clauses (a) and (b) of this clause;
 - and *provided further* that cancellation of Indebtedness owing to us or any Restricted Subsidiary from members of management, directors, employees or consultants of the Company or any of our Parents or Restricted Subsidiaries in connection with a repurchase of Capital Stock of the Company or our Parent will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;
- (7) the declaration and payment of dividends on Disqualified Stock, or Preferred Stock of a Restricted Subsidiary, incurred in accordance with the terms of the covenant described under "— Limitation on Indebtedness" above:
- (8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other such rights if such Capital Stock represents a portion of the exercise price thereof;
- (9) payments by us or any Restricted Subsidiary to Parent (a) relating to any Parent Advances, whether such Parent Advances were made before or after the Issue Date and (b) under any of the Intercompany Agreements;
- (10) purchases of our Capital Stock or Capital Stock of our Company or Parent to be awarded to employees, officers or directors under compensation or benefit plans;
- (11) the declaration and payment by us of dividends on the common stock or common equity interests of the Company or any Parent following a public offering of such common stock or common equity interests, in an amount not to exceed 6% in any fiscal year of the aggregate proceeds received by or contributed to us in or from all such public offerings;
- (12) payments by us, or loans, advances, dividends or distributions to any Parent to make payments, to holders of Capital Stock of the Company or any Parent in lieu of the issuance of fractional shares of such Capital Stock;
 - (13) Restricted Payments that are made with Excluded Contributions;
- (14) the declaration and payment of dividends on Refunding Capital Stock that is Preferred Stock; *provided*, *however*, that for the most recently ended four fiscal quarters for which internal financial statements are available, after giving effect to such issuance on a pro forma basis we would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant described under "— Limitation on Indebtedness";

- (15) dividends or other distributions of Capital Stock of, or Indebtedness owed to us or a Restricted Subsidiary by, Unrestricted Subsidiaries;
- (16) distributions or payments of Securitization Fees, sales contributions and other transfers of Securitization Assets and purchases of Securitization Assets pursuant to a Securitization Repurchase Obligation, in each case in connection with a Securitization;
- (17) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments in an aggregate amount outstanding at the time made not to exceed \$15.0 million; and
- (18) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments, so long as immediately after giving pro forma effect thereto and the application of net proceeds therefrom, Consolidated Non-Funding Debt to Equity Ratio of the Company and its Restricted Subsidiaries does not exceed 1.5 to 1.0.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by us or the Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment, property or assets other than cash shall be determined conclusively by an Officer or by our Board of Directors acting in good faith.

Limitation on Liens

We will not, nor will we permit any Restricted Subsidiary to, create, assume, incur or suffer to exist any Lien upon any of our or its properties or assets, whether owned on the Issue Date or thereafter acquired, unless:

- if such Lien secures Indebtedness ranking equal in right of payment with the Notes, then the Notes are secured by a Lien on the same properties or assets on an equal and ratable basis with the obligation so secured until such time as such obligation is no longer secured by a Lien;
- if such Lien secures Indebtedness which is subordinated to the Notes, then the Notes are secured by a Lien on the same properties or assets and the Lien securing such Indebtedness is subordinated to the Lien granted to the Holders of the Notes to the same extent as such Indebtedness is subordinated to the Notes; or
- · such Lien is a Permitted Lien.

The following Liens are "Permitted Liens":

- (1) Liens existing on the Issue Date;
- (2) Liens on property of a Person existing at the time such Person is merged into or consolidated with or otherwise acquired by us or any Restricted Subsidiary, provided that such Liens were in existence prior to, and were not created in contemplation of, such merger, consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with us or any Restricted Subsidiary;
- (3) Liens on property existing at the time of acquisition thereof by us or any Restricted Subsidiary; provided that such Liens were in existence prior to, and were not created in contemplation of, such acquisition and do not extend to any assets other than the property acquired;
- (4) Liens imposed by law such as carriers', warehouseman's or mechanics' Liens, and other Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
- (5) Liens incurred in connection with pollution control, industrial revenue, water, sewage or similar bonds:
- (6) Liens securing Indebtedness (A) between a Restricted Subsidiary and us, or (B) between Restricted Subsidiaries;

- (7) Liens incurred in the ordinary course of business to secure performance of obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature, in each case which are not incurred in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property and which do not materially adversely affect the value of the property;
- (8) pledges or deposits under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of indebtedness) or leases to which the Company or any Restricted Subsidiary is a party, or deposits to secure public or statutory obligations of the Company or any Restricted Subsidiary or deposits for the payment of rent, in each case incurred in the ordinary course of business;
- (9) Liens granted to any bank or other institution securing the payments to be made to such institution by us or any Subsidiary pursuant to any interest rate swap or similar agreement or foreign currency hedge, exchange or similar agreement designed to provide protection against fluctuations in interest rates and currency exchange rates, respectively, provided that such agreements are entered into in, or are incidental to, the ordinary course of business;
- (10) Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set off or similar rights and remedies;
 - (11) Liens arising from the Uniform Commercial Code financing statements regarding leases;
- (12) Liens securing indebtedness incurred to finance the acquisition, construction, improvement, development or expansion of a property which are limited to that property;
- (13) Liens securing Indebtedness permitted to be Incurred under Credit Facilities, including any letter of credit facility relating thereto, pursuant to the provisions of clause (1) of the definition of Permitted Debt of the covenant described under "-Limitation on Indebtedness";
 - (14) Liens incurred in connection with Non-Recourse Indebtedness;
- (15) Liens securing Permitted Funding Indebtedness so long as any such Lien shall encumber only the assets acquired or originated with the proceeds of Permitted Funding Indebtedness, assets such as loans, mortgage-related securities, receivables, swaps or hedges, other similar assets subject to and pledged to secure such Indebtedness and ownership interests in any Person that owns such assets;
- (16) Liens on (i) assets or property of the Company or any Restricted Subsidiary for the purpose of securing capitalized lease obligations or purchase money obligations; *provided* that any such Lien may not extend to any assets or property of the Company or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and (ii) any interest or title of a lessor under any capitalized lease obligation or operating lease
- (17) Liens on Securitization Assets and the proceeds thereof incurred in connection with Permitted Securitization Indebtedness or permitted guarantees of Permitted Securitization Indebtedness;
- (18) any encumbrance or restriction with respect to Capital Stock of any Joint Venture or similar arrangement;
- (19) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently pursued; provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor:
- (20) Liens securing refinancing Indebtedness; provided that any such Lien does not extend to or cover any property or assets other than the property or assets securing the Indebtedness so refunded, refinanced or extended;
- (21) Liens securing Indebtedness and other obligations in an aggregate principal amount not to exceed the greater of (A) \$20.0 million and (B) 2.0% of Total Assets;

- (22) easements, rights-of-way and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or minor imperfections in title thereto which do not materially adversely affect the value of the property; and
- (23) any extensions, substitutions, modifications, replacements or renewals of the Permitted Liens described above.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

We will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any Indebtedness or other obligations owed to us or any Restricted Subsidiary;
 - (B) make any loans or advances to us or any Restricted Subsidiary; or
 - (C) sell, lease or transfer any of its property or assets to us or any Restricted Subsidiary;

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of loans or advances made to us or any Restricted Subsidiary to other Indebtedness incurred by us or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction;

The provisions of the preceding paragraph will not prohibit:

- (1) any encumbrance or restriction pursuant to (a) any Credit Facilities or (b) any other agreement or instrument, in each case, in effect at or entered into on the Issue Date;
 - (2) any encumbrance or restriction pursuant to the Indenture, the Notes or the Guarantees;
- (3) any encumbrance or restriction existing under or by reason of any applicable law, rule, regulation or order of any court or other governmental agency;
- (4) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into us or any Restricted Subsidiary, or was designated as a Restricted Subsidiary or on which such agreement or instrument is assumed by us or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness incurred as consideration in, or to provide the funds utilized to consummate, transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by us);
 - (5) any encumbrance or restriction:
 - (a) that restricts in a customary manner the subletting, assignment or transfer of any (i) property or asset that is subject to a lease, license or similar contract or agreement, or (ii) license or other contract or agreement;
 - (b) contained in mortgages, pledges, charges or other security agreements permitted under the Indenture or securing Indebtedness of the Company or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer or encumbrance of the property or assets subject to such mortgages, pledges, charges or other security agreements; or
 - (c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Company or any Restricted Subsidiary;

- (6) any encumbrance or restriction existing pursuant to purchase money obligations or capitalized lease obligations permitted for property acquired in the ordinary course of business;
- (7) any encumbrance or restriction imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of the Company or any Restricted Subsidiary pending the closing of such sale or disposition;
- (8) customary provisions in leases, licenses, Joint Venture agreements and other similar agreements and instruments (including put and call arrangements and other restrictions on transfer);
- (9) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;
- (10) provisions in agreements evidencing Permitted Funding Indebtedness and restrictions or requirements created in connection with any Securitization Facility that are necessary or advisable to effect such Securitization Facility or applicable to any special purpose Subsidiary of us formed in connection any Securitization Facility;
- (11) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "— Limitation on Indebtedness" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) those contained in the Credit Facilities as in effect on the Issue Date or (ii) in comparable financings and where either (a) we determine that such encumbrances or restrictions will not materially adversely affect our ability to make principal or interest payments on the Notes or (b) such encumbrance or restriction applies only during the continuance of a default relating to such Indebtedness;
- (12) any encumbrance or restriction existing by reason of any lien permitted under "— Limitation on Liens"; or
- (13) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness incurred pursuant to an agreement or instrument referred to in any of clauses (1) to (13) of this paragraph or in this clause (an "Initial Agreement") or contained in any amendment, extension, renewal, restatement, refunding, replacement, refinancing, supplement or other modification to an Initial Agreement; provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement(s) to which such refinancing or amendment, supplement or other modification relates (as we determine in good faith).

Limitation on Sales of Assets and Subsidiary Stock

Neither we nor any of our Restricted Subsidiaries will make any Asset Disposition unless:

- (1) the consideration received for the Asset Disposition is at least fair market value, as determined in good faith by an Officer or by our Board of Directors;
- (2) at least 75% of the consideration from such Asset Disposition is in the form of cash or Cash Equivalents; and
 - (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied:
 - (a) to the extent we or any Restricted Subsidiary elects, (i) to prepay, repay or purchase any Indebtedness of a non-Guarantor, Indebtedness that is secured by a Lien or Permitted Funding Indebtedness (in each case, other than Indebtedness owed to us or any Restricted Subsidiary) within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; or (ii) to prepay, repay or purchase Pari Passu Indebtedness; provided that, to

the extent the Company redeems, repays or repurchases Pari Passu Indebtedness pursuant to this clause (ii), we will equally and ratably reduce obligations under the Notes as provided under "Redemption at our Option," through open-market purchases (to the extent at or above par) or by making an offer to all Holders to purchase their Notes at 100% of the principal amount thereof, plus the amount of accrued but unpaid interest, if any, to but not including the date of any repayment, on the principal amount of Notes that would otherwise be prepaid; or

(b) to the extent we or any Restricted Subsidiary elects, to invest in or commit to invest in Additional Assets within 365 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; provided, however, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment that is executed or approved within such time will satisfy this requirement, so long as the investment is consummated within 180 days of such 365th day;

provided that, pending the final application of any such Net Available Cash in accordance with clause (a) or clause (b) above, we and our Restricted Subsidiaries may temporarily reduce Indebtedness (including Permitted Funding Indebtedness) or otherwise use such Net Available Cash in any manner not otherwise prohibited by the Indenture.

Any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the preceding paragraph will be deemed to constitute "Excess Proceeds." On the 366th day after the later of an Asset Disposition or the receipt of such Net Available Cash, if the aggregate amount of Excess Proceeds exceeds \$20.0 million, the Issuers will be required to make an offer ("Asset Disposition Offer") within 10 Business Days to all Holders of Notes issued under the Indenture and, to the extent we elect, to all holders of other outstanding Pari Passu Indebtedness, to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to 100% of the principal amount of the Notes plus accrued but unpaid interest to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof. The Issuers will deliver or cause to be delivered notice of such Asset Disposition Offer electronically or by first-class mail, with a copy to the Trustee, to each Holder of Notes at the address of such Holder appearing in the security register or otherwise in accordance with the procedures of The Depository Trust Company, or any successor securities clearing agency, describing the transaction(s) that constitute the Asset Disposition and offering to repurchase the Notes for the specified purchase price on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered, pursuant to the procedures required by the Indenture and described in such notice.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness validly tendered and not properly withdrawn in response to an Asset Disposition Offer is less than the Excess Proceeds, the Issuers may use any remaining Excess Proceeds for general corporate purposes, subject to other covenants contained in the Indenture. If the aggregate principal amount of the Notes and Pari Passu Indebtedness tendered and not properly withdrawn in response to an Asset Disposition Offer exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a pro rata basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof. Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

For the purposes of clause (2) of the first paragraph of this covenant, each of the following will be deemed to be cash:

- (1) the assumption by the transferee of Indebtedness or other liabilities contingent or otherwise (other than our or a Guarantor's Subordinated Indebtedness) and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness or other liabilities;
- (2) securities, notes or other obligations received from the transferee that are converted by us or a Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition;
- (3) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that we and each other Restricted Subsidiary are released from any Guarantee of payment of Indebtedness in connection with such Asset Disposition;
- (4) consideration consisting of our Indebtedness (other than Subordinated Indebtedness) received after the Issue Date from Persons who are not the Company or any Restricted Subsidiary; and
- (5) any Designated Non-Cash Consideration received in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, in a principal amount not to exceed the greater of \$60.0 million and 6.0% of Total Assets (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Issuers will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuers will comply with the applicable securities laws and regulations and shall not be deemed to have breached our obligations described in the Indenture by virtue of such compliance.

Future credit agreements or other agreements to which the Issuers become a party may prohibit or limit us from purchasing any Notes pursuant to this covenant. In the event the Issuers are prohibited from purchasing the Notes, we could seek the consent of our lenders to the purchase of the Notes or could attempt to refinance the borrowings that contain such prohibition. If we do not obtain such consent or repay such borrowings, we will remain prohibited from purchasing the Notes. In such case, our failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Limitation on Affiliate Transactions

We will not, and will not permit any of our Restricted Subsidiaries to, enter into or conduct any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of ours (an "Affiliate Transaction") involving aggregate value in excess of \$5.0 million unless:

- (1) the terms of the Affiliate Transaction taken as a whole are not materially less favorable to us or our Restricted Subsidiary than could be obtained in a comparable arm's length transaction with a Person who is not our Affiliate; and
- (2) in the event the Affiliate Transaction involves an aggregate value in excess of \$25.0 million, the terms of such transaction have been approved by an Officer or a majority of the members of our Board of Directors.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under "- Limitation on Restricted Payments," any Permitted Payment or any Permitted Investment;

- (2) transactions or payments by us or a Restricted Subsidiary, including the award of securities, pursuant to any employee, officer or director compensation or benefit plans or arrangements entered into in the ordinary course of business or approved by an Officer or our Board of Directors;
 - (3) any Management Advances and any waiver or transaction with respect thereto;
- (4) any transaction between us and any Restricted Subsidiary or between Restricted Subsidiaries;
- (5) the payment, by us or by a Restricted Subsidiary, of reasonable and customary regular fees and compensation to, and reasonable and customary indemnification arrangements and similar payments on behalf of, our directors or the directors of such Restricted Subsidiary, respectively, who are not employees of ours or of such Restricted Subsidiary, respectively;
- (6) transactions pursuant to any contract or agreement in effect on the Issue Date, as amended, modified or replaced from time to time so long as the terms of the amended, modified or new agreements, taken as a whole, are not materially less favorable to us and our Restricted Subsidiaries than those in effect on the date of the Indenture;
 - (7) any customary transaction with a Securitization Entity effected as part of a Securitization;
- (8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to us or to the relevant Restricted Subsidiary in the reasonable determination of an Officer or our Board of Directors or the management of the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;
- (9) any transaction between us or any Restricted Subsidiary and any Person that is our Affiliate or an associate or similar entity solely because we or a Restricted Subsidiary or any Affiliate of ours or of a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, associate or similar entity;
- (10) issuances or sales of Capital Stock of the Company or options, warrants or other rights to acquire such Capital Stock and the granting of registration and other customary rights in connection with any such issuances or any contribution to capital of the Company or any Restricted Subsidiary;
- (11) transactions in which we or any Restricted Subsidiary, as the case may be, delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Company or such Restricted Subsidiary from a financial point of view or meets the requirements of clause (1) of the preceding paragraph;
- (12) the existence of, or the performance by us or any Restricted Subsidiary of its obligations under the terms of, any equityholders agreement (including any registration rights agreement or purchase agreements related thereto) to which it is party as of the Issue Date and any similar agreement that it may enter into thereafter; provided, however, that the existence of, or the performance by us or any Restricted Subsidiary of its obligations under any future amendment to such equityholders agreement or under any similar agreement entered into after the Issue Date will only be permitted under this clause to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the Holders in any material respects;
 - (13) any transactions or payments pursuant to any of the Intercompany Agreements;
- (14) any purchases by our Affiliates of Indebtedness or Disqualified Stock of the Company or any of our Restricted Subsidiaries the majority of which Indebtedness or Disqualified Stock is purchased by Persons who are not our Affiliates; *provided* that such purchases by our Affiliates are on the same terms as such purchases by such Persons who are not our Affiliates; and
- (15) the provision of mortgage brokerage and servicing, investment management and similar services to Affiliates and the provision of real estate brokerage, appraisal and valuation and similar

services by Affiliates to us not prohibited by the Indenture that are fair to us and our Restricted Subsidiaries (as determined in good faith by an Officer or our Board of Directors) or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party (as determined in good faith by an Officer or our Board of Directors).

Designation of Restricted and Unrestricted Subsidiaries

Our Board of Directors may at any time designate any of our direct or indirect subsidiaries to be an Unrestricted Subsidiary (other than the Principal Guarantors), if that designation would not cause a Default to exist and (a) the subsidiary is a party to a repurchase obligation financing line or similar financing agreement that constitutes Permitted Funding Indebtedness or Permitted Securitization Indebtedness and that limits or prohibits the ability of that subsidiary to guarantee indebtedness, or (b) the subsidiary (i) is prohibited, in the reasonable judgment of Senior Management of the Company, from guaranteeing the Notes by any applicable law, regulation or contractual restrictions and, in the case of any such contractual restriction, in the reasonable judgment of Senior Management of the Company, the restrictions cannot be removed through commercially reasonable efforts and (ii) incurs or would incur only indebtedness that is Permitted Funding Indebtedness or Permitted Securitization Indebtedness.

Conduct of Business

The Company will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Similar Businesses, except to such extent as would not be material to us and our Restricted Subsidiaries taken as a whole. Co-Issuer may not own any material assets or other property, other than Indebtedness or other obligations owing to Co-Issuer by the Company and its Restricted Subsidiaries and Cash Equivalents, or engage in any trade or conduct any business other than treasury, cash management, hedging and cash pooling activities and activities incidental thereto. Co-Issuer will not incur any material liabilities or obligations other than its obligations pursuant to the Notes and pursuant to other Indebtedness permitted to be Incurred by the Company or any Guarantor and liabilities and obligations pursuant to business activities permitted by this paragraph. Co-Issuer will be a Restricted Subsidiary of the Company at all times.

Reporting

Notwithstanding that we may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the SEC, the indenture will require us to file with the SEC (or otherwise provide to Holders as described below) within the dates set forth below:

- (1) within 90 days (120 days in the case of the first fiscal year ending after the Issue Date) after the end of each fiscal year, an annual report of the Company containing the annual audited financial statements prepared in accordance with GAAP that would be required to be contained in an Annual Report on Form 10-K if we were required to file such form under the Exchange Act (but only to the extent similar information is included in this offering memorandum), including a "Management Discussion and Analysis of Financial Condition and Results of Operations" that described the financial condition and results of operations of the Company and our consolidated Subsidiaries;
- (2) within 45 days (60 days in the case of the first fiscal quarter ending after the Issue Date) after the end of each of the first three fiscal quarters of each fiscal year, quarterly reports of the Company containing the unaudited financial statements prepared in accordance with GAAP that would be required to be contained in a Quarterly Report on Form 10-Q if we were required to file such form under the Exchange Act (but only to the extent similar information is included in this offering memorandum), including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that described the financial condition and results of operations of the Company and its consolidated Subsidiaries; and
- (3) within 10 days after the occurrence of each event that would have been required to be reported in a Current Report on Form 8-K under the Exchange Act if the Company had been a reporting company under

the Exchange Act, current reports containing substantially all of the information that would have been required to be contained in a Current Report on Form 8-K under the Exchange Act if the Company had been a reporting company under the Exchange Act; provided, however, that no such current report will be required to be furnished if the Company determines in its good faith judgment that such event is not material to holders of indebtedness of the Company or the business, assets, operations, financial positions or prospects of the Company and its Restricted Subsidiaries, taken as a whole;

provided, however, that such reports (A) will not be required to comply with Section 302 or Section 404 of the Sarbanes-Oxley Act of 2002, or related Items 307 and 308 of Regulation S-K promulgated by the SEC, or Item 10(e) of Regulation S-K (with respect to any non-GAAP financial measures contained therein) and (B) will not be required to contain the separate financial information for Guarantors contemplated by Rule 3-10 of Regulation S-X promulgated by the SEC (other than any condensed consolidating footnote required by such rule). Notwithstanding the foregoing, the Company will not be so obligated to file such reports with the SEC, so long as the Company makes available such information to prospective purchasers of Notes, in addition to providing such information to the Trustee and the Holders of the Notes, in each case, at the Company's expense and by the applicable date the Company would be required to file such information pursuant to the immediately preceding sentence. To the extent any such information is not so filed or furnished, as applicable, within the time periods specified above and such information is subsequently filed or furnished, as applicable, the Company will be deemed to have satisfied its obligations with respect thereto at such time and any Default with respect thereto shall be deemed to have been cured; provided that such cure shall not otherwise affect the rights of the Holders under "- Events of Default; Notice and Waiver" if Holders of at least 25% in principal amount of the then total outstanding Notes have declared the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes to be due and payable immediately and such declaration shall not have been rescinded or cancelled prior to such cure.

At any time that any of the Subsidiaries of the Company are Unrestricted Subsidiaries, then the quarterly and annual reports required by the preceding paragraph will include a reasonably detailed presentation, if material, either on the face of the financial statements or in the footnotes thereto, and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" or other comparable section, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

So long as the Notes are outstanding and the reports described above are not filed with the SEC, the Company will maintain a website (that may be password protected), which will required a confidentiality acknowledgement, and to which noteholders, prospective investors, broker-dealers and securities analysts are given access after agreeing to treat such information as confidential and to which all of the reports and press releases required by this "— Reporting" covenant are posted. The Company will hold a conference call for the Holders and securities analysts to discuss such financial information no later than 15 calendar days after filing the annual financial information described in clause (1) above and after filing the quarterly financial information described in clause (2) above. The Company will announce any such conference call at least three business days in advance and not more than ten business days after filing of the foregoing financial information.

In addition, to the extent not satisfied by the reports referred to in the first paragraph above, the Company shall furnish to Holders, prospective investors, broker-dealers and securities analysts, upon their request, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Securities Act.

Limitation on Guarantees by Restricted Subsidiaries

We will not permit any of our Restricted Subsidiaries, that is not either (i) a Guarantor or (ii) a Securitization Entity, to incur any Non-Funding Indebtedness (other than Preferred Stock) or Guarantee

the payment of any loan facilities or debt securities of the Company or any other Guarantor that are Non-Funding Indebtedness in each case unless:

- (1) such Restricted Subsidiary within 30 days executes and delivers a supplemental indenture to the Indenture providing for a senior Guarantee by such Restricted Subsidiary; *provided* that:
 - (a) if such Indebtedness is by its express terms subordinated in right of payment to the Notes or such Guarantor's Guarantee, any such Guarantee by such Restricted Subsidiary with respect to such Indebtedness shall be subordinated in right of payment to such Guarantee with respect to the Notes substantially to the same extent as such Indebtedness is subordinated to the Notes or such Guarantor's Guarantee of the Notes; and
 - (b) if the Notes or such Guarantor's Guarantee are subordinated in right of payment to such Indebtedness, the Guarantee under the supplemental indenture shall be subordinated to such Restricted Subsidiary's guarantee with respect to such Indebtedness substantially to the same extent as the Notes or the Guarantor's Guarantee are subordinated to such Indebtedness; and
- (2) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against us or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Guarantee until payment in full of all obligations under the Indenture; and
 - (3) such Restricted Subsidiary shall deliver to the Trustee an opinion of counsel stating that:
 - (a) such Guarantee has been duly executed and authorized; and
 - (b) such Guarantee constitutes a valid, binding and enforceable obligation of such Restricted Subsidiary, except insofar as enforcement thereof may be limited by bankruptcy, insolvency or similar laws (including, without limitation, all laws relating to fraudulent transfers) and except insofar as enforcement thereof is subject to general principals of equity;

provided that this covenant shall not be applicable to any guarantee of any Restricted Subsidiary that existed at the time such Person became a Restricted Subsidiary and was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

We may elect, in our sole discretion, to cause any Subsidiary that is not otherwise required to be a Guarantor to become a Guarantor, in which case, such Subsidiary shall only be required to comply with the 30-day period described above.

Any Guarantee will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the U.S. Bankruptcy Code or any comparable provision of foreign or state law to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee.

The Guarantee of a Guarantor will terminate upon:

- (1) a sale or other disposition (including by way of consolidation or merger) of the Capital Stock of such Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (other than to us or to a Restricted Subsidiary) otherwise permitted by the Indenture;
- (2) the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary or the occurrence of any event after which the Guarantor is no longer a Restricted Subsidiary;
- (3) defeasance or discharge of the Notes, as provided in "— Defeasance" and "— Satisfaction and Discharge";

- (4) to the extent that such Guarantor is not an Immaterial Subsidiary solely due to the operation of clause (i) of the definition of "Immaterial Subsidiary," upon the release of the guarantee referred to in such clause;
- (5) such Guarantor being released from all of its obligations under all of its Guarantees of payment by us of any of our Non-Funding Indebtedness under all loan facilities and our debt securities (it being understood that a release subject to reinstatement is considered a release); or
- (6) upon the achievement of Investment Grade Status by the Notes; *provided* that such Guarantee shall be reinstated upon the Reversion Date, if any.

Mergers and Consolidations

We may not consolidate with or merge into, or sell or lease our assets substantially as an entirety to, a Person unless:

- (1) the resulting corporation or the person that acquires or leases our assets (if not us) is a corporation organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, and such corporation (if not us) expressly assumes all our obligations under the Notes and all the covenants in the Indenture;
- (2) immediately after the transaction, no Event of Default or event that, after notice or lapse of time or both, would be an Event of Default, will have occurred and continue;
- (3) immediately after giving effect to such transaction, either (a) the Company would be able to Incur at least an additional \$1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "— Limitation on Indebtedness" or (b) the Consolidated Non-Funding Debt to Equity Ratio of the Company and its Restricted Subsidiaries would not be greater than it was immediately prior to giving effect to such transaction; and
- (4) the Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale or lease of our assets substantially as an entity and such supplemental indenture (if any) comply with the indenture and an Opinion of Counsel stating that such supplemental indenture (if any) has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company, *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clauses (2) and (3) above.

Suspension of Covenants on Achievement of Investment Grade Status

Following the first day on which:

- (a) the Notes have achieved Investment Grade Status; and
- (b) no Default or Event of Default has occurred and is continuing under the Indenture,

then, beginning on that day and continuing until the Reversion Date (as defined below), if any, the Company and our Restricted Subsidiaries will not be subject to the provisions of the Indenture summarized under the following headings (collectively, the "Suspended Covenants"):

- "- Limitation on Restricted Payments,"
- "- Limitation on Indebtedness."
- "- Limitation on Restrictions on Distributions from Restricted Subsidiaries,"
- "- Limitation on Affiliate Transactions."
- "- Limitation on Sales of Assets and Subsidiary Stock,"
- · "- Conduct of Business," and
- "- Limitation on Guarantees by Restricted Subsidiaries."

If at any time the Notes cease to have Investment Grade Status or if a Default or Event of Default occurs and is continuing, then the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended (the "Reversion Date") and be applicable pursuant to the terms of the Indenture, unless and until the Notes subsequently attain Investment Grade Status and no Default or Event of Default is in existence (in which event the Suspended Covenants shall no longer be in effect for such time that the Notes maintain an Investment Grade Status and no Default or Event of Default is in existence). The period of time between the date of suspension of the covenants and the Reversion Date is referred to as the "Suspension Period."

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be deemed to have been incurred pursuant to the first paragraph of "— Limitation on Indebtedness" or one of the clauses set forth in the second paragraph of "— Limitation on Indebtedness." To the extent such Indebtedness would not be so permitted to be incurred pursuant to the first and second paragraphs of "— Limitation on Indebtedness," such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (5)(b) of the second paragraph of "— Limitation on Indebtedness." On and after the Reversion Date, all Liens created during the Suspension Period will be considered Permitted Liens. Calculations made after the Reversion Date of the amount available to be made after the Reversion Date as Restricted Payments under "— Limitation on Restricted Payments" will be made as though the covenants described under "— Limitation on Restricted Payments" had been in effect since the Issue Date and throughout the Suspension Period. Accordingly, Restricted Payments made during the Suspension Period will reduce the amount available to be made after the Reversion Date as Restricted Payments under the first paragraph of "— Limitation on Restricted Payments." In addition, any future obligation to grant further Guarantees shall be released. All such further obligations to grant Guarantees shall be reinstated upon the Reversion Date.

There can be no assurance that the Notes will ever achieve or maintain Investment Grade Status.

Compliance Certificate

We must deliver to the Trustee, within 120 days after the end of each fiscal year, an Officers' Certificate as to the signer's knowledge of our compliance with all conditions and our covenants in the Indenture. The Officers' Certificate also must state whether or not the signer knows of any Default or Event of Default that occurred during the preceding fiscal year. If the signer knows of such a Default or Event of Default, the Officers' Certificate must describe the Default or Event of Default and the efforts to remedy it. For the purposes of this provision of the Indenture, compliance is determined without regard to any grace period or requirement of notice under the Indenture.

Events of Default; Notice and Waiver

The following will constitute "Events of Default" under the Indenture, subject to any additional limitations and qualifications included in the Indenture:

- (1) our failure to pay any interest on the Notes continuing for 30 days after it was due;
- (2) our failure to pay any principal or redemption price or repurchase price of the Notes when it is due;
- (3) our failure or the failure of a Principal Guarantor to fulfill an obligation to pay Indebtedness for borrowed money (other than any Non-Recourse Indebtedness incurred by us or a Principal Guarantor), which such failure shall have resulted in the acceleration of, or be a failure to pay at final maturity, Indebtedness aggregating more than \$30 million;
- (4) failure to comply with the indenture provisions under "— Mergers and Consolidation" and "— Change of Control Offer" for 30 days after written notice by the Trustee on behalf of the Holders or by the Holders of 25% in principal amount of the outstanding Notes;

- (5) failure to comply with other of the Issuers' agreements or obligations contained in the Indenture for 60 days after written notice by the Trustee on behalf of the Holders or by the Holders of 25% in principal amount of the outstanding Notes;
- (6) final judgments or orders are rendered against us or a Principal Guarantor which require the payment by us or a Principal Guarantor of an amount (to the extent not covered by insurance) in excess of \$30 million and such judgments or orders remain unstayed or unsatisfied for more than 60 days and are not being contested in good faith by appropriate proceedings; and
- (7) certain events of bankruptcy, insolvency or reorganization with respect to (i) the Issuers or (ii) any Principal Guarantor.

If an Event of Default (other than certain events of bankruptcy, insolvency or reorganization with respect to us or any Principal Guarantor) has occurred and is continuing, the Trustee or the Holders of not less than 25% in principal amount of the Notes then outstanding may declare the principal amount of the Notes then outstanding and interest, if any, accrued thereon to be due and payable immediately. However, if we cure all Defaults (except the nonpayment of the principal and interest due on any of the Notes that have become due by acceleration) and certain other conditions in the Indenture are met, with certain exceptions, such declaration may be annulled and past Defaults may be waived by the Holders of a majority of the principal amount of the Notes then outstanding as described below. In the case of certain events of bankruptcy, insolvency or reorganization with respect to us, the principal amount of the Notes will automatically become and be immediately due and payable.

Within 90 days after a Trust Officer (as defined in the Indenture) has knowledge of the occurrence of a Default or any Event of Default, the Trustee must mail to all Holders notice of all Defaults or Events of Default known to a Trust Officer, unless such Default or Event of Default is cured or waived before the giving of such notice. However, except in the case of a payment Default on any of the Notes, the Trustee will be protected in withholding such notice if and so long as it in good faith determines that the withholding of such notice is in the interest of the Holders.

The Holders of a majority in principal amount of outstanding Notes will have the right to direct the time, method and place of any proceedings for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee, subject to certain limitations specified in the Indenture.

The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any Holder of the Notes or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The Holders of a majority in principal amount of outstanding Notes may waive any past Defaults under the Indenture, except a Default relating to the non-payment of principal or interest (including additional interest, if any), a Default arising from our failure to redeem or repurchase any Notes when required pursuant to the terms of the Indenture or a Default in respect of any covenant that cannot be amended without the consent of each Holder affected thereby.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity or security reasonably satisfactory to it against any loss, liability or expense. No Holder of the Notes may pursue any remedy under the Indenture, except in the case of a Default due to the non-payment of principal or interest, including additional interest, if any, on the Notes, unless:

- the Holder has given the Trustee written notice of a Default;
- the Holders of at least 25% in principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

- the Trustee does not receive an inconsistent direction from the Holders of a majority in principal amount of outstanding Notes; and
- the Trustee fails to comply with the request within 60 days after receipt of the request and offer of indemnity.

To the extent any Holder or Holders request the Trustee to take any action, the Holder or Holders are required to offer to the Trustee indemnity or security reasonably satisfactory to it against any costs, liability or expense of the Trustee.

The Indenture will require us (i) every year to deliver to the Trustee a statement as to performance of our obligations under the Indenture and as to any Default, and (ii) to deliver to the Trustee prompt notice of any Default.

The Indenture provides that if an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs.

Payments of the redemption price, Change of Control repurchase price, principal and interest that are not made when due will accrue interest per annum at the then-applicable interest rate plus one percent from the required payment date.

Modifications of the Indenture

With the consent of the Holders of not less than a majority in principal amount of the Notes at the time outstanding, we and the Trustee may modify the Indenture or any supplemental indenture or the rights of the Holders of the Notes. However, without the consent of each Holder of Notes which is affected, we cannot, among other actions:

- · extend the stated maturity of any Note;
- reduce the rate or extend the time for the payment of interest on any Note;
- reduce the principal amount of any Note or the redemption price, or change the time at which or the circumstances under which the Notes may or must be redeemed;
- impair the right of a Holder to receive payment of principal of or interest on such Holder's Notes on or after the due dates of such Notes or to institute suit for the payment of any Note;
- · change the currency in which the Notes are payable; or
- · release any guarantor except as provided in the Indenture and described under "The Guarantees."

In addition, without the consent of the Holders of all of the Notes then outstanding, we cannot reduce the percentage of Notes the Holders of which are required to consent to any such amendment or to waive a Default or Event of Default as described under "Events of Default; Notice and Waiver".

We and the Trustee may modify the Indenture without notice to or the consent of any Holder in order to make certain minor changes that do not materially adversely affect the Holders of the Notes.

Defeasance

The Issuer at any time may, by taking the steps described below, terminate all obligations of the Issuer under the Notes and the indenture ("Legal Defeasance") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registrations of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust.

Also, the Issuer at any time may, by taking the steps described below, terminate its obligations under the covenants described under "- Certain Covenants" and "- Change of Control Offer" and the default

provisions relating to such covenants described under "— Events of Default; Notice and Waiver" above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy provisions with respect to the Issuer and the Principal Guarantors, the judgment default provision and the guarantee provision described under "— Events of Default; Notice and Waiver" above ("Covenant Defeasance").

We may, at our option, at any time exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If we exercise our covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3), (4), (5) or (6) under "— Events of Default; Notice and Waiver" above, but it may be accelerated if we fail to meet our payment obligations.

In order to exercise either defeasance option, we must irrevocably deposit in trust (the "Defeasance Trust") with the Trustee cash in dollars or U.S. Government Obligations or a combination thereof sufficient in the opinion of an independent firm of certified public accountants, for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

- (1) an opinion of counsel in the United States stating that Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such opinion of counsel must be based on a ruling of the U.S. Internal Revenue Service or change in applicable U.S. federal income tax law since the issuance of the Notes);
- (2) an Officer's certificate stating that the deposit was not made by the Company with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Company; and
- (3) an Officer's certificate and an opinion of counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with.

Notices

Except as otherwise provided in this "Description of Notes" or the Indenture, notices to Holders of the Notes will be given by mail to the addresses of Holders of the Notes as they appear in the Notes register; provided that notices given to Holders holding Notes in book-entry form may be given through the facilities of DTC or any successor depository.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator, stockholder or partner of the Company or any Guarantor, or any successor or any subsidiary of the foregoing, as such, will have any liability for any obligations of the Company under, or of any Guarantor with regard to, the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Unclaimed Money

If money deposited with the Trustee or paying agent for the payment of principal of, or premium, if any, or accrued and unpaid interest on, the Notes remains unclaimed for two years, the Trustee and paying agent will pay the money back to us upon our written request. However, the Trustee and paying agent have the right to withhold paying the money back to us until they publish, at our expense, in a newspaper of general circulation in the City of New York, or mail to each registered Holder, a notice stating that the

money will be paid back to us if unclaimed after a date no less than 30 days from the publication or mailing. After the Trustee or paying agent pays the money back to us, Holders of Notes entitled to the money must look to us for payment as general creditors, subject to applicable law, and all liability of the Trustee and the paying agent with respect to the money will cease.

Governing Law

The Notes and the Indenture, and any claim, controversy or dispute arising under or related to the Indenture or the Notes, will be governed by, and construed in accordance with, the laws of the State of New York (without regard to the conflicts of laws provisions thereof that would apply the laws of any other jurisdiction).

Form, Denomination, Exchange, Registration and Transfer

The Notes will be issued:

- · in fully registered form;
- · without interest coupons; and
- in denominations of \$1,000 principal amount and integral multiples of \$1,000.

If there are certificated Notes, Holders may present certificated Notes for registration of transfer and exchange at the office maintained by us for such purpose, which will initially be the Corporate Trust Office of the Trustee.

Global Notes

The Notes will be issued in the form of one or more global notes that will be deposited with the trustee as custodian for DTC ("DTC"). Holders will receive interests in the global notes. Interests in the global notes will be issued only in denominations of \$1,000 principal amount or integral multiples of that amount. Unless and until it is exchanged in whole or in part for securities in definitive form, a global note may not be transferred except as a whole to a nominee of DTC for such global note, or by a nominee of DTC to DTC or another nominee of DTC, or by DTC or any such nominee to a successor depositary or a nominee of such successor depositary.

Payment and Paying Agent

We will maintain an office or agent in the United States where we will pay the principal on the Notes, and a Holder may present Notes for conversion, registration of transfer or exchange for other denominations, which shall initially be an office or agency of the Trustee.

Payments on the Notes represented by the global notes will be made to DTC, or its nominee, as the case may be, as the registered owner of the global notes, in immediately available funds.

Concerning the Trustee

Wells Fargo Bank, National Association is the Trustee under the Indenture and will be appointed by us as the initial paying agent, registrar and custodian with regard to the Notes. We may maintain deposit accounts and conduct other banking transactions with the Trustee or its affiliates in the ordinary course of business. The Trustee and its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

Discharge of the Indenture

We may satisfy and discharge our obligations under the Indenture with respect to the Notes by:

- · delivering to the Trustee for cancellation all outstanding Notes; or
- depositing with the Trustee, after all outstanding Notes have become due and payable (or are by their terms to become due and payable within one year), whether at stated maturity, or otherwise,

cash and/or U.S. Government Obligations sufficient to pay all of the outstanding Notes and paying all other sums payable under the Indenture by us with respect to the Notes.

Upon the deposit of such funds with the Trustee, the Indenture will, with certain limited exceptions, cease to be of further effect with respect to the Notes. The rights that would continue following the deposit of those funds with the Trustee are:

- · the remaining rights of registration of transfer, substitution and exchange of the Notes;
- the rights of Holders under the Indenture to receive payments due with respect to the Notes and the other rights, duties and obligations of Holders, as beneficiaries with respect to the amounts, if any, that are deposited with the Trustee; and
- the rights, obligations and immunities of the Trustee under the Indenture.

Certain Definitions

The following are definitions of certain of the terms used in the Indenture.

"Acquired Indebtedness" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with us or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the effective date of the relevant merger, consolidation or other combination.

"Additional Assets" means:

- (1) any property or assets (other than Capital Stock) used or to be used by us or any of our Restricted Subsidiaries, or otherwise useful, in a Similar Business (it being understood that capital expenditures on property or assets already used in a Similar Business or to replace any property or assets that are the subject of an Asset Disposition shall be deemed an investment in Additional Assets);
- (2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by us or any of our Restricted Subsidiaries; or
- (3) Capital Stock constituting a minority interest in any Person that at such time is one of our Restricted Subsidiaries.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Asset Disposition" means:

- (a) the sale, conveyance, transfer or other disposition, whether in a single transaction or a series of related transactions, of property or assets (including by way of a sale and leaseback transaction) of the Company (other than Capital Stock of the Company) or any of our Restricted Subsidiaries, other than any Required Asset Sale (each referred to in this definition as a "disposition"); or
- (b) the issuance or sale of Capital Stock of any Restricted Subsidiary (other than Preferred Stock or Disqualified Stock of Restricted Subsidiaries issued in compliance with the covenant described

under "— Certain Covenants — Limitation on Indebtedness" or directors' qualifying shares and shares issued to foreign nationals as required under applicable law and other than any Required Asset Sale), whether in a single transaction or a series of related transactions;

in each case, other than:

- (1) a disposition by us or any of our Restricted Subsidiaries to us or any of our Restricted Subsidiaries;
 - (2) a disposition of cash, Cash Equivalents or Investment Grade Securities;
- (3) dispositions of assets in the course of a Similar Business, including dispositions of real estate and real estate related assets, as well as any dispositions by us or our Subsidiaries in the ordinary course of our respective investments and other business activities;
- (4) a disposition of obsolete, surplus or worn out equipment or other assets or equipment or other assets that are no longer useful in the conduct of our business or the business of any of our Restricted Subsidiaries;
- (5) transactions permitted under "— Certain Covenants Mergers and Consolidations" or a transaction that constitutes a Change of Control;
- (6) an issuance of Capital Stock by any of our Restricted Subsidiaries to us or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by an Officer or our Board of Directors;
- (7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as we determine in good faith) of less than \$15.0 million;
- (8) any Restricted Payment that is permitted to be made under the covenant described above under "— Certain Covenants Limitation on Restricted Payments" and the making of any Permitted Payment or Permitted Investment or, solely for purposes of clause (3) of the first paragraph under "— Certain Covenants Limitation on Sales of Assets and Subsidiary Stock," asset sales, the proceeds of which are used to make such Restricted Payments or Permitted Investments;
 - (9) dispositions in connection with Permitted Liens;
- (10) disposition of Investments or other assets and disposition or compromise of receivables, in each case, in connection with the compromise, workout, settlement or collection thereof or exercise of remedies with respect thereto, or in bankruptcy, foreclosure or similar proceedings, including foreclosure, repossession and disposition of collateral for loans serviced or originated by us or any of our Subsidiaries;
- (11) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business:
 - (12) foreclosure, condemnation or any similar action with respect to any property or other assets;
- (13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms and for credit management purposes) of accounts receivable, notes receivable or other assets that by their terms convert into cash in the ordinary course of business or the conversion or exchange of accounts receivable for notes receivable, the sale of advances, loans, customer receivables, mortgage related securities or other assets, in each case in the ordinary course of business;
- (14) any disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;
- (15) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than us or a Restricted Subsidiary) from whom such Restricted

Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

- (16) to the extent allowable under Section 1031 of the Code, any exchange of like property (excluding any boot thereon) for use in a Similar Business;
- (17) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (18) any sales, transfers, contributions or dispositions of Securitization Assets to Securitization Entities in connection with Securitizations in the ordinary course of business; or
- (19) transactions pursuant to repurchase agreements entered into in the ordinary course of business.

"Board of Directors" means the Board of Directors or any similar governing body of a Person.

"Capital Stock" of any Person means any and all shares of, rights to purchase, warrants, options or depositary receipts for, or other equivalents of, or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into equity.

"Cash Equivalents" means:

- (1) (a) United States dollars, euros, or any national currency of any member state of the European Union; or (b) any other foreign currency held by us or our Restricted Subsidiaries in the ordinary course of business;
- (2) securities issued or directly and fully Guaranteed or insured by the United States or Canadian governments, a member state of the European Union or, in each case, any agency or instrumentality thereof (provided that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;
- (3) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by any Lender or by any bank or trust company (a) whose commercial paper is rated at least "A-2" or the equivalent thereof by S&P or at least "P-2" or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of \$100.0 million;
- (4) repurchase obligations for underlying securities of the types described in clauses (2) and (3) entered into with any bank meeting the qualifications specified in clause (3) above;
- (5) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by S&P or "P-2" or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;
- (6) readily marketable direct obligations issued by any state of the United States of America, any province of Canada, any member of the European Union or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;
- (7) Indebtedness or Preferred Stock issued by Persons with a rating of "BBB-" or higher from S&P or "Baa3" or higher from Moody's (or, if at the time, neither is issuing comparable ratings, then a

comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;

- (8) bills of exchange issued in the United States, Canada, a member state of the European Union or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);
- (9) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (8) above; and
- (10) for purposes of clause (2) of the definition of "Asset Disposition," the marketable securities portfolio owned by us and our Subsidiaries on the Issue Date.

Notwithstanding the foregoing, Cash Equivalents shall include amounts denominated in currencies other than those set forth in clause (1) above, provided that such amounts are converted into any currency listed in clause (1) as promptly as practicable and in any event within 10 Business Days following the receipt of such amounts.'

"Change of Control" means: the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our assets and the assets of our Subsidiaries, taken as a whole, to any Person, other than to us or one of our Subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% in number of shares of our outstanding Voting Stock; (3) we consolidate with, or merge with or into, any Person, or any Person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding Voting Stock or the Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority in voting power of the Voting Stock of the surviving Person or any direct or indirect parent company of the surviving Person immediately after giving effect to such transaction; (4) the first day on which a majority of the members of our Board of Directors are not Continuing Directors; or (5) the adoption of a plan relating to our liquidation or dissolution.

Notwithstanding the foregoing, a transaction (or series of related transactions) will not be deemed to involve a Change of Control under clause (2) above if we become a direct or indirect wholly-owned subsidiary of a holding company and (B)(1) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of our Voting Stock immediately prior to that transaction or (2) the shares of our Voting Stock outstanding immediately prior to such transaction are converted into or exchanged for, a majority in voting power of the Voting Stock of such holding company immediately after giving effect to such transaction.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Ratings Event.

"Co-Issuer" means Rialto Corporation, a Delaware corporation, and any successor thereto.

"Consolidated Net Income" means, for any period, the net income (loss) attributable to the Company and our Restricted Subsidiaries determined on a consolidated basis on the basis of GAAP; provided, however, that there will not be included in such Consolidated Net Income:

(1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that the Company's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution or return on investment or could have been distributed, as reasonably determined by one of our Officers, subject, in the case of a

dividend or other distribution or return on investment (including distributions with regard to carried interests) to a Restricted Subsidiary, to the limitations contained in clause (2) below;

- (2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(ii)(A) of the first paragraph of the covenant described under "— Certain Covenants — Limitation on Restricted Payments," any net income (loss) of any Restricted Subsidiary (other than Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company or a Guarantor by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the indenture, and (c) restrictions specified in clause (14) of the second paragraph of the covenant described under "— Certain Covenants — Limitation on Restrictions on Distributions from Restricted Subsidiaries") except that the Company's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);
- (3) any net gain (or loss) realized upon the sale or other disposition of any disposed or discontinued operations of the Company or any Restricted Subsidiaries (excluding pursuant to any sale of real estate related assets) and related fees and expenses as well as any net income or loss from disposed or discontinued operations;
- (4) any extraordinary, exceptional, unusual or nonrecurring loss, charge or expense or any charges, expenses or reserves in respect of any restructuring, redundancy or severance expense; provided that distributions with regard to carried interests or similar contingent payment rights will not be deemed to be extraordinary, exceptional, unusual or non-recurring even if they are infrequent;
 - (5) the cumulative effect of a change in accounting principles;
- (6) any (i) non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions and (ii) income (loss) attributable to deferred compensation plans or trusts;
- (7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;
- (8) any unrealized losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value of changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations;
- (9) any unrealized foreign currency transaction losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;
- (10) any unrealized foreign currency translation or transaction losses in respect of Indebtedness or other obligations of the Company or any Restricted Subsidiary owing to the Company or any Restricted Subsidiary;
- (11) any purchase accounting effects including, but not limited to, adjustments to inventory, property and equipment, software and other intangible assets and deferred revenue in component amounts required or permitted by GAAP and related authoritative pronouncements (including the

effects of such adjustments pushed down to the Company and the Restricted Subsidiaries), as a result of any consummated acquisition, or the amortization or write-off of any amounts thereof (including any write-off of in process research and development);

- (12) any goodwill or other intangible asset amortization, impairment charge or write-off;
- (13) any after-tax effect of loss from the early extinguishment or cancellation of Indebtedness or Hedging Obligations or other derivative instruments;
- (14) any elimination of transactions between us or a Subsidiary and any entity of which we and our Subsidiaries do not own a majority in voting power of the equity, even if those transactions are eliminated in our consolidated financial statements prepared in accordance with GAAP;
- (15) the amount of any expense to the extent a corresponding amount is received in cash by us and our Restricted Subsidiaries from a Person other than us or any Restricted Subsidiaries under any agreement providing for reimbursement of any such expense, provided such reimbursement payment has not been included in determining Consolidated Net Income (it being understood that if the amounts received in cash under any such agreement in any period exceed the amount of expense in respect of such period, such excess amounts received may be carried forward and applied against expense in future periods);
- (16) any change in fair value of Permitted Funding Indebtedness or Investments or the amortization of Permitted Funding Indebtedness or the write-off of Investments pursuant to such Person's accounting policy;
- (17) any unrealized losses on investment assets whether or not recognized as such on the our financial statements;
- (18) any realized losses in respect of Hedging Obligations associated with specific assets owned by us as of the last day of the period for which Consolidated Net Income is being determined; and

An amount equal to the amount of tax distributions actually made to holders of the Capital Stock of such Person or any parent company of such Person in respect of such period in accordance with clause (10)(b) of the second paragraph under "— Certain Covenants — Limitation on Restricted Payments" shall be included as though such amount had been paid as income taxes directly by such Person for such period.

"Consolidated Non-Funding Debt" means, with respect to any Person as of any determination date, an amount equal to the sum of (1) the aggregate amount of all outstanding Indebtedness for borrowed money and obligations in respect of Capitalized Lease Obligations of such Person and its Restricted Subsidiaries on a consolidated basis, plus (2) the aggregate liquidation preference of Disqualified Stock of such Person and Disqualified Stock and Preferred Stock of its Restricted Subsidiaries, and less (3) Permitted Funding Indebtedness of such Person and its Restricted Subsidiaries on a consolidated basis.

"Consolidated Non-Funding Debt to Equity Ratio" means, with respect to any Person as of the last day of such Person's most recently completed fiscal quarter for which consolidated financial statements are available, the ratio of Consolidated Non-Funding Debt of such Person as of such determination date to the Consolidated Stockholders Equity of such Person as of such determination date. Except for purposes of the calculations described in clause (c)(ii)(A) under "— Certain Covenants — Limitation on Restricted Payments," in the event that the Company or any Restricted Subsidiary incurs, assumes, Guarantees, redeems, defeases, retires or extinguishes any Consolidated Non-Funding Debt (other than Consolidated Non-Funding Debt incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) or issues or redeems Disqualified Stock or Preferred Stock subsequent to the date of the most recent consolidated balance sheet for which the Consolidated Non-Funding Debt to Equity Ratio is being calculated but prior to or simultaneously with the event for which the calculation of the Consolidated Non-Funding Debt to Equity Ratio is made (the "Consolidated Non-Funding Debt to Equity Ratio Calculation Date"), then the Consolidated Non-Funding Debt to Equity Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee, redemption,

defeasance, retirement or extinguishment of Indebtedness, or such Issuance or redemption of Disqualified Stock or Preferred Stock as if the same had occurred prior to such determination date; provided, however, that the pro forma calculation shall not give effect to any Indebtedness incurred on such determination date pursuant to any Permitted Debt described under "— Certain Covenants — Limitation on Indebtedness." For purposes of making the computation referred to above, any Investments, acquisitions, dispositions, mergers, consolidations and disposed operations that have been made by us or any of our Restricted Subsidiaries on or prior to the Consolidated Non-Funding Debt to Equity Ratio Calculation Date shall be included in the calculation of that ratio on a pro forma basis assuming that all such Investments, acquisitions, dispositions, mergers, consolidations and disposed or discontinued operations had occurred prior to the Consolidated Non-Funding Debt to Equity Ratio Calculation Date.

For purposes of this definition, whenever pro forma effect is to be given to a transaction, the pro forma calculations shall be made in good faith by our principal financial or accounting officer.

"Consolidated Stockholders Equity" means, with respect to any Person as of the last day of such Person's most recently completed fiscal quarter for which consolidated financial statements are available, the stockholders', members', partners' or other form of equity holders' equity.

"Continuing Director" means, as of any date of determination, any member of our Board of Directors who (1) was a member of our Board of Directors on the first day on which any of the Notes were initially issued or (2) was nominated for election, elected or appointed to our Board of Directors with the approval of a majority of the Continuing Directors who were members of our Board of Directors at the time of the nomination, election or appointment (either by a specific vote or by approval of our proxy statement in which that member was named as a nominee of the Board of Directors for election as a director, without objection to the nomination).

"Credit Enhancement Agreements" means, collectively, any documents, instruments, guarantees or agreements entered into by us, any of our Restricted Subsidiaries or any Securitization Entity for the purpose of providing credit support (that is reasonably customary as we determine) with respect to any Permitted Funding Indebtedness or Permitted Securitization Indebtedness.

"Credit Facility" means, with respect to us or any of our Subsidiaries, one or more debt facilities, indentures or other arrangements (including commercial paper facilities and overdraft facilities) with banks, other financial institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit, repurchase agreements or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent or trademark security agreement, mortgage or letter of credit application and other Guarantees, pledges, agreements, security agreements and collateral documents); provided that this definition of "Credit Facility" does not include the Lennar Revolving Credit Agreement or any other Indebtedness in connection with the Lennar Revolving Credit Agreement. Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or quarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"Default" means any event which upon the giving of notice or the passage of time, or both, would be an Event of Default.

"Designated Non-Cash Consideration" means the fair market value (as we determine in good faith) of non-cash consideration received by us or any of our Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "— Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock."

"Disqualified Stock" means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

- (1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise; or
- (2) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case on or prior to the earlier of (a) the stated maturity of the Notes or (b) the date on which there are no Notes outstanding; provided, however, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under "— Certain Covenants — Limitation on Restricted Payments"; provided, however, that if such Capital Stock is issued to any plan for the benefit of our employees or the employees of any of our Subsidiaries or by any such plan to such employees, such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Company or our Subsidiaries in order to satisfy applicable statutory or regulatory obligations.

"Excluded Contribution" means Net Cash Proceeds or property or assets we receive as capital contributions to the equity (other than through the issuance of Disqualified Stock) of the Company after the Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by us or by any of our Subsidiaries for the benefit of our employees to the extent funded by us or any of our Restricted Subsidiaries) of Capital Stock (other than Disqualified Stock) of the Company, in each case, to the extent designated as an Excluded Contribution pursuant to an officer's certificate.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

- (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or
- (2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligations" means, with respect to any person, the obligations of such Person under any interest rate swap, cap or collar agreements, interest rate future or option contracts, commodity swap, cap or collar agreements, foreign exchange contracts, currency swap agreements, currency future or option contracts, credit-related derivatives and hedging instruments and other hedging agreements and transactions intended to hedge against financial risk.

"Holder" means a Person in whose name a Note is registered on the Registrar's books.

"Immaterial Subsidiary" means any Restricted Subsidiary that (i) has not guaranteed any other Indebtedness of the Company and (ii) has Total Assets together with all other Immaterial Subsidiaries and consolidated operating income of less than 3.0% of our Total Assets and consolidated operating income (measured, in the case of Total Assets, at the end of the most recent fiscal period for which internal financial statements are available and, in the case of operating income, for the four quarters ended most recently for which internal financial statements are available, in each case measured on a pro forma basis giving effect to any acquisitions or depositions of companies, divisions or lines of business since such balance sheet date or the start of such four quarter period, as applicable, and on or prior to the date of such acquisition or disposition).

"Indebtedness" means, with respect to us or any Subsidiary, and without duplication:

- (1) the principal of and premium, if any, and interest on, and fees, costs, enforcement expenses, collateral protection expenses and other reimbursement or indemnity obligations in respect to, all of our or any Subsidiary's Indebtedness or obligations to any Person, including but not limited to banks and other lending institutions, for money borrowed that is evidenced by a note, bond, debenture, loan agreement, or similar instrument or agreement (including purchase money obligations with original maturities in excess of one year and noncontingent reimbursement obligations in respect of amounts paid under letters of credit);
- (2) all our or any Subsidiary's reimbursement obligations and other liabilities (contingent or otherwise) with respect to outstanding letters of credit, bank guarantees or bankers' acceptances;
- (3) all obligations and liabilities (contingent or otherwise) in respect of our or any Subsidiary's leases required, in conformity with generally accepted accounting principles, to be accounted for as capital lease obligations on our balance sheet;
- (4) all our or any Subsidiary's obligations (contingent or otherwise) with respect to an interest rate or other swap, cap or collar agreement or other similar instrument or agreement or foreign currency hedge, exchange, purchase or similar instrument or agreement;
- (5) all direct or indirect guaranties or similar agreements by us or any Subsidiary in respect of, and our or such Subsidiary's obligations or liabilities (contingent or otherwise) to purchase or otherwise acquire, or otherwise assure a creditor against loss in respect of, Indebtedness, obligations or liabilities of another Person of the kind described in clauses (1) through (4);
- (6) any Indebtedness or other obligations, excluding any operating leases we are, or any Subsidiary is, currently (or may become) a party to, described in clauses (1) through (4) secured by any Lien existing on property which is owned or held by us or such Subsidiary, regardless of whether the Indebtedness or other obligation secured thereby shall have been assumed by us or such Subsidiary; and
- (7) any and all deferrals, renewals, extensions and refinancing of, or amendments, modifications or supplements to, any Indebtedness, obligation or liability of the kind described in clauses (1) through (6).

However, Indebtedness will not include (i) any indebtedness or other liabilities of any entity of which we and our Subsidiaries do not own a majority in voting power of the equity, even if the liabilities of that entity are included in the liabilities reflected on our consolidated financial statements that are prepared in accordance with GAAP, or (ii) "bad acts" or completion guarantees or similar arrangements.

"Intercompany Agreements" means the Support Services Agreement, the Lennar Revolving Credit Agreement and the Tax Reimbursement Agreement.

"Investment" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extension of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet of that Person, as a separate entity, prepared on the basis of GAAP; provided, however, that (x) endorsements of negotiable instruments and documents in the ordinary course of business, (y) accounts receivable, extensions of trade credit or advances by us and our Restricted Subsidiaries on commercially reasonable terms in accordance with our normal trade practices, as the case may be and (z) deposits made in the ordinary course of business and customary deposits into reserve accounts related to securitizations will not be deemed to be an Investment. If we or any of our Restricted Subsidiaries issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by us or by any of our Restricted Subsidiaries in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time.

For purposes of "- Certain Covenants - Limitation on Restricted Payments":

- (1) "Investment" will include the fair market value of the net assets of a Restricted Subsidiary that is designated as an Unrestricted Subsidiary at the time such Restricted Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, we will be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to (a) our "Investment" in such Subsidiary at the time of such redesignation less (b) the fair market value of the net assets of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and
- (2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by an Officer or by our Board of Directors.

"Investment Grade Securities" means:

- (1) securities issued or directly and fully guaranteed or insured by the governments of the United States or Canada or by a member of the European Union, or any agency or instrumentality thereof (other than Cash Equivalents);
- (2) debt securities or debt instruments with a rating of "A-" or higher from S&P or "A3" or higher by Moody's or the equivalent of such rating by such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other nationally recognized statistical ratings organization, but excluding any debt securities or instruments constituting loans or advances among us and our Subsidiaries; and
- (3) investments in any fund that invests exclusively in investments of the type described in clauses (1) and (2) above, which fund may also hold cash and Cash Equivalents pending investment or distribution.

"Investment Grade Status" shall occur when the Notes receive two of the following:

- (1) a rating of "BBB-" or higher from S&P;
- (2) a rating of "Baa3" or higher from Moody's; and
- (3) a rating of "BBB-" or higher from Fitch or the equivalent of such rating by either such rating organization or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

"Issuers" mean the Company and Rialto Corporation.

"Joint Venture" means, as to any Person, any other Person designated as a "joint venture" (1) that is not a Subsidiary of such Person, (2) in which such Person owns less than 100% of the equity or voting interests and (3) which Person is engaged in a Similar Business, including making Investments in real estate and real estate related assets.

"Lennar Revolving Credit Agreement" means a credit agreement to be entered into between us and Lennar on or prior to November 30, 2013 whereby Lennar agrees, subject to customary lending conditions, to advance to us on an unsecured revolving basis up to \$75 million, substantially consistent with the terms described in the offering memorandum.

"Lien" means any mortgage, pledge, lien, encumbrance, charge or security interest of any kind.

"Management Advances" means loans or advances made to, or Guarantees with respect to loans or advances made by third parties to any of our, a Parent's or a Restricted Subsidiary's directors, officers, employees or consultants:

- (1) (a) in respect of travel, entertainment or moving related expenses incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock (or similar obligations) of the Company, our Subsidiaries or any Parent with (in the case of this sub-clause (b)) the approval of an Officer or our Board of Directors;
- (2) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or
 - (3) not exceeding \$10.0 million in the aggregate outstanding at any time.

"Net Available Cash" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

- (1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses incurred, and all Taxes, and Related Taxes, paid or required to be paid or accrued as a liability under GAAP (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;
- (2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which by applicable law be repaid out of the proceeds from such Asset Disposition;
- (3) all distributions and other payments required to be made to minority interest holders (other than any Parent, us or any of our Subsidiaries) in Subsidiaries or Joint Ventures as a result of such Asset Disposition; and
- (4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of GAAP, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

"Non-Funding Indebtedness" means, Indebtedness other than Permitted Funding Indebtedness.

"Non-Recourse Indebtedness" means any of our Indebtedness or any Restricted Subsidiary's Indebtedness for which the holder of such Indebtedness has no recourse, directly or indirectly, to us or such

Restricted Subsidiary for the principal of, premium, if any, and interest on such Indebtedness, and for which we are not or such Restricted Subsidiary is not, directly or indirectly, obligated or otherwise liable for the principal of, premium, if any, and interest on such Indebtedness, except pursuant to mortgages, deeds of trust or other security interests or other recourse, obligations or liabilities, in respect of specific land or other real property interests of us or such Restricted Subsidiary securing such Indebtedness; provided, however, that recourse, obligations or liabilities solely for indemnities, or breaches of warranties or representations in respect of Indebtedness will not prevent that Indebtedness from being classified as Non-Recourse Indebtedness.

"Officer" means the Chief Executive Officer, President, Chief Financial Officer or any Vice President of the Company or a Restricted Subsidiary.

"Officers' Certificate" when used with respect to us means a certificate signed by two of our officers (as specified in the Indenture), each such certificate will comply with Section 314 of the TIA and include the statements required under the Indenture.

"Parent" means any Person of which we at any time are or become a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

"Parent Advances" means the aggregate amount of all sums advanced by Parent to or for the benefit of us or any of our Restricted Subsidiaries, including costs incurred by Parent to pay for goods or services rendered to us or our Restricted Subsidiaries.

"Parent Debt" means the \$135 million of amounts owing from the Company to Parent as of August 31, 2013, less any amounts repaid from time to time thereafter.

"Pari Passu Indebtedness" means our Non-Funding Indebtedness which ranks equally in right of payment to the Notes, or any Guarantee by a Restricted Subsidiary of Indebtedness of a Person other than us or a Restricted Subsidiary if such Guarantee ranks equally in right of payment to the Guarantees of the Notes.

"Paying Agent" means the office or agency designated by us where the Notes may be presented for payment.

"Permitted Funding Indebtedness" means (i) any Indebtedness (excluding Indebtedness under the Lennar Revolving Credit Agreement and Parent Debt) incurred in connection with the activities of a Similar Business, including Indebtedness to finance real estate and real estate related assets and Non-Recourse Indebtedness, Regions Bank Indebtedness, Indebtedness to a Parent to reimburse the Parent and any amounts owed under the Tax Reimbursement Agreement and the Support Services Agreement, as well as any Indebtedness incurred by the Issuer and its Subsidiaries in the ordinary course of their respective businesses, and (ii) any refinancing of the Indebtedness under clause (i), provided, however that the excess (determined as of the most recent date for which internal financial statements are available), if any, of (x) the amount of any Indebtedness incurred in accordance with this clause (ii) for which the holder thereof has contractual recourse to the Company or our Restricted Subsidiaries to satisfy claims with respect thereto over (y) the aggregate (without duplication of amounts) Realizable Value of the assets that secure such Indebtedness shall not be Permitted Funding Indebtedness (but shall not be deemed to be a new incurrence of Indebtedness subject to the provisions in the covenant described above under the caption "— Limitation on Indebtedness" except with respect to, and solely to the extent of, any such excess that exists upon the initial incurrence of such Indebtedness incurred under this clause (ii) which excess shall be entitled to be incurred pursuant to any other provision under the covenant described above under the caption "— Limitation on Indebtedness"). The amount of any Permitted Funding Indebtedness shall be determined in accordance with the definition of "Indebtedness."

"Permitted Holders" means, collectively, (1) any Person who beneficially owns more than 20% of the total voting power of the Voting Stock of the Company or any of our Parents as of the Issue Date, together with such Persons' Affiliates (other than an operating company with an existing business), (2) any one or

more Persons, together with such Persons' Affiliates, whose beneficial ownership constitutes or results in a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the indenture, (3) our senior management, (4) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent or the Company, acting in such capacity, and (5) any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing are members; provided that, in the case of such group and without giving effect to the existence of such group or any other group and members of management, collectively, have beneficial ownership of more than 50% of the total voting power of the Voting Stock of the Company or any of its Parents held by such group.

"Permitted Investment" means (in each case, by us or by any of our Restricted Subsidiaries):

- (1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Company or (b) a Person (including the Capital Stock of any such Person) that will, upon the making of such Investment, become a Restricted Subsidiary;
- (2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, us or a Restricted Subsidiary;
- (3) Investments in the course of a Similar Business, including investments in real estate and real estate related assets and investments in funds that invest primarily in real estate or real estate related assets, as well as any other Investments by us or our Subsidiaries in the ordinary course of our Similar Business activities:
 - (4) Investments in cash, Cash Equivalents or Investment Grade Securities;
- (5) Investments in receivables owing to us or any Restricted Subsidiary created or acquired in the ordinary course of business;
- (6) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
 - (7) Management Advances;
- (8) Investments received in settlement of debts created in the ordinary course of business and owing to us or any Restricted Subsidiary or in exchange for any other Investment or accounts receivable held by us or any such Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor or otherwise with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (9) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition;
- (10) Investments existing or pursuant to agreements or arrangements in effect on the Issue Date and any modifications, replacements, renewals or extensions thereof; provided that the amount of any such Investment may not be increased except (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the indenture;
- (11) Hedging Obligations, which transactions or obligations are incurred in compliance with "— Certain Covenants Limitation on Indebtedness";
- (12) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "— Certain Covenants Limitation on Liens":

- (13) any Investment to the extent made using Capital Stock of the Company (other than Disqualified Stock) or Capital Stock of any Parent as consideration;
- (14) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under "— Certain Covenants Limitation on Affiliate Transactions" (except those described in clauses (1), (9) and (12) of that paragraph);
- (15) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the Indenture;
- (16) (i) Guarantees not prohibited by the covenant described under "— Certain Covenants Limitation on Indebtedness" and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business, and (ii) performance guarantees with respect to obligations incurred by us or by any of our Restricted Subsidiaries that are permitted by the Indenture;
- (17) Investments consisting of earnest money deposits required in connection with purchase agreements, or letters of intent, or other acquisitions to the extent not otherwise prohibited by the Indenture:
- (18) Investments of a Restricted Subsidiary acquired after the Issue Date or of an entity merged into the Company or merged into or consolidated with a Restricted Subsidiary after the Issue Date to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation;
- (19) Investments consisting of licensing of intellectual property pursuant to joint marketing arrangements with other Persons;
- (20) contributions to a "rabbi" trust for the benefit of employees or other grantor trust subject to claims of creditors in the case of a bankruptcy of the Company;
 - (21) Investments in Joint Ventures;
- (22) Investments in Unrestricted Subsidiaries having an aggregate fair market value (in the case of Unrestricted Subsidiaries that are not party to a warehouse finance facility), when taken together with all other Investments made pursuant to this clause (22) that are at the time outstanding, not to exceed the greater of \$15.0 million and 1.5% of Total Assets at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value);
- (23) Investments by us or any Restricted Subsidiary in Securitization Entities or Investments in mortgage related securities or charge-off receivables in the ordinary course of business;
- (24) Investments arising out of purchases of all remaining outstanding asset-backed securities of any Securitization Entity for the purpose of relieving us or a Subsidiary of the administrative expense of servicing such Securitization Entity;
 - (25) Investments in connection with any Permitted Funding Indebtedness;
- (26) Investments by us or any Restricted Subsidiary in the form of loans extended to non-Affiliate borrowers in connection with any loan origination business of the Company or such Restricted Subsidiary in the ordinary course of business; and
- (27) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (27) that are at that time outstanding, not to exceed the greater of \$35.0 million and 3.5% of Total Assets (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value) plus the amount of any

distributions, dividends, payments or other returns in respect of such Investments (without duplication for purposes of the covenant described in the section entitled "— Certain Covenants — Limitation on Restricted Payments" of any amounts applied pursuant to clause (c)(i) of the first paragraph of such covenant); provided that if such Investment is in Capital Stock of a Person that subsequently becomes a Restricted Subsidiary, such Investment shall thereafter be deemed permitted under clause (1) or (2) above and shall not be included as having been made pursuant to this clause (27).

"Permitted Securitization Indebtedness" means Securitization Indebtedness; provided that (i) in connection with any Securitization, any other Permitted Funding Indebtedness used to finance the purchase, origination or pooling of any Receivables subject to such Securitization is repaid in connection with such Securitization to the extent of the net proceeds received by us and our Restricted Subsidiaries from the applicable Securitization Entity, and (ii) the excess (determined as of the most recent date for which internal financial statements are available), if any, of (x) the amount of any such Securitization Indebtedness for which the holder thereof has contractual recourse to us or our Restricted Subsidiaries to satisfy claims with respect to such Securitization Indebtedness (excluding recourse for matters such as fraud, misappropriation, breaches of representations and warranties and misapplication) over (y) the aggregate (without duplication of amounts) Realizable Value of the assets that secure such Securitization Indebtedness shall not be Permitted Securitization Indebtedness (but shall not be deemed to be a new incurrence of Indebtedness subject to the provisions in the covenant described above under the caption "— Certain Covenants — Limitation on Indebtedness" except with respect to, and solely to the extent of, any such excess that exists upon the initial incurrence of such Indebtedness which excess shall be entitled to be incurred pursuant to any other provisions in the covenant described above under the caption "- Certain Covenants — Limitation on Indebtedness.").

"Person" means any individual, corporation, limited liability company, partnership, joint venture, joint-stock company, trust, unincorporated organization or government or any government agency or political subdivision.

"Preferred Stock," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agency" means (1) each of Moody's and S&P and (2) if Moody's or S&P ceases to rate the Notes for reasons outside of the Company's control, a nationally recognized statistical rating organization within the meaning of Rule 436 under the Securities Act selected by us or any Parent as a replacement agency for Moody's or S&P, as the case may be.

"Ratings Event" means (i) within 60 days following the earlier of (x) a Change of Control or (y) the first public notice of the intention by us to affect a Change of Control, a downgrade by one or more gradations or withdrawal of the rating of the Notes by one or more Rating Agencies if the applicable Rating Agency shall have put forth a statement to the effect that such downgrade is attributable in whole or in part to the applicable Change of Control and (ii) the Notes do not have an Investment Grade Status from either Rating Agency.

"Realizable Value" of an asset means the lesser of (x) if applicable, the face value of such asset and (y) the market value of such asset as we determine in accordance with the agreement governing the applicable Permitted Funding Indebtedness, as the case may be, (or, if such agreement does not contain any related provision, as determined in good faith by our management); provided, however, that the realizable value of any asset described above which an unaffiliated third party has a binding contractual commitment to purchase from us or any of our Restricted Subsidiaries shall be the minimum price payable to us or such Restricted Subsidiary for such asset pursuant to such contractual commitment.

"Receivables" means loans and other mortgage-related receivables (excluding and net interest margin securities) purchased or originated by us or any of our Restricted Subsidiaries or otherwise arising in the ordinary course of business; provided, however, that for purposes of determining the amount of a Receivable at any time, such amount shall be determined in accordance with GAAP, consistently applied, as of the most recent practicable date.

"Refinancing Indebtedness" means Indebtedness that is incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the indenture or incurred in compliance with the indenture (other than intercompany Indebtedness) including Indebtedness of the Company or any of its Restricted Subsidiaries used to refinance Refinancing Indebtedness; provided, however, that:

- (1) the Refinancing Indebtedness has a Stated Maturity at the time such Refinancing Indebtedness is incurred that is the same as or greater than the Stated Maturity of the Indebtedness being refinanced or, if less, the Notes;
- (2) such Refinancing Indebtedness is incurred in an aggregate amount that is equal to or less than the sum of the aggregate amount then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness incurred to pay premiums (including tender premiums), defeasance costs, accrued interest and fees and expenses in connection therewith));
- (3) if the Indebtedness being refinanced constituted Subordinated Indebtedness, such Refinancing Indebtedness is subordinated to the Notes or the applicable Guarantee on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced; and
- (4) such Refinancing Indebtedness is incurred by the Company or by the Restricted Subsidiary of the Company that was the obligor on the Indebtedness being refunded, refinanced, replaced, exchanged, renewed, repaid, extended, defeased or discharged and is guaranteed only by Persons who were obligors on the Indebtedness being refunded, refinanced, replaced, exchanged, renewed, repaid, extended, defeased or discharged.

"Regions Bank Indebtedness" means any Indebtedness incurred under the Loan Agreement, dated as of September 30, 2010, by and among Rialto Regi, LLC and Regions Bank.

"Related Taxes" means:

- (1) any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding imposed on payments made by any Parent), required to be paid (provided such Taxes are in fact paid) by any Parent by virtue of its:
 - (a) our being organized or having Capital Stock outstanding (but not by virtue of Parent's owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Company or any of our Subsidiaries);
 - (b) being a holding company parent, directly or indirectly, of the Company or any of our Subsidiaries:
 - (c) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Company or any of our Subsidiaries; or
 - (d) having made any payment in respect to any of the items for which the Company is permitted to make payments to any Parent pursuant to "— Certain Covenants Limitation on Restricted Payments"; or
 - (2) for any taxable period of an Issuer, either
 - (a) if, for such period, such Issuer is a corporation for U.S. federal income tax purposes and for so long as such Issuer is a member of a group filing a consolidated, unitary or combined tax return with any Parent, any Taxes measured by income for which such Parent is liable, up to an

amount not to exceed the amount of any such Taxes that such Issuer and its Subsidiaries that are members of such group would have been required to pay on a separate group basis if such Issuer and such Subsidiaries had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of such Issuer and its Subsidiaries; or

(b) if, for such period (or portion thereof corresponding to a period used for computing estimated tax of a calendar year corporation), such Issuer is a partnership or disregarded entity for U.S. federal income tax purposes, payments made or accrued under the Tax Reimbursement Agreement.

"Required Asset Sale" means any Asset Sale that is a result of a repurchase right or obligation or a mandatory sale right or obligation related to Permitted Funding Indebtedness, which rights or obligations are either in existence on the Issue Date (or substantially similar in nature to such rights or obligations in existence on the Issue Date) or pursuant to the guidelines or regulations of a government-sponsored enterprise.

"Restricted Investment" means any Investment other than a Permitted Investment.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Securitization" means a public or private transfer, sale or financing of servicing advances, mortgage loans, installment contracts, other loans, accounts receivable, real estate assets, mortgage receivables and any other assets capable of being securitized (collectively, the "Securitization Assets") by which we or any of our Restricted Subsidiaries directly or indirectly includes Securitization Assets in a pool of Securitization Assets, including any such transaction involving the sale of specified servicing advances or mortgage loans to a Securitization Entity.

"Securitization Asset" has the meaning set forth in the definition of "Securitization."

"Securitization Entity" means (i) any Person (whether or not one of our Restricted Subsidiaries) established for the purpose of issuing asset-backed or mortgage-backed or mortgage pass-through securities of any kind (including collateralized mortgage obligations and net interest margin securities), (ii) any special purpose Subsidiary established for the purpose of selling, depositing or contributing Securitization Assets into a Person described in clause (i) or holding securities in any related Securitization Entity, regardless of whether such person is an issuer of securities and (iii) any special purpose Subsidiary of the Company formed exclusively for the purpose of satisfying the requirements of Credit Enhancement Agreements and regardless of whether such Subsidiary is an issuer of securities. As of the Issue Date, none of our Subsidiaries are Securitization Entities.

"Securitization Facility" means any of one or more securitization financing facilities as amended, supplemented, modified, extended, renewed, restated or refunded from time to time, pursuant to which we or any of our Restricted Subsidiaries sell Securitization Assets to either (a) Person that is not a Restricted Subsidiary or (b) a Securitization Entity that in turn sells Securitization Assets to a person that is not a Restricted Subsidiary.

"Securitization Fees" means distributions or payments made directly or by means of discounts with respect to any Securitization Asset or participation interest therein issued or sold in connection with, and other fees paid to a person that is not a Restricted Subsidiary in connection with, any Securitization.

"Securitization Indebtedness" means (i) Indebtedness of the Company or any of our Restricted Subsidiaries related to Securitizations treated as financings and (ii) any Indebtedness consisting of advances made to us or any of our Restricted Subsidiaries based upon securities issued by a Securitization Entity pursuant to a Securitization and acquired or retained by us or any of our Restricted Subsidiaries.

"Securitization Repurchase Obligation" means any obligation of a seller of Securitization Assets in a Securitization to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including, without limitation, as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, offset or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"Senior Management" means the chief executive officer, president, vice chairman, chief accounting officer, the chief financial officer or vice president of the Company and any individual performing similar functions.

"Similar Business" means (a) any businesses, services or activities engaged in by the Issuer or any of its Subsidiaries or any associates on the Issue Date and (b) any businesses, services and activities engaged in by the Issuer or any of its Subsidiaries or any associates that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions, expansions or developments of any thereof, including, but not limited to, making Investments in real estate and real estate related assets or in funds engaged in making such Investments, providing real estate related services, including brokerage, investment banking and loan servicing (including special servicing) services, and engaging in other activities relating to real estate finance.

"Stated Maturity" means, with respect to any security, the date specified in the agreement governing or certificate relating to such Indebtedness as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"Subordinated Indebtedness" means, with respect to any person, any Indebtedness (whether outstanding on the Issue Date or thereafter incurred) which is expressly subordinated in right of payment to the Notes pursuant to a written agreement.

"Subsidiary" means (a) a corporation or other entity of which a majority in voting power of the stock or other interests is owned by us, by a Subsidiary or by us and one or more Subsidiaries or (b) a partnership, of which we or any Subsidiary is the sole general partner and of which we or a Subsidiary owns at least 25% in value of the equity.

"Support Services Agreement" means the agreement between the Company and Lennar Corporation to be entered into on or prior to November 30, 2013, under which Lennar Corporation and its Affiliates will provide us with legal, administrative, financial and other technical support services, substantially consistent with the terms described in the offering memorandum.

"Tax Reimbursement Agreement" means the agreement between the Company and Lennar Corporation to be entered into on or prior to November 30, 2013, under which the Company agrees to pay Lennar Corporation, each time the Company would be required to pay Federal or state income taxes if it were a taxable corporation, the sum equal to the Federal or state income tax Holdings would have been required to pay if it and its subsidiaries were all taxable corporations, minus any Federal or state income taxes the Company or its subsidiaries actually pay.

"Taxes" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed by any government or other taxing authority.

"Total Assets" mean, as of any date, the total assets of the Company and our Restricted Subsidiaries on a consolidated basis, as shown on the most recent consolidated balance sheet of the Company and our Restricted Subsidiaries that is internally available, determined on a pro forma basis in a manner consistent with the pro forma basis contained in the definition of Consolidated Non-Funding Debt to Equity Ratio. Under no circumstances will Total Assets include assets of any entity of which we and our Subsidiaries do not own a majority in voting power of the equity, even if the assets of that entity are included in the assets reflected on our consolidated financial statements that are prepared in accordance with GAAP. As of the Issue Date, Total Assets equal \$973.5 million, as set forth on page 18 of this offering memorandum, under Non-GAAP Disclosure: Total Assets, as adjusted, as of August 31, 2013.

"Unrestricted Subsidiary" means any Subsidiary of the Company (a) that is a party to a repurchase obligation (i.e., repo) financing line or similar financing agreement that constitutes Permitted Funding

Indebtedness or Permitted Securitization Indebtedness and that limits or prohibits the ability of that subsidiary to guarantee indebtedness, or (b) that (i) is prohibited, in the reasonable judgment of Senior Management of the Company, from guaranteeing the Notes by any applicable law, regulation or contractual restrictions and, in the case of any such contractual restriction, in the reasonable judgment of Senior Management of the Company, the restriction cannot be removed through commercially reasonable efforts and (ii) incurs or would incur only indebtedness that is Permitted Funding Indebtedness or Permitted Securitization Indebtedness.

"U.S. Government Obligations" means direct obligations of, and obligations guaranteed by, the United States of America for the payment of which the full faith and credit of the United States of America is pledged.

"Voting Stock" of a Person means all classes of Capital Stock of such Person then outstanding and (1) if such Person is a corporation, is normally entitled to vote in the election of such corporation's Board of Directors duly authorized to act on behalf of such board or (2) if such Person is an entity other than a corporation, is normally entitled to vote in the election of the group or Person exercising the authority with respect to such Person generally vested in a Board of Directors.

BOOK-ENTRY, DELIVERY AND SETTLEMENT

We will issue the Notes in the form of one or more permanent global notes in definitive, fully registered, book-entry form. The global notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

DTC has advised us as follows:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under Section 17A of the Exchange Act.
- DTC holds securities for its participating organizations that its participants (collectively, the
 "participants") deposit with DTC and facilitates the settlement among participants of securities
 transactions, such as transfers and pledges, in deposited securities, through electronic computerized
 book-entry changes in participants' accounts, thereby eliminating the need for physical movement
 of securities certificates.
- Direct participants include securities brokers and dealers, trust companies, clearing corporations and other organizations.
- DTC is owned by a number of its direct participants and by the NYSE and the Financial Industry Regulatory Authority, Inc.
- Access to the DTC system is also available to others, such as securities brokers and dealers, banks
 and trust companies (collectively, the "indirect participants") that clear through or maintain a
 custodial relationship with a direct participant, either directly or indirectly.
- The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.
- Persons who are not participants may beneficially own securities held by or on behalf of DTC only through DTC's participants or DTC's indirect participants.

We are providing the following descriptions of the operations and procedures of DTC to the Holders solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by DTC from time to time. None of the Issuers, the initial purchasers or the Trustee takes any responsibility for these operations or procedures, and each Holder is urged to contact DTC or its participants directly to discuss these matters.

We expect that under procedures established by DTC:

- Upon deposit of the global notes with DTC or its custodian, DTC will credit on its internal system
 the accounts of direct participants designated by the initial purchasers with portions of the principal
 amounts of the global notes.
- Ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only
 through, records maintained by DTC or its nominee, with respect to interests of direct participants, and
 the records of direct and indirect participants, with respect to interests of persons other than participants.

Payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for those payments. The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Notice to Investors; Transfer Restrictions." In addition, transfers between participants in DTC will be effected in accordance with DTC's rules and, subject to such transfer restrictions, will be settled in immediately available funds.

The laws of some jurisdictions require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a global note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a global note to pledge or transfer those interests to persons or entities that do not participate in DTC's system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

As long as the Notes are represented by one or more global notes, DTC's nominee will be the Holder of the Notes and therefore will be the only entity that can exercise a right to repayment, repurchase or conversion of the Notes. Notice by participants or indirect participants or by owners of beneficial interests in a global note held through such participants or indirect participants of the exercise of the option to require purchase or conversion of beneficial interests in Notes represented by a global note must be transmitted to DTC in accordance with its procedures on a form required by DTC and provided to participants. In order to ensure that DTC's nominee will timely exercise a right to purchase or conversion with respect to a particular note, the beneficial owner of such note must instruct the broker or the participant or indirect participant through which it holds an interest in such note to notify DTC of its desire to exercise a right to purchase or conversion. Different firms have cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other participant or indirect participant through which it holds an interest in a note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to DTC. We will not be liable for any delay in delivery of notices of the exercise of the option to elect purchase or conversion.

Notes represented by a global note will be exchangeable for registered certificated securities with the same terms only if: (1) DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under the Exchange Act and a successor depositary is not appointed by us within 90 days; (2) we decide to discontinue use of the system of book-entry transfer through DTC (or any successor depositary); or (3) an Event of Default under the Indenture occurs and is continuing. Any such registered certificated securities must bear the applicable legend referred to in "Notice to Investors; Transfer Restrictions."

Neither we nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC or for maintaining, supervising or reviewing any records of DTC relating to the Notes.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

Important Notice:

The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States federal or State and local tax penalties, and was written to support the offering of the Notes. Each purchaser of Notes should seek advice based on that purchaser's particular circumstances from an independent tax advisor.

The following summary describes certain United States federal income tax consequences to you of purchasing, owning, and disposing of the Notes. This summary is based on the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), legislative history, administrative pronouncements and practices of the Internal Revenue Service ("IRS"), judicial decisions and final, temporary and proposed Treasury regulations. Future changes, legislation, Treasury regulations, administrative interpretations and practices and court decisions may adversely affect, perhaps retroactively, the tax consequences described in this discussion. We can provide no assurance that the tax consequences described in this discussion will not be challenged by the IRS or will be sustained by a court if challenged by the IRS.

This summary assumes that, except where otherwise specifically noted, you will acquire Notes on original issue at the issue price (the first price at which a substantial amount of the Notes is sold by the initial purchasers for money to investors) and will hold them as capital assets. It is expected, and this summary assumes, that the Notes will be issued at a price that does not result in original issue discount for U.S. federal income tax purposes. It does not address all the tax consequences that may be relevant to you in light of your particular circumstances. State, local and non-U.S. income tax laws may differ substantially from the corresponding United States federal income tax laws, and this discussion does not purport to describe any aspect of the tax laws of any state, local or non-U.S. jurisdiction. This summary also does not address any aspects of U.S. federal estate and gift taxes. In addition, this summary does not address the tax consequences relevant to persons who receive special treatment under the United States federal income tax law including, without limitation:

- financial institutions, banks, and thrifts;
- · insurance companies;
- · tax-exempt organizations;
- · regulated investment companies and real estate investment trusts;
- · certain U.S. expatriates;
- · dealers in securities or currencies;
- · persons holding Notes as a hedge against currency risks or as a position in a straddle;
- persons subject to the alternative minimum tax; and
- persons whose functional currency is not the United States dollar.

United States federal income tax treatment of a Note held by an entity that is classified as a partnership for United States federal income tax purposes will depend on the activities of the entity and the status of the members or partners of the entity. Members or partners of an entity classified as a partnership for United States federal income tax purposes should consult their own tax advisors regarding the United States federal income tax consequences to them of the acquisition, ownership, and disposition by such entity of the Notes.

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership, and disposition of the Notes arising under the federal estate or gift tax rules, under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

As used in this section, the term "U.S. holder" means the beneficial owner of a Note that is for United States federal income tax purposes either:

- a citizen or resident of the United States;
- a corporation, including an entity treated as a corporation, created or organized in or under the laws
 of the United States or any state of the United States or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust whose administration is subject to the primary supervision of a United States court and which
 has one or more United States persons who have the authority to control all substantial decisions of
 the trust, or that has made a valid election to be treated as a United States person.

If you are the beneficial owner of a Note, are not a partnership for U.S. federal income tax purposes and are not a U.S. holder, you are a "non-U.S. holder."

Contingent Payments

We may be required to pay amounts in excess of the stated interest and principal payable on the Notes to some or all of the holders of the Notes under certain circumstances. See "Description of Notes — Certain Covenants — Reporting," "Description of Notes — Change of Control Offer," and "Description of Notes — Redemption at our Option." Under the Treasury Regulations regarding contingent payment debt instruments, any payment subject to a remote or incidental contingency (for instance, where there is a remote likelihood that the payment will be required or the potential amount of the payment is insignificant relative to the remaining payments on the debt instrument) is not considered a contingent payment and is ignored for purposes of computing original issue discount accruals. We have been informed that Lennar, as the deemed issuer of the Notes for U.S. federal income tax purposes, intends to take the position that the Notes should not be treated as contingent payment debt instruments because of these payments. This position is binding on all holders unless the holder of a Note discloses its different position in a statement attached to its United States Federal income tax return for the taxable year during which the Note was acquired.

U.S. Holders

Taxation of Interest

A U.S. holder generally will include in gross income payments of stated interest received or accrued on a Note, in accordance with its usual method of accounting for U.S. federal income tax purposes as ordinary interest income from sources within the United States.

Sale or Exchange of Notes

A U.S. holder generally will recognize gain or loss upon the sale or exchange of a Note equal to the difference between the amount realized upon the sale or exchange and the U.S. holder's adjusted basis in the Note. Generally, any gain or loss will be capital gain or loss. For these purposes, the amount realized does not include any amount attributable to accrued but unpaid interest.

Medicare Tax

Beginning in 2013, a new 3.8% Medicare contribution tax on net investment income, including taxable interest, dividends and capital gains, is imposed on U.S. individuals whose income exceeds a specified level, as well as on certain estates and trusts. Generally, the tax is levied on the lesser of net investment income for the year or the excess of "modified adjusted gross income" over \$200,000 for individuals, \$250,000 for couples filing jointly, and \$125,000 for spouses filing separately; the tax generally is imposed on certain estates and trusts on the lesser of their "undistributed net investment income" or the excess of such estate or trust's adjusted gross income over the dollar amount at which the highest tax bracket begins

for the tax year. U.S. holders that may be subject to this tax should consult their own tax advisors regarding the effect, if any, of that tax on their ownership and disposition of Notes.

Backup Withholding and Information Reporting

We will, where required, report to the U.S. holders of Notes and the IRS the amount of any interest paid on the Notes in each calendar year and the amounts of tax withheld, if any, from those payments. A U.S. holder of a Note may be subject to backup withholding tax with respect to payments made on the Notes as well as proceeds from the disposition of Notes unless the holder:

- is a corporation or comes within other exempt categories and, when required, demonstrates this
 fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

Amounts paid as backup withholding do not constitute an additional tax and will be credited against the U.S. holder's United States federal income tax liabilities, so long as the required information is timely provided to the IRS. A U.S. holder of Notes who does not provide the payor with his or her correct taxpayer identification number may be subject to penalties imposed by the IRS.

Non-U.S. Holders

Taxation of Interest

Interest received or accrued on the Notes by a non-U.S. holder will not be subject to United States federal income taxes or withholding tax if that interest is not effectively connected with the conduct of a trade or business within the United States by the non-U.S. holder and such non-U.S. holder:

- does not actually or constructively own 10% or more of the total combined voting power of Lennar's outstanding stock;
- is not a "controlled foreign corporation" with respect to which Lennar is, directly or indirectly, a "related person";
- is not a bank receiving interest described in section 881(c)(3)(A) of the Internal Revenue Code; and
- · appropriately certifies as to its foreign status.

A non-U.S. holder can generally meet this certification requirement by providing a properly executed Form W-8BEN (or successor form) or appropriate substitute form to us or our paying agent. If the non-U.S. holder holds the Notes through a financial institution or other agent acting on the holder's behalf, the holder may be required to provide appropriate documentation to the agent. The holder's agent will then generally be required to provide appropriate certifications to us or our paying agent, either directly or through other intermediaries. Special certification rules apply to foreign estates and trusts, and in certain circumstances certifications as to foreign status of trust owners or beneficiaries may have to be provided to us or our paying agent.

If a non-U.S. holder does not qualify for an exemption under these rules, interest income will be subject to withholding tax at the rate of 30% at the time the interest is paid, unless the holder provides us or our paying agent, as applicable, with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding due to the benefit of an applicable tax treaty, or IRS Form W-8ECI (or successor form) stating that interest paid on the Note is not subject to withholding tax because it is effectively connected with the holder's United States trade or business. If a non-U.S. holder is engaged in a trade or business in the United States and interest on a Note is effectively connected with the conduct of that trade or business and, if an income treaty applies, you maintain a "permanent establishment" in the United States to which the income is attributable, the holder will be subject to United States federal income tax on a net income basis at the rates applicable to United States persons generally. In addition, if a non-U.S. holder is a foreign corporation and the payment of interest is effectively connected with the holder's United States trade or business, the holder may be subject to a 30% branch profits tax.

Sales or Exchanges of Notes

Subject to the discussion of backup withholding and FATCA (as defined below), a non-U.S. holder generally will not be subject to United States federal income tax on any amount which constitutes capital gain upon retirement or disposition of a Note, unless either of the following is true:

- The holder's investment in the Note is effectively connected with a United States trade or business; or
- The holder is a nonresident alien individual holding the Note as a capital asset and is present in the United States for 183 or more days in the taxable year within which the sale, redemption or other disposition takes place and certain other conditions exist.

If the holder has a United States trade or business and the investment in the Notes is effectively connected with such United States trade or business and, if an income treaty applies, the holder maintains a "permanent establishment" in the United States to which the income is attributable, the payment of the sale proceeds with respect to the Notes would be subject to United States federal income tax on a net basis at the rate applicable to United States persons generally. In addition, a foreign corporation may be subject to a 30% branch profits tax if the foreign corporation's investment in a Note is effectively connected with its United States trade or business. An individual non-U.S. holder who is subject to U.S. federal income tax because the non-U.S. holder was present in the United States for 183 days or more during the year of sale, redemption or other disposition of the Notes will be subject to a flat 30% tax on the gain derived from that sale, redemption or other disposition, which gain may be offset by any U.S. source capital losses the non-U.S. holder may have.

Additional Withholding Requirements on Payments Made to Foreign Accounts

Pursuant to Sections 1471 through 1474 of the Internal Revenue Code (provisions which are commonly referred to as "FATCA"), Treasury Regulations thereunder, and administrative guidance, issuers of certain debt instruments and their agents, as applicable, will be required to withhold 30% of any interest paid on or after July 1, 2014 and of the gross proceeds from the sale of the Notes paid on or after January 1, 2017, to (i) a foreign financial institution (whether such foreign financial institution is the beneficial owner or an intermediary) unless such institution enters into an agreement with the United States government to collect and report to the United States government, on an annual basis, information with respect to its U.S. accountholders and meets certain other specified requirements (or, in certain circumstances, complies with similar reporting requirements of the non-U.S. government in the jurisdiction in which it is organized or located under an intergovernmental agreement between such non-U.S. government and the United States government) or (ii) a non-financial foreign entity (whether such non-financial foreign entity is the beneficial owner or an intermediary) unless such entity certifies that it does not have any "substantial United States owners" or provides certain information regarding the entity's "substantial United States owners" and such entity meets certain other specified requirements. FATCA generally will apply to all withholdable payments without regard to whether the beneficial owner of the payment is a U.S. person or would otherwise be entitled to an exemption from imposition of withholding tax pursuant to an applicable tax treaty with the United States or U.S. domestic law. However, according to recent administrative guidance released on July 12, 2013, FATCA will not apply to interest on or gross proceeds from the disposition of, debt instruments that have an issue date prior to July 1, 2014, unless such debt instruments are materially modified on or after that date and certain other conditions are met. Thus, FATCA should not apply to the Notes issued pursuant to this Offering Memorandum in 2013 unless the terms of the Notes are materially modified on or after July 1, 2014. You are urged to consult your own tax advisors regarding the possible implications of FATCA, and whether it may be relevant to your acquisition, ownership, and disposition of the Notes.

Backup Withholding and Information Reporting

We will generally file information returns with the IRS with respect to payments we make with regard to the Notes. However, backup withholding or information reporting generally will not be required with respect to interest on a Note paid to a non-U.S. holder if the beneficial owner of the Note provides a statement described above in "Non-U.S. holders — Taxation of Interest" or the non- U.S. holder is an exempt recipient and, in each case, the payor does not have actual knowledge that the beneficial owner is a United States person.

Information reporting requirements and, depending on the circumstances, backup withholding tax will apply to any payment of the proceeds of the sale of a Note effected within the United States or conducted through certain U.S. related financial intermediaries, unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person as defined in the Internal Revenue Code), or the beneficial owner otherwise establishes its right to an exemption.

If you are a non-U.S. holder of Notes, you should consult your tax advisor regarding the application of information reporting and backup withholding in your particular situation, the availability of an exemption from information reporting and backup withholding, and the procedure for obtaining the exemption, if available. Any amounts withheld from payments to you under the backup withholding rules should be allowed as a refund or a credit against your United States federal income tax liability, provided that the required information is timely furnished to the IRS.

THE SUMMARY ABOVE IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO INVESTORS WITH RESPECT TO THEIR ACQUISITION, OWNERSHIP OR DISPOSITION OF NOTES, AND INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN THEIR PARTICULAR CIRCUMSTANCES.

CERTAIN ERISA CONSIDERATIONS

The following summary regarding certain aspects of the United States Employee Retirement Income Security Act of 1974, as amended, or "ERISA," and the Code is based on ERISA, the Code, judicial decisions and United States Department of Labor and IRS regulations and rulings that are in existence on the date of this offering memorandum. This summary is general in nature and does not address every issue pertaining to ERISA that may be applicable to us, the notes or a particular investor. Accordingly, each prospective investor, including plan fiduciaries, should consult with his, her or its own advisors or counsel with respect to the advisability of an investment in the Notes, and potentially adverse consequences of such investment, including, without limitation, certain ERISA-related issues that affect or may affect the investor with respect to this investment and the possible effects of changes in the applicable laws.

General Fiduciary Matters

ERISA imposes certain requirements on employee benefit plans subject to Title I of ERISA and on entities that are deemed to hold the "plan assets" of such plans within the meaning of 29 C.F.R. Section 2510.3-103 as modified by Section 3(42) or ERISA or otherwise (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. Non-U.S. plans, U.S. governmental plans and certain U.S. church plans, while not subject to the fiduciary responsibility provisions of Section 406 of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code (as discussed below), may nevertheless be subject to non-U.S., state, local or other federal laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code ("Similar Law"). Prior to purchasing any Notes, fiduciaries of ERISA Plans should evaluate whether the acquisition and holding of the Notes is prudent and in the interests of the ERISA Plan, considering, among other things, the role that the Notes would play in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, the risk and return factors associated with the investment, the composition of the ERISA Plan's total investment portfolio with regard to diversification, the liquidity and current return of the ERISA Plan's portfolio relative to its anticipated cash flow needs, and the projected return of the ERISA Plan's portfolio relative to its objectives. If the investor is an employee benefit plan that is not subject to ERISA, the Investor (including persons responsible for the decision to purchase and acquire the Notes) should consider whether the acquisition and holding of the Notes meets all requirements of, and is consistent with and within the limits of, any Similar Law and other federal, state, local, foreign or other laws or regulations applicable to the Investor and its investments. Fiduciaries of ERISA Plans or other plan investors should consult with their counsel before purchasing any Notes to determine the suitability of the notes for such plan and the need for, and the availability, if necessary, of any exemptive relief under any such laws or regulations.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Certain affiliates of the Issuer provide or may provide services to Plans. Therefore, it is possible that the Issuer could be considered a "party in interest" and a "disqualified person" with respect to a Plan. To the extent that a Plan engages in a prohibited transaction for which no exemption is available, the fiduciary that caused the Plan to engage in the transaction may be subject to liability. Additionally, the disqualified person involved in the prohibited transaction may be subject to excise taxes under the Code.

Any Plan fiduciary which proposes to cause a Plan to purchase the Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of

ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding of any Notes is in accordance with the documents and instruments governing the Plan and will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA or Section 4975 of the Code.

The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve a prohibited transaction, including, without limitation, (i) the direct or indirect extension of credit between a Plan and a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Purchase and/or holding of the Notes by a Plan with respect to which the Issuers or initial purchasers, among others, are or become a party in interest or disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, unless the notes are acquired and held in accordance with an applicable exemption.

Certain exemptions from the prohibited transaction rules of Section 406 of ERISA and Section 4975 of the Code could be applicable to the purchase and holding of notes by a Plan, depending on the type and circumstances of the fiduciary making the decision to acquire such notes and the relationship of the party in interest or disqualified person to the Plan. Included among these exemptions are

Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Plan and certain service providers to the Plan. In addition, the U.S. Department of Labor (the "DOL") has issued certain administrative prohibited transaction exemptions that may apply to the purchase and holding of notes, including Prohibited Transaction Class Exemption ("PTCE") 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) and PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the "Class Exemptions").

Each of these exemptions contains conditions and limitations on its application, and there can be no assurance that any Class Exemption or any other exemption will be available with respect to any particular transaction involving the notes. Fiduciaries of Plans should consult with their counsel regarding the availability of any exemption before purchasing any Notes.

Consultation with Counsel

The foregoing discussion is general in nature and is not intended to be comprehensive; by its offer of the Notes, the Issuers do not make any representation that purchase or holding of such Notes meets the relevant legal requirements with respect to any particular investor. The complexity of these rules, and the severity of potential penalties, make it particularly important that fiduciaries or other persons considering an acquisition of Notes on behalf of or with the plan assets of any Plan, or plan subject to Similar Law, consult with its counsel regarding the suitability of an acquisition of the Notes in light of such prospective purchaser's particular circumstances.

Deemed Representation

By its acceptance of any Note or any interest therein, the purchaser thereof will be deemed to have represented, warranted and covenanted that, throughout the period that it holds such Note or an interest therein, either:

- (1) No assets of a Plan or non-U.S., governmental or church plan have been used to acquire such Note or an interest therein; or
- (2) the acquisition and holding of such Note or an interest therein by such person does not and will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or any violation of Similar Law.

PLAN OF DISTRIBUTION

Wells Fargo Securities, LLC, J.P. Morgan Securities LLC and Deutsche Bank Securities Inc. are acting as joint book-running managers of the offering. Goldman, Sachs & Co. is acting as a co-manager of the offering. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, the initial purchasers have agreed to purchase, and we have agreed to sell to the initial purchasers, the principal amount of the Notes set forth in the purchase agreement.

The purchase agreement provides that the obligations of the initial purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The initial purchasers have agreed to purchase all of the Notes if any of the Notes are purchased.

We have been advised that the initial purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act, which are also "qualified purchasers" for purposes of the Investment Company Act. See "Notice to Investors; Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice. The initial purchasers may offer and sell notes through certain of their affiliates.

The Notes and the guarantees have not been registered under the Securities Act and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Notice to Investors; Transfer Restrictions."

The initial purchasers intend to comply with all applicable laws and regulations in each jurisdiction in which they acquire, offer, sell or deliver Notes or have in their possession or distribute the offering memorandum or any other material.

The Notes will constitute a new class of securities with no established trading market. We cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and may discontinue any market-making activities with respect to the Notes at any time without notice and may be limited during the exchange offer or the pendency of any shelf registration statement relating to Notes. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you as to the liquidity of the trading market for the Notes.

In connection with the offering, the initial purchasers may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Overallotment involves sales of Notes in excess of the principal amount of Notes to be purchased by the initial purchasers in this offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

We and the guarantors have agreed that we will not, without the prior written consent of Wells Fargo Securities, LLC, during the period beginning from the date of this offering memorandum and continuing until the date that is 90 days after the date of this offering memorandum, offer, sell, contract to sell or otherwise dispose of, except as provided hereunder, any securities of the Company that are substantially similar to the Notes.

The initial purchasers and their affiliates have performed investment banking, commercial banking, dealer and advisory services for us or our affiliates (including Lennar) from time to time, for which they have received customary fees and expenses. The initial purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us or our affiliates in the ordinary course of their respective businesses. Among other things, affiliates of certain of the initial purchasers may participate in credit agreements or other lending or credit arrangements with the Company. An affiliate of Wells Fargo Securities LLC is the lender under one of our \$250 million warehouse facilities, and an affiliate of Goldman, Sachs & Co. is the lender under the other of our \$250 million warehouse facilities. It is anticipated that one or more affiliates of the initial purchasers will be lenders under additional warehouse facilities. An affiliate of Wells Fargo Securities LLC will be the trustee under the indenture related to the notes.

If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive; (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each Initial Purchaser has represented and agreed that:

(a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not

offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuers;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us or the Guarantors; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the notes will not be listed on the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

NOTICE TO INVESTORS; TRANSFER RESTRICTIONS

Purchasers of the notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the notes, because the following restrictions will apply.

The notes have not been registered under the Securities Act, any state securities laws or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and such other securities laws. The Company has not registered as an "investment company" under the Investment Company Act and presently conducts its operations so that it is not required to register under the Investment Company Act. Section 3(c)(7) of the Investment Company Act excludes from the definition of an "investment company" an issuer (i) whose outstanding securities are owned exclusively by persons who, at the time of acquisition of such securities, are reasonably believed by the issuer to be Qualified Purchasers, and (ii) which is not making and does not at that time propose to make a public offering of such securities. Qualified Purchaser is defined to mean (i) any natural person (including any person who holds a joint, community property, or other similar shared ownership interest in an issuer that is excepted under Section 3(c)(7) with that person's Qualified Purchaser spouse) who owns not less than \$5,000,000 in investments; (ii) any company that owns not less than \$5,000,000 in investments and that is owned directly or indirectly by or for two or more natural persons who are related as siblings or spouse (including former spouses), or direct lineal descendants by birth or adoption, spouses of such persons, the estates of such persons, or foundations, charitable organizations, or trusts established by or for the benefit of such persons, (iii) any trust that is not covered by clause (ii) and that was not formed for the specific purpose of acquiring the securities offered, as to which the trustee or other person authorized to make decisions with respect to the trust, and each settlor or other person who has contributed assets to the trust, is a person described in clauses (i), (ii) or the following clause (iv), or (iv) any person, acting for its own account or the accounts of other Qualified Purchasers, who in the aggregate owns and invests on a discretionary basis, not less than \$25,000,000 in investments. We will seek to establish "reasonable belief" for purposes of Section 3(c)(7) based upon (a) the representations and warranties deemed made by each purchaser of the notes, by its acceptance thereof, as set forth herein and (b) the conditions for transfer set forth in paragraph (6) below. Accordingly, the notes are being offered and sold only to qualified institutional buyers ("QIBs") within the meaning of Rule 144A that are Qualified Purchasers as defined in Section 2(a)(51) of the Investment Company Act.

Representations of Purchasers

Each purchaser of notes (including any transferee), by its acceptance thereof, will be deemed to have acknowledged, represented and warranted to, and agreed with, the initial purchasers and us as follows:

(1) It understands and acknowledges that the notes have not been and will not be registered under the

Securities Act or any other applicable securities laws, are being offered for resale in transactions not requiring registration under the Securities Act or any other applicable securities laws, including resales pursuant to Rule 144A, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities laws or pursuant to an exemption therefrom and, in each case, in compliance with the conditions for transfer set forth in paragraph (6) below.

- (2) It is not our "affiliate" (as defined in Rule 144 under the Securities Act ("Rule 144")) and it is not acting on our behalf.
- (3) It is a Qualified Purchaser and a QIB that is aware that any sale of notes to it will be made in reliance on Rule 144A and such acquisition will be for its own account or for the account of another QIB that is a Qualified Purchaser; provided, however, that in either case, it is, (a) not a broker-dealer which owns and invests on a discretionary basis less than \$25,000,000 in securities of issuers that are

not affiliated persons of the dealer and (b) not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan.

- (4) It: (i) understands and acknowledges that the Company will not register under the 1940 Act and therefore it will not be afforded the protections provided to investors in registered investment companies under the Investment Company Act, (ii) was not formed for the purpose of investing in the notes unless each of its beneficial owners is a QIB and a Qualified Purchaser, (iii) for each account for which it is purchasing (the beneficial owners of which are each a QIB and a Qualified Purchaser), is holding and transferring at least the minimum denomination of the notes, (iv) is aware and understands that we may receive, upon our request, a list of participants holding interests in the Notes from one or more book-entry depositories and (v) is able to and will provide notice of the transfer restrictions to subsequent transferees.
- (5) It acknowledges that neither we nor the initial purchasers, nor any person representing us or the initial purchasers, has made any representations to it with respect to us or the offer or sale of any notes, other than in this offering memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the notes. Accordingly, it acknowledges that neither we nor the initial purchasers makes any representation or warranty as to the accuracy or completeness of any materials other than this offering memorandum. It also acknowledges that it has had access to such financial and other information concerning us and the notes as it has deemed necessary in connection with its decision to purchase the notes, including an opportunity to ask questions of and request information from the initial purchasers and us.
- (6) It is purchasing the notes for its own account or the account of another QIB that is a Qualified Purchaser, or for one or more investor accounts (the beneficial owners of which are each a QIB and a Qualified Purchaser) for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state or other securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act or in any transaction not subject to the Securities Act. It agrees on its own behalf and on behalf of any investor account for which it is purchasing notes, and each subsequent holder of the notes, by its acceptance thereof will agree, to offer, sell or otherwise transfer such notes, in at least the minimum denomination of the notes, prior to the expiration of the applicable holding period with respect to restricted securities set forth in Rule 144 only (a) to us or any of our subsidiaries, (b) for so long as the notes are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to which notice is given that the transfer is being made in reliance on Rule 144A, or (c) pursuant to any other available exemption from the registration requirements of the Securities Act, in each of the foregoing cases to a Qualified Purchaser, and subject, in each of the foregoing cases, to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and, in each case, in compliance with applicable securities laws of any U.S. state or any other applicable jurisdiction. Each purchaser will, and each subsequent holder of notes is required to, notify any subsequent purchaser of notes from it of the resale restrictions set forth in this paragraph (6). We make no representation as to the availability of the exemption provided by Rule 144 for resale of the notes.

The foregoing restrictions on resale will not apply subsequent to the expiration of the applicable holding period with respect to restricted securities set forth in Rule 144 except that any subsequent offer, sale or other transfer must be made to a Qualified Purchaser. Prior to the expiration of such holding period, each purchaser acknowledges that we and the trustee, as the case may be, reserve the right with respect to any offer, sale or other transfer pursuant to clause (6)(c) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee, as the case may be. Each purchaser acknowledges that each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS, OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES THEREUNDER AND A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) THAT IS (i) NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER, (ii) NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (A)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY BENEFICIARIES OF THE PLAN AND (iii) ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER SUCH QUALIFIED INSTITUTIONAL BUYER THAT IS A QUALIFIED PURCHASER, AND (2) AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE EXPIRATION OF THE APPLICABLE HOLDING PERIOD WITH RESPECT TO RESTRICTED SECURITIES SET FORTH IN RULE 144 UNDER THE SECURITIES ACT ONLY (A) TO THE ISSUERS OR ANY SUBSIDIARY THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (C) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE, ONLY TO A QUALIFIED PURCHASER AND SUBJECT TO THE ISSUERS' AND THE TRUSTEE'S OR REGISTRAR'S, AS APPLICABLE, RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C), TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE OR REGISTRAR.

THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE, TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A SECURITY (OR ANY INTEREST THEREIN) THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, BY NOTICE TO SUCH BENEFICIAL OWNER, THAT SUCH BENEFICIAL OWNER SELL ALL OF ITS RIGHTS, TITLE AND INTEREST TO SUCH SECURITY (OR INTEREST THEREIN) TO A PERSON THAT IS A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON DIRECTION FROM EITHER OF US, THE TRUSTEE UNDER THE INDENTURE, ON BEHALF OF US AND AT OUR EXPENSE, SHALL CAUSE SUCH BENEFICIAL OWNER'S INTEREST IN SUCH

SECURITY TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY EITHER OF US (CONDUCTED BY THE TRUSTEE UNDER THE INDENTURE IN ACCORDANCE WITH SECTION 9-610(B) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON TO WHOM SUCH SECURITY (OR INTEREST THEREIN) MAY BE TRANSFERRED IN ACCORDANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE INDENTURE AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH SECURITY HELD BY SUCH BENEFICIAL OWNER.

THE INITIAL PURCHASERS AND EACH SUBSEQUENT TRANSFEREE OF THIS SECURITY OR ANY BENEFICIAL INTERESTS HEREIN WILL BE DEEMED TO REPRESENT THAT IT AGREES TO COMPLY WITH THE TRANSFER RESTRICTIONS AND MINIMUM DENOMINATION TERMS SET FORTH HEREIN AND WILL NOT TRANSFER THE NOTES OR ANY BENEFICIAL INTERESTS HEREIN EXCEPT TO A TRANSFEREE WHO CAN MAKE THE SAME REPRESENTATIONS AND AGREEMENTS, INCLUDING AS TO MINIMUM DENOMINATIONS, ON BEHALF OF ITSELF AND EACH ACCOUNT FOR WHICH IT IS PURCHASING. TO THE FULLEST EXTENT PERMITTED BY LAW, ANY TRANSFER OF THE NOTES, OR BENEFICIAL INTEREST IN THE NOTES, IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT AND WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS.

- (7) It understands and acknowledges that the indenture governing the notes provides that if, notwithstanding the restrictions on transfer contained therein, we determine that any beneficial owner of a note (or any interest therein) is not a QIB and a Qualified Purchaser, then we may require, by notice to such beneficial owner, that such beneficial owner sell all of its rights, title and interest to such note (or interest therein) to a person that is a QIB and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (x) upon direction from either of us, the trustee under the indenture governing the notes, on behalf of us and at our expense, shall cause such beneficial owner's interest in such note to be transferred in a commercially reasonable sale arranged by either of us (conducted by the trustee under the indenture governing the notes in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the indenture governing the notes and (y) pending such transfer, no further payments will be made in respect of such note held by such beneficial owner.
- (8) It acknowledges that we, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that, if any acknowledgements, representations, warranties and agreements deemed to have been made by it are no longer accurate, it shall promptly notify the initial purchasers. If it is acquiring any of the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations, warranties and agreements on behalf of each such account.
- (9) Either (i) it is not acquiring or holding such note or an interest therein with the assets of (A) an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is subject to Part 4 of Subtitle B of Title I of ERISA, (B) a "plan" to which Section 4975 of the Code applies, (C) any entity whose underlying assets include "plan assets" of any of the foregoing by reason of an employee benefit plan's or plan's investment in such entity or (D) a governmental plan (as described in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA and that has not made an election under Section 410(d) of the Code) or a non-U.S. plan subject to such provisions that are similar to such provisions of ERISA or the Code that govern its investment in the notes (collectively, "Similar Laws"); or (ii) the acquisition and holding of such note by it, throughout the period that it holds such note and

the disposition of such note or an interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any provisions of any applicable Similar Laws.

- (10) It confirms that neither we nor the initial purchasers, nor any person acting on our or the initial purchasers' behalf, has offered to sell the notes by, and that it has not been made aware of the offering of the notes by, any form of general solicitation or general advertising, including but not limited to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio.
- (11) It acknowledges that the trustee will not be required to accept for registration of transfer any note acquired by it, except upon presentation of evidence satisfactory to us and the trustee that the restrictions set forth in this notice section have been complied with.
- (12) It agrees that it will give to each person to whom it transfers notes notice of any restrictions on transfer of such Notes.

LEGAL MATTERS

K&L Gates LLP, New York, New York, will pass upon the validity of the Notes offered by this offering memorandum. Willkie Farr & Gallagher LLP, New York, New York, will pass upon certain legal matters in connection with the Notes offered by this offering memorandum for the initial purchasers.

INDEPENDENT AUDITORS

The consolidated financial statements of Rialto Holdings, LLC and its subsidiaries, as of and for the years ended November 30, 2012 and 2011 included in this offering memorandum have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report which appears herein.

AVAILABLE INFORMATION

We are not currently subject to the information requirements of Section 13(a) or 15(d) of the Exchange Act.

You should rely only upon the information provided in this offering memorandum. We have not authorized anyone to provide you with different information. You should not assume that the information in this offering memorandum is accurate as of any date other than the date of this offering memorandum.

This offering memorandum contains summaries of certain agreements that we will enter into in connection with this offering, such as the Indenture. The descriptions contained in this offering memorandum of these agreements do not purport to be complete and are subject to, or qualified in their entirety by reference to, the definitive agreements. Copies of the definitive agreements may be obtained upon request without charge from the Company at 790 Northwest 107th Avenue, Miami, Florida 33172. Our telephone number at that address is (305) 485-2077. Our website is www.rialtocapital.com. Information contained on our website is not incorporated by reference into this offering memorandum.



INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements F-2 F-3 Consolidated Statements of Operations for the years ended November 30, 2012 and 2011 F-4 Consolidated Statements of Equity for the years ended November 30, 2012 and 2011 F-5 Consolidated Statements of Cash Flows for the years ended November 30, 2012 and 2011 F-6 F-8 Unaudited Consolidated Financial Statements F-30 Consolidated Statements of Operations for the three and nine months ended August 31, 2013 and 2012 Consolidated Statements of Equity for the nine months ended August 31, 2013 and the year ended Consolidated Statements of Cash Flows for the nine months ended August 31, 2013 and 2012 F-33

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To The Stockholder of Rialto Holdings, LLC Miami, Florida

We have audited the accompanying consolidated balance sheets of Rialto Holdings, LLC and subsidiaries (the "Company") as of November 30, 2012 and 2011, and the related consolidated statements of operations, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

June 4, 2013

CONSOLIDATED BALANCE SHEETS AS OF NOVEMBER 30, 2012 AND 2011

	2012	2011
	(in thousands)	
ASSETS		
Cash	\$ 105,310	\$ 83,938
Defeasance cash to retire notes payable	223,813	219,386
Loans receivable — net	436,535	713,354
Real estate owned — held-and-used — net	601,022	582,111
Real estate owned — held-for-sale	134,161	143,677
Investments in unconsolidated entities	108,140	124,712
Investments held-to-maturity	15,012	14,096
Other assets — net	23,367	15,874
TOTAL ASSETS	\$1,647,360	\$1,897,148
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	\$ 1,958	\$ 5,843
Accrued expenses and other liabilities	24,164	24,736
Deferred income tax liability — net	22,180	11,473
Due to Parent	526,129	592,191
Notes payable	574,480	765,541
Total liabilities	1,148,911	1,399,784
PARENT'S EQUITY	53,163	37,695
NONCONTROLLING INTERESTS	445,286	459,669
Total equity	498,449	497,364
TOTAL LIABILITIES AND EQUITY	\$1,647,360	\$1,897,148

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

,	2012	2011
	(in thousands)	
REVENUE: Interest income Management fees Rental income	\$103,913 34,943 16,476	\$153,186 11,557 7,185
Total revenue	155,332	171,928
EXPENSES: General and administrative expense Servicing expense REO expense (income) Provision for loan losses Interest expense Amortization of debt issuance costs Depreciation expense	53,730 46,598 46,256 27,966 5,943 4,565 188	43,463 63,972 (27,283) 13,815 6,553 4,565 215
Total expenses	185,246	105,300
EQUITY IN EARNINGS (LOSS) FROM UNCONSOLIDATED ENTITIES	41,483	(7,914)
GAIN ON SALE OF INVESTMENTS HELD-TO-MATURITY	_	4,743
NET EARNINGS (INCLUDING NET (LOSS) EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS) LESS: NET (LOSS) EARNINGS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	11,569 (14,383)	63,457 28,930
NET EARNINGS ATTRIBUTABLE TO RIALTO BEFORE PROVISION FOR		
INCOME TAXES	25,952	34,527
PROVISION FOR INCOME TAXES	10,484	11,811
NET EARNINGS ATTRIBUTABLE TO RIALTO	\$ 15,468	\$ 22,716

CONSOLIDATED STATEMENTS OF EQUITY FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

	2012	2011
	(in thousands)	
PARENT'S EQUITY:		
Beginning balance — December 1	\$ 37,695	\$ 14,979
Net earnings attributable to Rialto	15,468	22,716
Ending balance — November 30	53,163	37,695
NONCONTROLLING INTERESTS:		
Beginning balance — December 1	459,669	430,739
Net (loss) earnings attributable to non-controlling interests	(14,383)	28,930
Ending balance — November 30	445,286	459,669
TOTAL EQUITY	\$498,449	\$497,364

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

	2012	2011
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings attributable to Rialto	\$ 15,468	\$ 22,716
Adjustment to reconcile net earnings attributable to Rialto to net cash used in		
operating activities:		
Amortization of debt issuance costs	4,565	4,565
Depreciation expense	6,988	2,628
Losses (gains) on loan foreclosure	1,878	(78,936)
Gains on sale of real estate owned	(21,649)	(6,035)
Equity in (earnings) loss from unconsolidated entities	(41,483)	7,914
Impairment on real estate owned	9,282	8,157
Deferred income tax provision	10,707	2,134
Provision for loan losses	27,966	13,815
Distributions of earnings from unconsolidated entities	18,399	5,298
Non-controlling interest (earnings) loss	(14,383)	28,930
Accretion of discount on investments held-to-maturity	(916)	(942)
Gain on sale of investments held-to-maturity	_	(4,743)
Changes in operating assets and liabilities:		
Loans receivable	(19,775)	(36,299)
Accounts payable	(3,927)	3,542
Other assets	(12,242)	(4,120)
Accrued expenses and other liabilities	(530)	7,147
Net cash used in operating activities	(19,652)	(24,229)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property plant and equipment	_	(174)
Receipts of principal payments on loans receivable	81,648	74,888
Proceeds from sales of real estate owned	183,883	91,034
Proceeds from sale of investments held-to-maturity	_	11,127
Improvements to real estate owned	(13,945)	(20,623)
Distributions of capital from unconsolidated entities	83,368	14,063
Investments in unconsolidated entities	(43,555)	(64,360)
Increase in defeasance cash to retire notes payable	(4,427)	(118,077)
Net cash provided by (used in) investing activities	286,972	(12,122)
CASH FLOWS FROM FINANCING ACTIVITIES:		
	(E / 797)	44.076
Increase (decrease) in due to Parent	(54,727)	44,276
Repayment of borrowings	(191,221)	(399)
Net cash (used in) provided by financing activities	(245,948)	43,877
NET INCREASE IN CASH	21,372	7,526
CASH — Beginning of year	83,938	76,412
CASH — End of year	\$ 105,310	\$ 83,938

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

	2012	2011
	(in thousands)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest on notes payable	\$ 5,943	\$ 6,553
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Real estate owned acquired through loan foreclosure	\$183,911	\$467,662
Transfer of REO assets to Parent	\$ 11,335	\$ 3,926
Reductions in loans receivable from deficiency settlements	\$ 3,068	\$ 5,274
Notes payable and other liabilities assumed from deficiency settlement $\ \dots$	\$ 194	\$ 16,152

(Concluded)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Rialto Holdings, LLC, consists of the legal entities Rialto Investments, LLC (formerly Lennar Distressed Investments, LLC) and its subsidiaries and Rialto Capital Management, LLC and its subsidiaries (collectively, "Rialto" or the "Company"). The Company is operated as a single separate business segment of Lennar Corporation ("Lennar" or the "Parent"). Rialto focuses on real estate investments and asset management. Rialto utilizes its vertically integrated investment and operating platform to underwrite, diligence, acquire, manage, workout and add value to diverse portfolios of real estate loans, properties and securities, as well as providing strategic real estate capital. Rialto's primary focus is to manage third party capital and has invested in or commenced the workout and/or oversight of billions of dollars of real estate assets across the United States, including commercial and residential real estate loans and properties, as well as mortgage backed securities with the objective of generating superior, risk-adjusted returns. To date, many of the Company's investment and management opportunities have arisen from the dislocation in the United States real estate markets and the restructuring and recapitalization of those markets.

In February 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the Federal Deposit Insurance Corporation ("FDIC"). The FDIC retained 60% equity interests in the LLCs. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Company acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans ("FDIC Portfolios"). The FDIC retained 60% equity interests in the LLCs and provided \$626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs (see Note 9).

The LLCs met the accounting definition of a variable interest entity ("VIE") and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. At November 30, 2012, these consolidated LLCs had total combined assets and liabilities of \$1.2 billion and \$0.5 billion, respectively. At November 30, 2011, these consolidated LLCs had total combined assets and liabilities of \$1.4 billion and \$0.7 billion, respectively.

In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions of which \$33.0 million of principal amount was retired in 2012 (see Note 9).

In addition to the acquisition and management of the FDIC and Bank portfolios, a subsidiary of the Company was a sub-advisor to the AllianceBernstein L.P. ("AB") fund formed under the Federal government's Public-Private Investment Program ("PPIP") to purchase real estate related securities from banks and other financial institutions. The sub-advisor received management fees for sub-advisory services. The fund had total equity commitments of approximately \$1.2 billion made by private investors in this fund, and the U.S. Treasury had committed to a matching amount of approximately \$1.2 billion of equity in the fund, as well as agreed to extend up to approximately \$2.3 billion of debt financing. See Note 7 for further information.

Rialto is also the sponsor of and an investor in private equity vehicles that invest in and manage real estate related assets. This has included Rialto Real Estate Fund, LP ("Fund I") in which investors have committed a total of \$700 million of equity. In addition, subsequent to November 30, 2012, Rialto Real Estate Fund II, LP ("Fund II") had its first closing of investor commitments of \$260 million. Rialto also earns fees for its role as a manager of these vehicles and for providing asset management and other services to those vehicles and other third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

In 2010, the Company invested in approximately \$43 million of non-investment grade commercial mortgage backed securities ("CMBS") for \$19.4 million, representing a 55% discount to par value. See Note 7 for further information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting principles and practices used in the preparation of the consolidated financial statements are as follows:

Basis of Presentation — The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying consolidated financial statements include the accounts of the Company and all of their subsidiaries. All intercompany transactions and balances have been eliminated.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires the Company's 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 amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include expected cash flows on distressed loans, allowances for loan losses, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. Actual results could differ from those estimates.

 $Defeasance\ Cash$ — The Company has established a defeasance account for the benefit of the FDIC. These funds are restricted and are distributed pursuant to a priority of payments. See Note 3.

Loans Receivable — Revenue Recognition and Impairment — All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) for which it was deemed probable that the Company would be unable to collect all contractually required principal and interest payments were accounted under Accounting Standards Codification (ASC) Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, (ASC 310-30). For loans accounted for under ASC 310-30, management determined upon acquisition the loan's value based on due diligence on each of the loans, the underlying properties, and the borrowers. The Company determined fair value by discounting the cash flows expected to be collected adjusted for factors that a market participant would consider when determining fair value. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral, and current discount rates.

Under ASC 310-30, loans were pooled together according to common risk characteristics. A pool is then accounted for as a single asset with a single component interest rate and an aggregate expectation of cash flows. The excess of the cash flows expected to be collected from the loans receivable at acquisition over the initial investment for those loans receivable is referred to as the accretable yield and is recognized as interest income over the expected life of the pools using the effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's consolidated balance sheets. Changes in the expected cash flows of loans receivable from the date of acquisition will either impact the accretable yield or result in a charge to the provision for loan losses in the period in which the changes become probable. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference is not affected. Subsequent significant decreases to the expected cash flows will generally result in a charge to the provision for loan losses, resulting in an increase to the allowance for loan losses, and a reclassification from accretable yield to nonaccretable difference. Subsequent probable and significant increases in cash flows will result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

Amounts related to the ASC 310-30 loans are estimates and may change as the Company obtains additional information related to the respective loans and the inherent uncertainty associated with estimating the amount and timing of the expected cash flows associated with distressed residential and commercial real estate loans. The timing and amount of expected cash flows and related accretable yield can also be impacted by disposal of loans, loan payoffs or expected foreclosures, which result in removal of the loans from the pools. Since the cash flows are based on projections, they are subjective and can change due to unexpected changes in economic conditions and loan performance.

Nonaccrual Loans — Revenue Recognition and Impairment — For loans in which forecasted principal and interest could not be reasonably estimated at the loan acquisition date, management classified these loans as nonaccrual and accounts for these assets in accordance with ASC 310-10, Receivables, (ASC 310-10). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate, the loans obtainable market price, or the fair value of the collateral less estimated costs to sell.

Deficiency Interest Income — Deficiency recoveries from foreclosed loans is a component of the Company's operations. Upon receipt of consideration from a deficiency settlement, the Company determines the fair value of the net assets received and records interest income. During the years ended November 30, 2012 and 2011, the Company recorded \$20.1 million and \$22.6 million, respectively, in deficiency interest income.

Variable Interest Entity — In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the FDIC. The Company determined that each of the LLCs met the definition of a VIE and that the Company was the primary beneficiary. In accordance with ASC 810-10-65-2, Consolidations, ("ASC 810-10-65-2"), the Company identified the activities that most significantly impact the LLCs' economic performance and determined that it has the power to direct those activities. The economic performance of the LLCs is most significantly impacted by the performance of the LLCs' portfolios of assets, which consisted primarily of distressed residential and commercial mortgage loans. Thus, the activities that most significantly impact the LLCs' economic performance are the servicing and disposition of mortgage loans and real estate obtained through foreclosure of loans, restructuring of loans, or other planned activities associated with the monetizing of loans.

The FDIC does not have the unilateral power to terminate the Company's role in managing the LLCs and servicing the loan portfolio. While the FDIC has the right to prevent certain types of transactions (i.e., bulk sales, selling assets with recourse back to the selling entity, selling assets with representations and warranties and financing the sales of assets without the FDIC's approval), the FDIC does not have full voting or blocking rights over the LLCs' activities, making their voting rights protective in nature, not substantive participating voting rights. Other than as described in the preceding sentence, which are not the primary activities of the LLCs, the Company can cause the LLCs to enter into both the disposition and restructuring of loans without any involvement of the FDIC. Additionally, the FDIC has no voting rights with regard to the operation/management of the operating properties that are acquired upon foreclosure of loans (e.g. REO) and no voting rights over the business plans of the LLCs. The FDIC can make suggestions regarding the business plans, but the Company can decide not to follow the FDIC's suggestions and not to incorporate them in the business plans. Since the FDIC's voting rights are protective in nature and not substantive participating voting rights, the Company has the power to direct the activities that most significantly impact the LLCs' economic performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

In accordance with ASC 810-10-65-2, the Company determined that it had an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs or the right to receive benefits from the LLCs that could potentially be significant to the LLCs based on the following factors:

- Rialto/Lennar owns 40% of the equity of the LLCs. The LLCs have issued notes to the FDIC totaling \$626.9 million. The notes issued by the LLCs must be repaid before any distributions can be made with regard to the equity. Accordingly, the equity of the LLCs has the obligation to absorb losses of the LLCs up to the amount of the notes issued.
- Rialto/Lennar has a management/servicer contract under which the Company earns a 0.5% servicing fee.
- Rialto/Lennar has guaranteed, as the servicer, its obligations under the servicing agreement up to \$10 million.

The Company is aware that the FDIC, as the owner of 60% of the equity of each of the LLCs, may also have an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs. However, in accordance with ASC Topic 810-10-25-38A, only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE.

Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company consolidated the LLCs.

During 2011, the Company acquired an equity interests in several joint ventures as part of a deficiency settlement. Management determined that each of the joint ventures met the definition of a VIE. In accordance with ASC 810-10-65-2, *Consolidations*, (ASC 810-10-65-2), management identified the activities that most significantly impact the joint ventures' economic performance and determined whether it has the power to direct those activities in the joint venture. The activities that most significantly impact the joint ventures' economic performance is the servicing and maintenance of the entity's underlying asset, which consists of commercial real estate. Although the Company has no obligation to provide financial support to any of its VIE's and has only its equity investment at risk, the Company has determined it has the right to direct the activities and to potentially receive significant benefits from one of the joint venture entities due to its majority ownership and equity position in the entity. Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company has consolidated the joint venture in its financial statements.

Real Estate Owned — Real estate owned (REO) represents real estate which the Company has taken control or has effective control of in partial or full satisfaction of loans receivable. At the time of acquisition through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held for sale and at fair value if classified as held and used, which becomes the property's new basis. The fair values of these assets are determined in part by placing reliance on third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity. The third-party appraisals and internally developed analysis are significantly impacted by local market economy, market supply and demand, competitive conditions, and prices on comparable properties, adjusted for date of sale, location, property size, and other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, the Company analyzes historical and current trends in the market and economy impacting the REO. Using available trend information, the Company then calculates its best estimate of fair value, which can include projected cash flows discounted at a rate that management believes a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

Changes in economic factors, consumer demand, and market conditions, among other things, could materially impact estimates used in the third-party appraisals and/or internally prepared analysis of recent

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

offers or prices on comparable properties. Thus, estimates can differ significantly from the amounts ultimately realized by the Company from disposition of these assets. The amount by which the recorded investment in the loan is less than the REO's value (net of estimated cost to sell if held for sale), is recorded as a gain on foreclosure within income (expense) from real estate operations, net in the accompanying consolidated statements of operations. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held for sale), is initially recorded as impairment within income (expense) from real estate operations, net in the accompanying consolidated statement of operations.

Subsequent to obtaining REO via foreclosure or directly from a financial institution, management periodically performs valuations using the methodologies described above such that the real estate is carried at the lower of its carrying value or current fair value, less estimated costs to sell if classified as held for sale. Held and used assets are tested for recoverability whenever changes in circumstances indicate that its carrying value may not be recoverable, and impairment losses are recorded for any amount by which the carrying value exceeds its fair value. Any subsequent impairment losses, operating expenses or income, and gains and losses on disposition of such properties are also recognized in income. REO assets classified as held and used are depreciated using a useful life of 40 years for commercial properties and 27 1/2 years for residential properties. REO assets classified as held for sale are not depreciated. Occasionally an asset will require certain improvements to yield a higher return. In accordance with ASC 970-340-25, Real Estate, construction costs incurred prior to acquisition or during development of the asset are capitalized.

Management Fees Revenue — The Company provides services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-invests, and other private equity structures to manage their respective investments. As a result, the Company earns and receives investment management fees, underwriting fees and due diligence fees. These fees are recorded over the period in which the services are performed, fees are determinable and collectability is reasonably assured. The Company receives investment management fees from investment vehicles based on 1) a percentage of committed capital during the commitment period and after the commitment period ends 2) a percentage of drawn commitments less the portion of such drawn commitments utilized to acquire investments that have been sold (in whole or in part) or liquidated (provided such drawn commitments are not subsequently reinvested in other investments) or completely written off. Fees earned for underwriting and due diligence services are based on actual costs incurred.

In certain situations, the Company may earn additional fees when the return on assets managed exceeds contractual thresholds. Such revenue is only booked when substantially all of the contract terms are met, the contract is at or near completion and the amounts are known and collectability is reasonably assured. Since such revenue is recognized at the end of the life of the investment vehicle, after substantially all of the assets have been sold and investment gains and losses realized, the possibility of claw back provisions is limited.

Debt Issuance Costs — Certain issuance costs were incurred for the financing of the FDIC notes payable ("Notes"). These costs were approximately 3% of the principal balance of the Notes. Such costs were deferred and are amortized to interest expense over the expected term of the underlying debt using the straight-line method, which approximates the effective-interest method. These costs are reflected as other assets — net in the accompanying consolidated balance sheets.

Income Tax — The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

of a change in tax rates is recognized in earnings in the period when the changes are enacted. Interest related to unrecognized tax benefits is recognized as a component of provision for income taxes in the accompanying consolidated statements of operations.

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed each reporting period by the Company based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

Concentration of Risk — The Company's success depends to a certain extent on the general economic conditions of the geographic markets of the Company's acquired loans and foreclosed assets. At November 30, 2012 and 2011, distressed assets held by the Company were primarily concentrated in the states of Georgia, Florida, Arizona, California, Nevada, and South Carolina. Adverse changes in the economic conditions of these geographical areas may have a significant impact on the Company's commercial and residential real estate loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. The aforementioned may have a negative effect on the Company's business, financial condition, and results of operations.

Recent Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, ("ASU 2011-04"). ASU 2011-04 amends ASC 820, Fair Value Measurements, ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 was effective for our fiscal year beginning December 1, 2011. The adoption of ASU 2011-04 did not have a material effect on our consolidated financial statements, but did require certain additional disclosures.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, ("ASU 2011-05"). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 will be effective for our fiscal year beginning December 1, 2012. The adoption of ASU 2011-05 is not expected to have a material effect on our consolidated financial statements.

DEFEASANCE CASH TO RETIRE NOTES PAYABLE

The Company has established a defeasance account for the benefit of the FDIC. Funds are deposited into the defeasance accounts, pursuant to a priority of payments (which first requires loan proceeds to be used for various fees, expenses, and working capital prior to any excess being deposited in the defeasance accounts), until the amount of the funds held in the defeasance accounts is equal to the sum of the outstanding principal balances of the Notes. No funds from any other source shall be commingled in the defeasance accounts. The Company cannot prepay all or any portion of the Notes without the prior written consent of the FDIC. Upon the maturity of the last maturing note, all funds in the defeasance account will be transferred to the FDIC. The defeasance cash balance as of November 30, 2012 and 2011, was

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

approximately \$223.8 million and \$219.4 million, respectively. On February 25, 2013, the Company made a partial payment of \$209.8 million on the class A-2 notes payable to the FDIC (see Note 9).

4. LOANS RECEIVABLE AND ACCRETABLE YIELD

The following table displays the loan portfolio by aggregate-level collateral-type classifications net of the related allowance for loan losses at November 30, 2012 and 2011 (in thousands):

	2012	2011
Land	\$216,095	\$348,234
Single family residential	93,207	152,265
Commercial	96,226	172,799
Multifamily	12,776	28,108
Other	18,231	11,948
Loans receivable — net	\$436,535	\$713,354

With regard to loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, ("ASC 310-30"), the Company estimated the cash flows, at acquisition, it expected to collect on the FDIC Portfolios and Bank Portfolios. In accordance with ASC 310-30, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's consolidated balance sheets. The excess of cash flows expected to be collected over the cost of the loans acquired is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans using the effective yield method.

The Company periodically evaluates its estimate of cash flows expected to be collected on its FDIC Portfolios and Bank Portfolios. These evaluations require the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses.

The outstanding contractual payments and cash flows expected to be collected on the date of acquisition were \$4.2 billion and \$2.0 billion, respectively.

As of November 30, 2012 and 2011, the outstanding balance and carrying value of loans accounted for under ASC 310-30 was as follows (in thousands):

	2012	2011
Outstanding principle balance	\$812,187	\$1,331,094
Carrying value	396,200	639,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

The activity in the accretable yield for the FDIC Portfolios and Bank Portfolios during the years ended November 30, 2012 and 2011 were as follows (in thousands):

	2012	2011
Beginning balance	\$209,480	\$ 396,311
Net additions	65,151	16,173
Accretions	(73,399)	(110,588)
Deletions	(88,333)	(92,416)
Ending balance	\$112,899	\$ 209,480

Additions primarily represent reclasses from nonaccretable yield to accretable yield on the portfolios. Deletions represent loan impairments and disposal of loans, which includes foreclosure of underlying collateral and result in the removal of the loans from the accretable yield portfolios. As the Company continues to obtain additional information related to the expected cash flows on the acquired loans, the accretable yield may change. Therefore, the amounts of accretable income recorded for the year ended November 30, 2012, are not necessarily indicative of the results to be expected in the future.

5. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The following table shows the activity related to allowance for loan losses for the years ended November 30, 2012 and 2011 (in thousands):

		2012			2011	
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Beginning balance	\$ -	\$ 801	\$ 801	\$ -	\$ -	\$ -
Provision for loan losses	18,650	9,316	27,966		13,815	13,815
Charge-offs	(6,472)	(6,395)	(12,867)		(13,014)	(13,014)
Ending balance	<u>\$12,178</u>	\$ 3,722	\$ 15,900	<u> </u>	\$ 801	\$ 801

At November 30, 2012 and 2011, the carrying value of loans accounted for under ASC 310-30 totaled approximately \$396.2 million and \$639.6 million, respectively, and was assessed for impairment at the pool level. The Company's homogeneous pools are comprised of loans with similar characteristics such as loan type and the geographical location of the underlying collateral. At November 30, 2012, the Company had approximately \$12.2 million of allowance for loan losses against loans of this type. At November 30, 2011, the Company did not have an allowance for loan losses against accrual loans.

At November 30, 2012 and 2011, there were loans receivable with a carrying value of approximately \$40.3 million and \$73.7 million, respectively, which are considered impaired under ASC 310-10, and for which interest income was not being recognized as they were classified as nonaccrual. At November 30, 2012 and 2011, the Company had approximately \$3.7 million and \$0.8 million, respectively, of allowance for loan losses against the nonaccrual loans.

When forecasted principal and interest cannot be reasonably estimated at the loan acquisition date, management classifies the loan as nonaccrual and accounts for these assets in accordance with ASC 310-10,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

Receivables, ("ASC 310-10"). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Although these loans met the definition of ASC 310-10, these loans were not considered impaired relative to the Company's recorded investment at the time of acquisition since they were acquired at a substantial discount to their unpaid principal balance. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell.

The following tables represent nonaccrual loans in the FDIC Portfolios and Bank Portfolios accounted for under ASC 310-10 aggregated by collateral type at November 30, 2012 and 2011 (in thousands):

		2012			
	Unpaid	Recorded Investment		Total	
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment	
Land	\$23,163	\$ 4,983	\$ 2,844	\$ 7,827	
Single family residential	18,966	8,311	2,244	10,555	
Commercial	35,996	1,006	20,947	21,953	
Total	\$78,125 	<u>\$14,300</u>	\$26,035	\$40,335 	
		20	11		

	Unpaid	Recorded Investment		Total	
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment	
 Land	\$ 75,557	* –	\$24,692	\$24,692	
Single family residential	55,377	1,956	13,235	15,191	
Commercial	48,293	2,660	24,434	27,094	
Multifamily	16,750	_	6,735	6,735	
Other	405				
Total	\$196,382	\$ 4,616	\$69,096	\$73,712	

The average recorded investment in impaired loans totaled approximately \$57 million and \$163 million, respectively, for the years ended November 30, 2012 and 2011.

The loans receivable portfolios consist of loans acquired at a discount. Based on the nature of these loans, the portfolios are managed by assessing the risks related to the likelihood of collection of payments from borrowers and guarantors, as well as monitoring the value of the underlying collateral. The following are the risk categories for the loans receivable portfolios:

Accrual — Loans in which forecasted cash flows under the loan agreement, as it might be modified from time to time, can be reasonably estimated at the date of acquisition. The risk associated with loans in this category relates to the possible default by the borrower with respect to principal and interest payments and thus a decline in the forecasted cash flows used to determine accretable yield income and the recognition of impairment through an allowance for loan losses.

Nonaccrual — Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition. Although the Company believes the recorded investment balance will ultimately be

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

realized, the risk of nonaccrual loans relates to a decline in the value of the collateral securing the outstanding obligation and the recognition of impairment through an allowance for loan losses if the recorded investment in the loan exceeds the fair value of the collateral.

Risk categories net of allowance for loan losses at November 30, 2012 and 2011 (in thousands):

		2012	
Collateral Type	Accrual	Nonaccrual	Total
Land	\$208,268	\$ 7,827	\$216,095
Single family residential	82,652	10,555	93,207
Commercial	74,273	21,953	96,226
Multifamily	12,776	_	12,776
Other	18,231	<u> </u>	18,231
Total	\$396,200	\$ 40,335	\$436,535
		2011	
Collateral Type	Accrual	2011 Nonaccrual	Total
Collateral Type Land	Accrual \$323,542		Total \$348,234
		Nonaccrual	
Land	\$323,542	Nonaccrual \$24,692	\$348,234
Land	\$323,542 137,074	Nonaccrual \$24,692 15,191	\$348,234 152,265
Land Single family residential Commercial	\$323,542 137,074 145,705	Nonaccrual \$24,692 15,191 27,094	\$348,234 152,265 172,799

In order to assess the risk associated with each risk category, the Company evaluates the forecasted cash flows and the value of the underlying collateral securing loans receivable on a quarterly basis or when an event occurs that suggests a decline in the assets' fair value.

6. REAL ESTATE OWNED

The acquisition of properties acquired through, or in lieu of, loan foreclosure are reported within the consolidated balance sheets as REO held-and-used, net and REO held-for-sale. When a property is determined to be held-and-used, net, the asset is recorded at fair value and depreciated over its useful life using the straight line method. When certain criteria set forth in ASC 360, *Property, Plant and Equipment*, are met; the property is classified as held-for-sale. When a real estate asset is classified as held-for-sale, the property is recorded at the lower of its cost basis or fair value less estimated costs to sell. The fair value of REO held-for-sale are determined in part by placing reliance on third party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity.

Upon the acquisition of REO through loan foreclosure, gains and losses are recorded in REO expense (income) in the accompanying consolidated statements of operations. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon foreclosure. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is generally recorded as a provision for loan losses.

At times, the Company may foreclose on a loan from an accrual loan pool in which the removal of the loan does not cause an overall decrease in the expected cash flows of the loan pool, and as such, no provision for loan losses is required to be recorded. However, the amount by which the recorded investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is recorded as an unrealized loss upon foreclosure.

The following tables present the activity in REO for the years ended November 30, 2012 and 2011 (in thousands):

	2012	2011
REO held-for-sale — beginning balance	\$ 143,677	\$ 250,286
Additions	9,987	452,943
Improvements	9,605	20,623
Sales	(161,253)	(84,999)
Impairments	(2,579)	(1,545)
Transfer from (to) held-and-used(1)	146,059	(489,705)
Transfer to Lennar Homebuilding	(11,335)	(3,926)
REO held-for-sale — ending balance	<u>\$ 134,161</u>	<u>\$ 143,677</u>
	2012	2011
REO held-and-used — beginning balance	2012 \$ 582,111	2011 \$ 7,818
REO held-and-used — beginning balance		
	\$ 582,111	\$ 7,818
Additions	\$ 582,111 175,114	\$ 7,818
Additions	\$ 582,111 175,114 4,340	\$ 7,818
Additions	\$ 582,111 175,114 4,340 (981)	\$ 7,818 93,650
Additions Improvements Sales Impairments	\$ 582,111 175,114 4,340 (981) (6,703)	\$ 7,818 93,650 (6,612)

⁽¹⁾ During the years ended November 30, 2012 and 2011, the Company transferred certain properties to/from REO held-and-used, net to/from REO held-for-sale as a result of changes in the disposition strategy of the real estate assets.

For the years ended November 30, 2012 and 2011, the Company recorded \$21.6 million and \$6.0 million, respectively, of net gains from sales of REO. For the same time periods, the Company recorded net (losses) gains of (\$1.9) million and \$78.9 million, respectively, from acquisitions of REO through foreclosure. These net gains and losses are recorded in REO expense (income) in the consolidated statements of operations.

7. INVESTMENTS

Investments Held-to-Maturity

Commercial Mortgage Backed Securities — The \$43 million of non-investment grade CMBS was acquired for \$19.4 million, representing a 55% discount to par value. These securities bear interest at a coupon rate of 4% and have a stated and assumed final distribution date of November 2020 and a stated maturity date of October 2057. The Company reviews changes in estimated cash flows periodically, to determine if other-than-temporary impairment has occurred on its investment securities. Based on the Company's assessment, no impairment charges were recorded during the years ended November 30, 2012 and 2011. During the year ended November 30, 2011, the Company sold a portion of its CMBS for \$11.1 million, resulting in a gain on sale of CMBS of \$4.7 million. The carrying value of the investment securities at November 30, 2012 and 2011 was \$15.0 million and \$14.1 million, respectively. The fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

of the investment securities at November 30, 2012 and 2011 was \$14.9 million and \$14.0 million, respectively. The Company classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

In a CMBS transaction, monthly interest received from all of the pooled loans is paid to the investors, starting with those investors holding the highest rated bonds and progressing in an order of seniority based on the class of security. Based on the aforementioned, the principal and interest repayments of a particular class are dependent upon collections on the underlying mortgages, which are affected by prepayments, extensions and defaults.

Investments in Unconsolidated Entities

AB PPIP — During the year ended November 30, 2012, the Company contributed \$1.9 million and received distributions of \$87.6 million. Of the distributions received during the year ended November 30, 2012, \$83.5 million related to the unwinding of the AB PPIP fund's operations. The Company also earned \$9.1 million in fees from the Company's role as a sub-advisor to the AB PPIP fund, which were included in management fees in the accompanying consolidated statements of operations. At the end of 2012, the AB PPIP fund finalized the last sales of the underlying securities in the fund and made substantially all of the final liquidating distributions to the partners, including the Company. As the Company's role as sub-advisor to the AB PPIP fund has been completed, no further management fees will be received for these services. During the year ended November 30, 2011, the Company invested \$3.7 million, in the AB PPIP fund. As of November 30, 2012 and 2011, the carrying value of the Company's investment in the AB PPIP fund was \$0.2 million and \$65.2 million, respectively.

Another subsidiary of the Company also has approximately a 5% investment in a service and infrastructure provider to the residential home loan market (the "Service Provider"), which provides services to the combined LLCs, among others. As of November 30, 2012 and 2011, the carrying value of the Company's investment in the Service Provider was \$8.4 million and \$8.8 million, respectively.

Investment Funds — In November 2010, the Company completed its first closing of Fund I with initial equity commitments of approximately \$300 million. Fund I's objective during its three-year investment period is to invest in distressed real estate assets and other related investments that fit within Fund I's investment parameters.

As of November 30, 2012, the equity commitments of Fund I were \$700 million. All capital commitments have been called and funded. Fund I is closed to additional commitments. During the year ended November 30, 2012, the Company contributed \$41.7 million of which \$13.9 million was distributed back to the Company as a return of capital contributions due to a securitization within Fund I. During the year ended November 30, 2011, the Company contributed \$60.6 million of which \$13.4 million was distributed back to the Company as a return of excess capital contributions as a result of new investors in Fund I. As of November 30, 2012 and 2011, the carrying value of the Company's investment in Fund I was \$98.9 million and \$50.1 million, respectively. During the year ended November 30, 2011, Fund I acquired distressed real estate asset portfolios and invested in CMBS at a discount to par value. For the years ended November 30, 2012 and 2011, the Company's share of earnings from Fund I was \$21.0 million and \$2.9 million, respectively.

Fund I is an unconsolidated entity and is accounted for under the equity method of accounting. Fund I was determined to have the attributes of an investment company in accordance with ASC Topic 946, *Financial Services — Investment Companies*, the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

1940. As a result, Fund I's assets and liabilities are recorded at fair value with increases/decreases in fair value recorded in the statement of operations of Fund I, the Company's share of which will be recorded in Equity in earnings (loss) from unconsolidated entities in the accompanying consolidated statements of operations. The Company determined that Fund I is not a variable interest entity but rather a voting interest entity due to the following factors:

- The Company determined that Rialto's general partner interest and all the limited partners' interests qualify as equity investment at risk.
- Based on the capital structure of Fund I (100% capitalized via equity contributions), the Company was able to conclude that the equity investment at risk was sufficient to allow Fund I to finance its activities without additional subordinated financial support.
- The general partner and the limited partners in Fund I, collectively, have full decision-making ability as they collectively have the power to direct the activities of Fund I, due to the fact that Rialto, in addition to being a general partner with a substantive equity investment in Fund I, also provides services to Fund I under a management agreement and an investment agreement, which are not separable from Rialto's general partnership interest.
- As a result of all these factors, the Company has concluded that the power to direct the activities of Fund I reside in its general partnership interest and thus with the holders of the equity investment at risk.
- In addition, there are no guaranteed returns provided to the equity investors and the equity contributions are fully subjected to Fund I's operational results, thus the equity investors absorb the expected negative and positive variability relative to Fund I.
- Finally, substantially all of the activities of Fund I are not conducted on behalf of any individual investor or related group that has disproportionately few voting rights (i.e., on behalf of any individual limited partner).

Having concluded that Fund I is a voting interest entity, the Company evaluated Fund I under the voting interest entity model to determine whether, as general partner, it has control over Fund I. The Company determined that it does not control Fund I as its general partner, because the unaffiliated limited partners have substantial kick-out rights and can remove Rialto as general partner at any time for cause or without cause through a simple majority vote of the limited partners. In addition, there are no significant barriers to the exercise of these rights. As a result of determining that the Company does not control Fund I under the voting interest entity model, Fund I is not consolidated in the Company's financial statements.

In December 2012, the Company completed the first closing of the Rialto Real Estate Fund II, LP ("Fund II") with initial equity commitments of approximately \$260 million. No cash was funded at the time of closing. Fund II's objective during its three-year investment period is to invest in distressed real estate assets and other related investments that fit within Fund II's investment parameters.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

The summarized condensed financial information on a consolidated 100% basis related to Rialto's investments in unconsolidated entities that are accounted for by the equity method was as follows as of and for the years ended November 30, 2012 and 2011 (in thousands):

	2012	2011
Balance Sheets		
Assets(1):		
Cash and cash equivalents	\$ 299,172	\$ 60,936
Loans receivable	361,286	274,213
Real estate owned	161,964	47,204
Investment securities	255,302	4,336,418
Other assets	199,839	171,196
	\$1,277,563	\$4,889,967
Liabilities and equity(1):		
Accounts payable and other liabilities	\$ 155,928	\$ 320,353
Notes payable	120,431	40,877
Partner loans	163,516	137,820
Debt due to the U.S. Treasury		2,044,950
Equity	837,688	2,345,967
	\$1,277,563	\$4,889,967

⁽¹⁾ During the year ended November 30, 2012, the AB PPIP fund unwound its operations by selling its investments. Therefore, the total assets, liabilities and equity of the unconsolidated entities decreased significantly from November 30, 2011 to November 30, 2012.

	2012	2011
Statements of Operations		
Revenues	\$414,027	\$ 470,282
Costs and expenses	243,483	183,326
Other income (expense) — net(1)	713,710	(614,014)
Net earnings (loss) of unconsolidated entities	\$884,254 	\$(327,058)
Equity in earnings (loss) from unconsolidated entities	<u>\$ 41,483</u>	<u>\$ (7,914)</u>

⁽¹⁾ Other income (expense) — net for the years ended November 30, 2012 and 2011 includes the AB PPIP Fund's mark-to market unrealized gains and losses, all of which the Company's portion was a small percentage. For the year ended November 30, 2012, other income (expense), net, also includes realized gains from the sale of investments in the portfolio underlying the AB PPIP fund, of which the Company's portion was a small percentage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

8. OTHER ASSETS

The Company's other assets consisted of the following at November 30, 2012 and 2011 (in thousands):

	2012	2011
Management fee receivables	\$ 8,783	\$ -
REO operations receivables	4,298	3,589
Debt issuance costs — net	5,326	9,891
Deposits	3,015	1,380
Other	1,945	1,014
Total other assets	\$23,367	\$15,874

9. NOTES PAYABLE

In connection with the acquisition of the FDIC Portfolios, the FDIC provided \$626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs. Pursuant with ASC Topic 835-30, Imputed Interest, interest has not been imputed, as the Notes are issued and guaranteed by a governmental agency. As of November 30, 2012 and 2011, the notes payable balance was \$470.0 million and \$626.9 million, respectively; however, for the same time periods, \$223.8 million and \$219.4 million, respectively, of cash collections on loans in excess of expenses were deposited in a defeasance account, established for the repayment of the notes payable, under the agreement with the FDIC. The funds in the defeasance account are being and will be used to retire the notes payable upon their maturity. During the year ended November 30, 2012, the LLCs retired \$156.9 million principal amount of the notes payable under the agreement with the FDIC through the defeasance account. In February 25, 2013, the Company paid \$302.8 million of the \$314.0 million due to the FDIC on the notes payable. The Company and the FDIC entered into a forbearance agreement whereby the FDIC temporarily waived its right to reissue a new purchase money note for the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 until July 25, 2013. This forbearance does not meet the definition of an extension in the financing agreement and thus, no triggering event is deemed to have occurred. The Company agreed to disburse all available funds in the defeasance account on a monthly basis to the FDIC until the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 was paid in full, but no later than July 25, 2013. In March 2013, the Company paid the remaining balance of the notes payable that was due on February 25, 2013 with cash disbursed from the defeasance account.

The Notes can be extended by the expiration and reissuance of the Notes. In accordance with the financing agreement, if the Notes maturity dates are extended, a trigger event will be deemed to have occurred if, as of any of the dates defined below, the total amount then on deposit in the defeasance account, plus the sum of the aggregate amount from the defeasance account previously paid by the Company to repay the obligation divided by the original aggregate principal amount of the Notes as of the closing date, is not in accordance with the following table (in thousands):

Period from Closing	Percentage Required	Balance Required	Trigger Date February 9,	Date through February 8,
3 years	25%	\$156,727	2013	2014
4 years	40	250,762	2014	2015
5 years	50	313,453	2015	2016
6 years	75	470,180	2016	2017
7 years	100	626,906	2017	2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

On January 31, 2011, the Company obtained a monetary judgment on an unpaid principal balance of a loan receivable. Effective May 2, 2011, the Company entered into a settlement agreement in consideration for a stay of execution on the monetary judgment and agreed to accept the conveyance of full and partial ownership interests in entities that own numerous real estate assets. The real estate assets are comprised primarily of commercial office buildings. At the time the Company acquired these ownership interests, the underlying assets were assessed a fair value of approximately \$20.5 million and included the assumption of notes payable totaling approximately \$15.1 million which are reflected within Notes payable — other, in the table below. As part of the settlement agreement, the Company also accepted a secured promissory note receivable in the amount of \$2.5 million from the obligor which is included in the Company's consolidated balance sheet within loans receivable, net. The note bears interest at 5% per annum and requires interest only payments of \$125,000 over the next five years with the principal amount due on May 30, 2016. The \$2.5 million promissory note is secured by a stock pledge and pledge of cash distributions from additional commercial office building assets, of which the obligor is an owner.

In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 REO properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions. During the year ended November 30, 2012, the Company retired \$33.0 million principal amount of the 5-year senior unsecured note.

The Company's notes payables consisted of the following at November 30, 2012 and 2011 (in thousands):

	2012	2011
FDIC financing	\$470,000	\$626,906
Bank portfolios	90,933	123,933
Notes payable — other	13,547	14,702
Total	\$574,480	\$765,541

Notes payable have interest rates ranging from 0% to 6.90%, and mature as follows (in thousands):

Year	Amount
2013	\$316,466
2014	191,496
2015	59,176
2016	4,869
2017	1,157
Thereafter	1,316
Total notes payable	\$574,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

10. REO (EXPENSE) INCOME

The Company's REO (expense) income consisted of the following for the years ended November 30, 2012 and 2011 (in thousands):

	2012	2011
Realized gains on the sale of REO	\$ 21,649	\$ 6,035
Unrealized (losses) gains on loan foreclosure	(1,878)	78,936
Impairment on REO	(9,282)	(8,157)
REO expenses	(56,745)	(49,531)
REO (expense) income	\$(46,256)	\$ 27,283

11. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at November 30, 2012 and 2011 (in thousands), respectively, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash, defeasance cash to retire notes payable, and accounts payable, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

	2012		20	L 1	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Assets					
Loans receivable — net	\$436,535	\$450,281	\$713,354	\$749,382	
Investments held-to-maturity	\$ 15,012	\$ 14,904	\$ 14,096	\$ 13,996	
Liabilities					
Notes payable	\$574,480	\$568,702	\$765,541	\$729,943	

The following methods and assumptions are used by the Company in estimating fair value:

Loans Receivable — The fair value of loans receivable is based on discounted cash flows as of November 30, 2012 and 2011, respectively, or the fair value of the underlying collateral less estimated cost to sell.

Investments Held-to-Maturity — The fair value for investments held-to-maturity is based on discounted cash flows.

Notes Payable — The fair value of the zero percent notes guaranteed by the FDIC was calculated based on a two-year treasury yield as of November 30, 2012 and 2011, respectively, and the fair value of other notes payable was calculated based on discounted cash flows using an estimated effective borrowing rate.

Fair Value Measurements — Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These levels include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume).

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair Value on a Nonrecurring Basis — From time to time, certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of real estate acquisition through foreclosure, the application of the lower of cost or fair value accounting and impairments. For example, if the fair value of an asset in these categories falls below its cost basis, it is considered to be at fair value at the end of the period of the adjustment. In periods where there is no adjustment, the asset is generally not considered to be at fair value. The assets measured at fair value on a nonrecurring basis at November 30, 2012 and 2011, are summarized below (in thousands):

		2012	
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$326,721	\$(27,966)
Non-Financial Assets			
REO – held-and-used – net(1)	Level 3	\$201,414	\$ (4,243)
REO — held-for-sale(2)	Level 3	27,126	(6,917)

- (1) REO held-and-used net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$172.6 million and a fair value of \$175.1 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-and-used, net, were \$2.5 million. As part of management's periodic valuations of its REO, held-and-used, net, during the year ended November 30, 2012, REO, held-and-used, net, with an aggregate value of \$33.0 million were written down to their fair value of \$26.3 million, resulting in impairments of \$6.7 million. These gains and impairments are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2012.
- (2) REO held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$14.3 million and a fair value of \$10.0 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO, held-for-sale, were \$4.3 million. As part of management's periodic valuations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

of its REO, held-for-sale, during the year ended November 30, 2012, REO, held-for-sale, with an aggregate value of \$19.7 million were written down to their fair value of \$17.1 million, resulting in impairments of \$2.6 million. These losses and impairments are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2012.

		2011	
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$ 73,712	\$(13,815)
Non-Financial Assets			
REO — held-and-used — net(1)	Level 3	\$110,649	\$ 4,607
REO — held-for-sale(2)	Level 3	460,214	66,172

- (1) REO held-and-used net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$82.5 million and a fair value of \$93.7 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-for-sale, were \$11.2 million, and are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2011. As part of management's periodic valuations of its REO, held-and-used, net, during the year ended November 30, 2011, REO, held and-used, net, with an aggregate value of \$23.6 million were written down to their fair value of \$17.0 million, resulting in impairments of \$6.6 million. These gains and impairments are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2011.
- (2) REO held-for-sale, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$385.2 million and a fair value of \$452.9 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-for-sale, were \$67.7 million, and are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2011. As part of management's periodic valuations of its REO, held-for-sale, during the year ended November 30, 2011, REO, held-for-sale, with an aggregate value of \$8.8 million were written down to their fair value of \$7.3 million, resulting in impairments of \$1.5 million. These gains and impairments are included within REO expense (income) in the consolidated statements of operations for the year ended November 30, 2011.

The following is a description of the valuation methodologies used for certain assets that are potentially recorded at fair value on a nonrecurring basis:

Loans Receivable — If impaired, the fair value of nonaccrual loans is based on discounted cash flows, or the fair value of the collateral less estimated disposition costs. If impaired, the fair value of accrual loan pools are based on discounted cash flows. The fair value of the real estate is determined through a combination of appraisals, broker opinions of value, and management's best estimate. The fair value of the underlying collateral is determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity.

Real Estate Owned — Held-and-Used and Held-for-Sale — Real estate owned classified as held and used is initially recorded at fair value and real estate classified as held for sale is recorded at fair value less

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

estimated disposition costs at the time of acquisition. The fair values of these assets are determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity.

12. INCOME TAXES

Rialto is included in the consolidated federal income tax return of Lennar. Although some entities in the Rialto consolidated reporting group are limited liability companies that have elected to be treated as disregarded entities or partnerships for federal income tax purposes, in accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Current income tax expense is recorded as an increase in amounts due to Parent. As such, no income tax expense payments are made directly by Rialto. Income taxes are accounted for in accordance with ASC Topic 740, Income Taxes, ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on temporary differences between financial reporting carrying values and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes.

The provision for income taxes for the years ended November 30, 2012 and 2011, consists of the following (in thousands):

	2012	2011
Current: Federal	\$ (415) 192 (223)	\$10,271 (594) 9,677
Deferred: Federal State	9,255 1,452	2,550 (416)
	10,707	2,134
	\$10,484	\$11,811

The actual income tax differs from the "expected" tax expense for the year (computed by applying the U.S. federal corporate tax rate of 35% to earnings before income taxes) primarily due to the amount of state income taxes, net of the related federal tax benefit, and for amounts recorded for changes in tax reserves and interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of the assets and liabilities for financial reporting purposes and the amount used for income tax purposes. At November 30, 2012 and 2011, the tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2012	2011
Deferred tax assets — reserves and accruals	\$ 3,970	\$ 4,557
Deferred tax liabilities:		
Investment in joint ventures	(19,675)	(9,578)
Loans and REO investments	(6,475)	(6,452)
	(26,150)	(16,030)
Deferred tax liability — net	\$(22,180)	<u>\$(11,473)</u>

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on the available evidence, it is more likely than not that such assets will not be realized. In accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Therefore, the need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, Lennar's experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives.

During the year ended November 30, 2012, the Company concluded that it was more likely than not that the majority of Rialto's deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative. For the years ended November 30, 2012 and 2011, Rialto has a net deferred tax liability totaling \$22.2 million and \$11.5 million. As a result, no valuation allowance is required.

The Company follows the provisions of ASC Topic 740, Income Taxes, ("ASC 740"), which provides interpretive guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with the tax sharing arrangement with Lennar, the gross unrecognized tax benefits of Lennar were allocated to the Company on a pro rata basis based on revenues.

The following table summarizes the changes in gross unrecognized tax benefits for the years ended November 30, 2012 and 2011 (in thousands):

	2012	2011
Balance — beginning of year	\$ 1,955	\$ 1,387
Decreases of prior year items due to tax sharing		
arrangement with Lennar	(1,539)	568
Balance — end of year	\$ 416	\$ 1,955

The IRS is currently examining Lennar's federal income tax return for fiscal year 2011, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not yet determinable. The statute of limitations for Lennar's major tax jurisdictions remains open for examination for fiscal year 2005 and subsequent years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

13. PARENT COMPANY TRANSACTIONS

Lennar provides certain management, treasury, information technology, income tax, payroll and administrative services to the Company. No amounts are charged by Lennar for these services. In addition, cash funding is provided for operating capital on an as-needed basis. Excess operating funds generated by the Company and any cash distributions from unconsolidated entities are swept back to Lennar. No interest is charged for the use of funds provided by the Parent. All cash funding, net of amounts swept back to Lennar are recorded as due to Parent in the accompanying consolidated balance sheets.

During the years ended November 30, 2012 and 2011, the Company transferred certain REO properties to the Parent company totaling \$11.3 million and \$3.9 million, respectively. The payment for these properties were settled as a reduction to the due to Parent account in the respective year.

14. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, the Company evaluated subsequent events occurring after the balance sheet date of November 30, 2012 through June 4, 2013, the date the financial statements were available to be issued, and concluded that no events have occurred that required recognition or disclosure in the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012

	Au	gust 31, 2013	Nov	rember 30, 2012
ASSETS		(In thousands) (Unaudited)		
	ф	70.007	ф	105 010
Cash	\$	72,024	\$	105,310
Defeasance cash to retire notes payable		78,032		223,813
Loans receivable — net		328,667		436,535
Loans held-for-sale		244,666		
Real estate owned — held-and-used — net		440,656		601,022
Real estate owned — held-for-sale		198,609		134,161
Investments in unconsolidated entities		125,263		108,140
Investments held-to-maturity		15,791		15,012
Other assets — net		50,432		23,367
Total assets	\$1,	,554,140	\$1	,647,360
LIABILITIES AND EQUITY				
LIABILITIES:				
Accounts payable	\$	2,274	\$	1,958
Accrued expenses and other liabilities		27,830		24,164
Deferred income tax liability — net		14,340		22,180
Due to Parent		658,698		526,129
Notes payable		346,627		574,480
Total liabilities	1	,049,769	1	,148,911
COMMITMENTS AND CONTINGENCIES (Note 14)				
PARENT'S EQUITY		56,517		53,163
NONCONTROLLING INTERESTS		447,854		445,286
Total equity		504,371		498,449
Total liabilities and equity	\$1,	,554,140	\$1	,647,360

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012

	Three Mor	nths Ended	Nine Mon	ths Ended
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
			usands) dited)	
REVENUE:	ф10 <u>00</u> 0	ф oo /oo	ቀ ርር 770	ф 75 000
Interest income	\$18,336 8,326	\$ 22,498 14,696	\$56,773 21,195	\$ 75,689 27,185
Rental income	6,320 4,826	4,243	14,807	12,149
Other income	1,146	1,210	1,146	12,140
Total revenue	32,634	41,437	93,921	115,023
EXPENSES:				
General and administrative expense	18,190	13,799	45,053	41,000
Servicing expense	8,533	9,610	26,175	38,349
Provision for loan losses	3,478	20,302	14,088	22,572
REO expense	2,989	14,306	4,997	35,824
Interest expense	1,735	1,496	3,766	4,476
Amortization of debt issuance costs	1,900	1,141	4,373	3,424
Depreciation expense	330	48	788	143
Total expenses	37,155	60,702	99,240	145,788
EQUITY IN EARNINGS FROM UNCONSOLIDATED				
ENTITIES	5,198	13,551	15,877	37,578
NET EARNINGS (LOSS) (INCLUDING NET EARNINGS (LOSS) ATTRIBUTABLE TO NON-				
CONTROLLING INTERESTS)	677	(5,714)	10,558	6,813
LESS: NET (LOSS) EARNINGS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(791)	(13,393)	4,570	(14,582)
NET EARNINGS ATTRIBUTABLE TO RIALTO				
BEFORE PROVISION FOR INCOME TAXES	1,468	7,679	5,988	21,395
PROVISION FOR INCOME TAXES	487	3,072	2,634	8,470
NET EARNINGS ATTRIBUTABLE TO RIALTO	\$ 981	\$ 4,607	\$ 3,354	\$ 12,925

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE NINE MONTHS ENDED AUGUST 31, 2013 AND FOR THE YEAR ENDED NOVEMBER 30, 2012

· · · · · · · · · · · · · · · · · · ·		
	Nine Months Ended August 31, 2013	Year Ended November 30, 2012
	(in thou (Unauc	
PARENT'S EQUITY		
Beginning balance	\$ 53,163	\$ 37,695
Net earnings attributable to Rialto	3,354	15,468
Ending balance	\$ 56,517	\$ 53,163
NONCONTROLLING INTERESTS		
Beginning balance	\$445,286	\$459,669
Net earnings (loss) attributable to non-controlling		
interests	4,570	(14,383)
Distributions of capital to non-controlling interests	(2,002)	
Ending balance	<u>\$447,854</u>	<u>\$445,286</u>
TOTAL EQUITY	\$504,371	\$498,449 ====

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED AUGUST 31, 2013 AND 2012

	Nine Months Ended	
	August 31, 2013	August 31, 2012
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES: Net earnings attributable to Rialto	\$ 3,354	\$ 12,925
Adjustment to reconcile net earnings attributable to Rialto to net cash used in operating activities	φ 5,554	Ψ 12,323
Amortization of debt issuance costs	4,373	3,424
Depreciation expense	3,941	5,780
Net gains on loan foreclosure	(1,199)	(1,662)
Gains on sale of real estate owned	(36,857)	(10,857)
Equity in earnings from unconsolidated entities	(15,877)	(37,578)
Impairment on real estate owned	9,882	7,585 6,667
Deferred income tax (benefit) provision Provision for loan losses	(7,840) 14,088	22,572
Distributions of earnings from unconsolidated entities	648	6,324
Non-controlling interest expense (income)	4,570	(14,582)
Accretion of discount on investments held-to-maturity	(779)	(675)
Origination of loans held-for-sale	(245,223)	()
Fair value adjustment on loans held-for-sale	1,086	
Changes in operating assets and liabilities:		
Loans receivable	(4,179)	(19,688)
Accounts payable	358	(3,678)
Other assets	(30,620)	(27,593)
Accrued expenses and other liabilities	3,097	(7,426)
Net cash used in operating activities	(297,177)	(58,462)
CASH FLOWS FROM INVESTING ACTIVITIES:	(0.000)	
Purchase of operating property and equipment	(2,383)	50.010
Receipts of principal payments on loans receivable	49,560	52,913
Proceeds from sales of real estate owned	182,220	121,848
Acquisition of loans	(5,450) (7,862)	(10,288)
Improvements to real estate owned	39,837	83,368
Investments in unconsolidated entities	(41,483)	(28,722)
Decrease in defeasance cash to retire notes payable	145,781	33,411
Net cash provided by investing activities	360,220	252,530
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of borrowings	(360,956)	(170,889)
Warehouse repurchase facility borrowings	133,103	, , ,
Distributions of capital to non-controlling interest	(2,002)	
Due to (from) Parent	133,526	(34,438)
Net cash used in financing activates	(96,329)	(205,327)
NET DECREASE IN CASH	(33,286)	(11,259)
CASH — Beginning of period	105,310	83,938
CASH — End of period	\$ 72,024	\$ 72,679

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED AUGUST 31, 2013 AND 2012

	Nine Months Ended	
	August 31, 2013	August 31, 2012
	(In thousands) (Unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid for interest on notes payable	\$ 3,259	\$ 4,475
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Real estate owned acquired through loan foreclosure	\$53,545	\$158,691
Transfer of REO assets to Parent	\$ 430	\$ 11,335
Reductions in loans receivable from deficiency settlements	\$ 304	\$ 2,063
Notes payable and other liabilities assumed from deficiency settlement	\$	\$ 197

(Concluded)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Rialto Holdings, LLC consists of the legal entities Rialto Investments, LLC (formerly Lennar Distressed Investments, LLC) and its subsidiaries and Rialto Capital Management, LLC and it's subsidiaries (collectively, "Rialto" or the "Company"). The Company is operated as a separate business segment of Lennar Corporation ("Lennar" or the "Parent"). Rialto focuses on real estate investments and asset management. Rialto utilizes its vertically integrated investment and operating platform to underwrite, diligence, acquire, manage, workout and add value to diverse portfolios of real estate loans, properties and securities, as well as providing strategic real estate capital. Rialto's primary focus is to manage third party capital and has invested in or commenced the workout and/or oversight of billions of dollars of real estate assets across the United States, including commercial and residential real estate loans and properties, as well as mortgage backed securities with the objective of generating superior, risk-adjusted returns. To date, many of the Company's investment and management opportunities have arisen from the dislocation in the United States real estate markets and the restructuring and recapitalization of those markets.

In February 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the Federal Deposit Insurance Corporation ("FDIC"). The FDIC retained 60% equity interests in the LLCs. The LLCs hold performing and non-performing loans formerly owned by 22 failed financial institutions and when the Company acquired its interests in the LLCs, the two portfolios consisted of approximately 5,500 distressed residential and commercial real estate loans ("FDIC Portfolios"). The FDIC retained 60% equity interests in the LLCs and provided \$626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs (see Note 10).

The LLCs met the accounting definition of a variable interest entity ("VIE") and since the Company was determined to be the primary beneficiary, the Company consolidated the LLCs. At August 31, 2013, these consolidated LLCs had total combined assets and liabilities of \$880.0 million and \$133.2 million, respectively. At November 30, 2012, these consolidated LLCs had total combined assets and liabilities of \$1,236.4 million and \$493.4 million, respectively.

In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 REO properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions of which \$33.0 million of principal amount was retired in 2012 (see Note 10).

In addition to the acquisition and management of the FDIC and Bank portfolios, a subsidiary of the Company was a sub-advisor to the AllianceBernstein L.P. ("AB") fund formed under the Federal government's Public-Private Investment Program ("PPIP") to purchase real estate related securities from banks and other financial institutions. The sub-advisor received management fees for sub-advisory services. The fund had total equity commitments of approximately \$1.2 billion made by private investors in this fund, and the U.S. Treasury had committed to a matching amount of approximately \$1.2 billion of equity in the fund, as well as agreed to extend up to approximately \$2.3 billion of debt financing (see Note 8).

Rialto is also the sponsor of and an investor in private equity vehicles that invest in and manage real estate related assets. This has included Rialto Real Estate Fund, LP ("Fund I") in which investors have committed and funded a total of \$700 million of equity. In December 2012, Rialto Real Estate Fund II, LP ("Fund II") had its first closing of investor commitments and at August 31, 2013, the equity commitments of Fund II were \$643 million. During the nine months ended August 31, 2013, \$240 million of the \$643 million in equity commitments was called, of which, the Company contributed its portion of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

\$37.4 million. Rialto also earns fees for its role as a manager of these vehicles and for providing asset management and other services to those vehicles and other third parties.

During the third quarter of 2013, Rialto Mortgage Finance ("RMF") was formed to originate and securitize five, seven and ten year commercial first mortgage loans, generally with principal amounts between \$2 million and \$75 million, which will be secured by income producing properties. As of August 31, 2013, RMF has originated \$245.2 million in total principal balance of loans. As of August 31, 2013, RMF had obtained a \$250 million warehouse repurchase financing agreement of which, \$133.1 million was outstanding.

Also during the third quarter of 2013, the Company started raising capital and investing in mezzanine commercial loans creating the Rialto Mezzanine Partners Fund (the "Mezzanine Fund") with a target of \$300 million in raised capital to originate performing mezzanine commercial loans. These loans have expected durations of one to two years and are secured by equity interests in the borrowing entity owning the real estate. As of August 31, 2013, the Mezzanine Fund had total equity commitments of \$82 million, including \$25 million committed by the Company. As of August 31, 2013, total invested capital was \$13.5 million, including \$4.1 million by the Company.

In 2010, the Company invested in approximately \$43 million of non-investment grade commercial mortgage backed securities ("CMBS") for \$19.4 million, representing a 55% discount to par value (see Note 8).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting principles and practices used in the preparation of the consolidated financial statements are as follows:

Basis of Presentation — The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions and balances have been eliminated.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires the Company's 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 amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include expected cash flows on distressed loans, allowances for loan losses, and the valuation of loans held-for-sale, real estate acquired in connection with foreclosures or in satisfaction of loans, and derivative instruments. Actual results could differ from those estimates.

Defeasance Cash — The Company has established a defeasance account for the benefit of the FDIC. These funds are restricted and are distributed pursuant to a priority of payments (see Note 3).

Loans Receivable — Revenue Recognition and Impairment — All of the acquired loans for which (1) there was evidence of credit quality deterioration since origination and (2) for which it was deemed probable that the Company would be unable to collect all contractually required principal and interest payments were accounted under Accounting Standards Codification (ASC) Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, (ASC 310-30). For loans accounted for under ASC 310-30, management determined upon acquisition the loan's value based on due diligence on each of the loans, the underlying properties, and the borrowers. The Company determined fair value by discounting the cash flows expected to be collected adjusted for factors that a market participant would

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

consider when determining fair value. Factors considered in the valuation were projected cash flows for the loans, type of loan and related collateral, and current discount rates.

Under ASC 310-30, loans were pooled together according to common risk characteristics. A pool is then accounted for as a single asset with a single component interest rate and an aggregate expectation of cash flows. The excess of the cash flows expected to be collected from the loans receivable at acquisition over the initial investment for those loans receivable is referred to as the accretable yield and is recognized as interest income over the expected life of the pools primarily using the effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's consolidated balance sheets. Changes in the expected cash flows of loans receivable from the date of acquisition will either impact the accretable yield or result in a charge to the provision for loan losses in the period in which the changes become probable. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of contractually required payments such that the nonaccretable difference is not affected. Subsequent significant decreases to the expected cash flows will generally result in a charge to the provision for loan losses, resulting in an increase to the allowance for loan losses, and a reclassification from accretable yield to nonaccretable difference. Subsequent probable and significant increases in cash flows will result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. Amounts related to the ASC 310-30 loans are estimates and may change as the Company obtains additional information related to the respective loans and the inherent uncertainty associated with estimating the amount and timing of the expected cash flows associated with distressed residential and commercial real estate loans. The timing and amount of expected cash flows and related accretable yield can also be impacted by disposal of loans, loan payoffs or expected foreclosures, which result in removal of the loans from the pools. Since the cash flows are based on projections, they are subjective and can change due to unexpected changes in economic conditions and loan performance.

Nonaccrual Loans — Revenue Recognition and Impairment — For loans in which forecasted principal and interest could not be reasonably estimated at the loan acquisition date, management classified these loans as nonaccrual and accounts for these assets in accordance with ASC 310-10, Receivables, (ASC 310-10). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate, the loans obtainable market price, or the fair value of the collateral less estimated costs to sell.

Loans Held-for-sale and Derivative Instruments — The originated mortgage loans are classified as Loans held-for-sale on the consolidated balance sheet and are recorded at fair value. The Company elected the fair value option for its loans held-for-sale in accordance with ASC Topic 825, Financial Instruments, which permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Management believes that carrying loans held-for-sale at fair value improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. Changes in fair values of the loans and the derivative instruments are reflected in revenue in the accompanying consolidated statements of operations. Interest income on these loans is calculated based on the interest rate of the loan and is recorded within revenue as Other income in the accompanying consolidated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

statements of operations. Substantially all of the mortgage loans originated are sold within a short period of time in a securitization on a servicing released, non-recourse basis; although, the Company remains liable for certain limited industry-standard representations and warranties related to loan sales.

In the normal course of business, the Company uses derivative financial instruments on these loans during the period from when the Company has originated the loan until the time in which the loan is sold. Derivative instruments are carried at fair value. These derivatives are used for risk management purposes to reduce its exposure to fluctuations in mortgage-related interest rates as well as lessen its credit risk. The Company hedges its interest rate exposure through entering into interest rate swap futures and had a notional outstanding of \$195.7 million with fair values of \$0.6 million in contracts in a gain position and \$0.7 million in a loss position as of August 31, 2013. Credit exposure is managed at a portfolio level through entering into credit default swaps. As of August 31, 2013, Rialto held \$170.0 million of notional, consisting of both single "A", "AAA" and "BBB" rated CMBX swaps with a fair value of \$9.1 million in contracts in gain position. The Company does not enter into or hold derivatives for trading or speculative purposes (see Note 12). Derivative instruments in gain positions are recorded in Other assets-net in the accompanying consolidated balance sheets (see Note 9), while derivative instruments in loss positions are recorded within Accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Deficiency Interest Income — Deficiency recoveries from foreclosed loans is a component of the Company's operations. Upon receipt of consideration from a deficiency settlement, the Company determines the fair value of the net assets received and records interest income. During the three months ended August 31, 2013 and 2012, the Company recorded \$2.3 million and \$3.2 million, respectively, in deficiency interest income. During the nine months ended August 31, 2013 and 2012, the Company recorded \$11.1 million and \$13.7 million, respectively, in deficiency interest income.

Variable Interest Entities — In 2010, the Company acquired indirectly 40% managing member equity interests in two limited liability companies ("LLCs"), in partnership with the FDIC. The Company determined that each of the LLCs met the definition of a VIE and that the Company was the primary beneficiary. In accordance with ASC 810-10-65-2, Consolidations, ("ASC 810-10-65-2"), the Company identified the activities that most significantly impact the LLCs' economic performance and determined that it has the power to direct those activities. The economic performance of the LLCs is most significantly impacted by the performance of the LLCs' portfolios of assets, which consisted primarily of distressed residential and commercial mortgage loans. Thus, the activities that most significantly impact the LLCs' economic performance are the servicing and disposition of mortgage loans and real estate obtained through foreclosure of loans, restructuring of loans, or other planned activities associated with the monetizing of loans.

The FDIC does not have the unilateral power to terminate the Company's role in managing the LLCs and servicing the loan portfolio. While the FDIC has the right to prevent certain types of transactions (i.e., bulk sales, selling assets with recourse back to the selling entity, selling assets with representations and warranties and financing the sales of assets without the FDIC's approval), the FDIC does not have full voting or blocking rights over the LLCs' activities, making their voting rights protective in nature, not substantive participating voting rights. Other than as described in the preceding sentence, which are not the primary activities of the LLCs, the Company can cause the LLCs to enter into both the disposition and restructuring of loans without any involvement of the FDIC. Additionally, the FDIC has no voting rights with regard to the operation/management of the operating properties that are acquired upon foreclosure of loans (e.g. REO) and no voting rights over the business plans of the LLCs. The FDIC can make suggestions regarding the business plans, but the Company can decide not to follow the FDIC's suggestions and not to incorporate them in the business plans. Since the FDIC's voting rights are protective in nature and not

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

substantive participating voting rights, the Company has the power to direct the activities that most significantly impact the LLCs' economic performance.

In accordance with ASC 810-10-65-2, the Company determined that it had an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs or the right to receive benefits from the LLCs that could potentially be significant to the LLCs based on the following factors:

- Rialto/Lennar owns 40% of the equity of the LLCs. The LLCs have issued notes to the FDIC totaling \$626.9 million. The notes issued by the LLCs must be repaid before any distributions can be made with regard to the equity. Accordingly, the equity of the LLCs has the obligation to absorb losses of the LLCs up to the amount of the notes issued.
- Rialto/Lennar has a management/servicer contract under which the Company earns a 0.5% servicing fee.
- Rialto/Lennar has guaranteed, as the servicer, its obligations under the servicing agreement up to \$10 million.

The Company is aware that the FDIC, as the owner of 60% of the equity of each of the LLCs, may also have an obligation to absorb losses of the LLCs that could potentially be significant to the LLCs. However, in accordance with ASC Topic 810-10-25-38A, only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE.

Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company consolidated the LLCs.

During 2011, the Company acquired an equity interests in several joint ventures as part of a deficiency settlement. Management determined that each of the joint ventures met the definition of a VIE. In accordance with ASC 810-10-65-2, Consolidations, (ASC 810-10-65-2), management identified the activities that most significantly impact the joint ventures' economic performance and determined whether it has the power to direct those activities in the joint venture. The activities that most significantly impact the joint ventures' economic performance is the servicing and maintenance of the entity's underlying asset, which consists of commercial real estate. Although the Company has no obligation to provide financial support to any of its VIE's and has only its equity investment at risk, the Company has determined it has the right to direct the activities and to potentially receive significant benefits from one of the joint venture entities due to its majority ownership and equity position in the entity. Since both criteria for consolidation in ASC 810-10-65-2 are met, the Company has consolidated the joint venture in its financial statements.

Real Estate Owned — Real estate owned (REO) represents real estate which the Company has taken control or has effective control of in partial or full satisfaction of loans receivable. At the time of acquisition through foreclosure of a loan, REO is recorded at fair value less estimated costs to sell if classified as held for sale and at fair value if classified as held and used, which becomes the property's new basis. The fair values of these assets are determined in part by placing reliance on third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity. The third-party appraisals and internally developed analysis are significantly impacted by local market economy, market supply and demand, competitive conditions, and prices on comparable properties, adjusted for date of sale, location, property size, and other factors. Each REO is unique and is analyzed in the context of the particular market where the property is located. In order to establish the significant assumptions for a particular REO, the Company analyzes historical and current trends in the market and economy impacting the REO. Using available trend information, the Company then calculates its best estimate of fair value, which can include projected cash flows discounted at a rate that management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

believes a market participant would determine to be commensurate with the inherent risks associated with the assets and related estimated cash flow streams.

Changes in economic factors, consumer demand, and market conditions, among other things, could materially impact estimates used in the third-party appraisals and/or internally prepared analysis of recent offers or prices on comparable properties. Thus, estimates can differ significantly from the amounts ultimately realized by the Company from disposition of these assets. The amount by which the recorded investment in the loan is less than the REO's value (net of estimated cost to sell if held for sale), is recorded as a gain on foreclosure within REO expense in the accompanying consolidated statements of operations. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held for sale), is initially recorded as impairment within REO expense in the accompanying consolidated statement of operations.

Subsequent to obtaining REO via foreclosure or directly from a financial institution, management periodically performs valuations using the methodologies described above such that the real estate is carried at the lower of its carrying value or current fair value, less estimated costs to sell if classified as held for sale. Held and used assets are tested for recoverability whenever changes in circumstances indicate that its carrying value may not be recoverable, and impairment losses are recorded for any amount by which the carrying value exceeds its fair value. Any subsequent impairment losses, operating expenses or income, and gains and losses on disposition of such properties are also recognized in income. REO assets classified as held and used are depreciated using a useful life of 40 years for commercial properties and 27 1/2 years for residential properties. REO assets classified as held for sale are not depreciated. Occasionally an asset will require certain improvements to yield a higher return. In accordance with ASC 970-340-25, Real Estate, construction costs incurred prior to acquisition or during development of the asset are capitalized.

Operating Property and Equipment — Operating property and equipment are recorded at cost and are included in other assets in the consolidated balance sheets. The assets are depreciated over their estimated useful lives using the straight-line method. At the time operating properties and equipment are disposed of, the asset and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to earnings. The estimated useful life for operating properties is thirty years, for furniture, fixtures and equipment is two to ten years and for leasehold improvements is five years or the life of the lease, whichever is shorter. Operating properties are reviewed for possible impairment if there are indicators that their carrying amounts are not recoverable.

Management Fees Revenue — The Company provides services to a variety of legal entities and investment vehicles such as funds, joint ventures, co-invests, and other private equity structures to manage their respective investments. As a result, the Company earns and receives investment management fees, underwriting fees and due diligence fees. These fees are recorded over the period in which the services are performed, fees are determinable and collectability is reasonably assured. The Company receives investment management fees from investment vehicles based on 1) a percentage of committed capital during the commitment period and after the commitment period ends, and 2) a percentage of drawn commitments less the portion of such drawn commitments utilized to acquire investments that have been sold (in whole or in part) or liquidated (provided such drawn commitments are not subsequently reinvested in other investments) or completely written off. Fees earned for underwriting and due diligence services are based on actual costs incurred.

In certain situations, the Company may earn additional fees when the return on assets managed exceeds contractual thresholds. Such revenue is only booked when substantially all of the contract terms are met, the contract is at or near completion and the amounts are known and collectability is reasonably

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

assured. Since such revenue is recognized at the end of the life of the investment vehicle, after substantially all of the assets have been sold and investment gains and losses realized, the possibility of claw back provisions is limited.

Debt Issuance Costs — Certain issuance costs were incurred for the financing of the FDIC notes payable ("Notes"). These costs were approximately 3% of the principal balance of the Notes. With the creation of the RMF line of business during the quarter, the Company entered into a \$250 million warehouse repurchase facility ("Facility") to be used to fund the origination of commercial first mortgage loans, and incurred \$1.3 million of fees associated with the Facility. Such costs associated with the Notes and the Facility were deferred and are amortized to interest expense over the expected term of the underlying debt using the straight-line method, which approximates the effective-interest method. These costs are reflected as other assets — net in the accompanying consolidated balance sheets.

Income Tax — The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. Interest related to unrecognized tax benefits is recognized as a component of provision for income taxes in the accompanying consolidated statements of operations.

A reduction of the carrying amounts of deferred tax assets by a valuation allowance is required if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed each reporting period by the Company based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring unused and tax planning alternatives.

Concentration of Risk — The Company's success depends to a certain extent on the general economic conditions of the geographic markets of the Company's acquired loans and foreclosed assets. At August 31, 2013 and November 30, 2012, distressed assets held by the Company were primarily concentrated in the states of Georgia, Florida, Arizona, California, Nevada, and South Carolina. Adverse changes in the economic conditions of these geographical areas may have a significant impact on the Company's commercial and residential real estate loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. The aforementioned may have a negative effect on the Company's business, financial condition, and results of operations.

Unaudited/Interim Periods — These consolidated financial statements and accompanying notes as of August 31, 2013 and November 30, 2012 and for the three and nine months ended August 31, 2013 and 2012 are unaudited and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the report for the year ended November 30, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE
THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

3. DEFEASANCE CASH TO RETIRE NOTES PAYABLE

The Company has established a defeasance account for the benefit of the FDIC. Funds are deposited into the defeasance accounts, pursuant to a priority of payments (which first requires loan proceeds to be used for various fees, expenses, and working capital prior to any excess being deposited in the defeasance accounts), until the amount of the funds held in the defeasance accounts is equal to the sum of the outstanding principal balances of the Notes. No funds from any other source shall be commingled in the defeasance accounts. The Company cannot prepay all or any portion of the Notes without the prior written consent of the FDIC. Upon the maturity of the last maturing note, all funds in the defeasance account will be transferred to the FDIC. The defeasance cash balance as of August 31, 2013 and November 30, 2012, was approximately \$78.0 million and \$223.8 million, respectively. The Company has made principal payments totaling \$360 million in the nine months ended August 31, 2013 towards these Notes using funds from the defeasance cash account.

4. LOANS RECEIVABLE AND ACCRETABLE YIELD

The following table displays the loan portfolio by aggregate-level collateral-type classifications at August 31, 2013 and November 30, 2012 (in thousands):

	August 31, 2013	November 30, 2012
Land	\$181,755	\$216,095
Single family homes	65,765	93,207
Commercial properties	62,798	96,226
Multifamily homes	5,000	12,776
Other	13,349	18,231
Loans receivable — net	\$328,667	\$436,535

With regard to loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, ("ASC 310-30"), the Company estimated the cash flows, at acquisition, it expected to collect on the FDIC Portfolios and Bank Portfolios. In accordance with ASC 310-30, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Company's condensed consolidated balance sheets. The excess of cash flows expected to be collected over the cost of the loans acquired is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans using the effective yield method.

The Company periodically evaluates its estimate of cash flows expected to be collected on its FDIC Portfolios and Bank Portfolios. These evaluations require the continued use of key assumptions and estimates, similar to those used in the initial estimate of fair value of the loans to allocate purchase price. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized as a provision for loan losses, resulting in an increase to the allowance for loan losses.

The outstanding contractual payments and cash flows expected to be collected on the date of acquisition were \$4.2 billion and \$2.0 billion, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

As of August 31, 2013 and November 30, 2012, the outstanding balance and carrying value of loans accounted for under ASC 310-30 was as follows (in thousands):

	August 31, 2013	August 31, 2012
Outstanding principal balance	\$659,638	\$812,187
Carrying value	\$311,655	\$396,200

The activity in the accretable yield for the FDIC Portfolios and Bank Portfolios during the nine months ended August 31, 2013 and 2012 were as follows (in thousands):

	Nine Months Ended		
	August 31, 2013	August 31, 2012	
Beginning balance	\$112,899	\$209,480	
Net additions	53,652	43,306	
Accretions	(38,455)	(58,108)	
Deletions	(38,263)	(71,830)	
Ending balance	\$ 89,833	\$122,848	

Additions primarily represent reclasses from nonaccretable yield to accretable yield on the portfolios. Deletions represent loan impairments and disposal of loans, which includes foreclosure of underlying collateral and result in the removal of the loans from the accretable yield portfolios. As the Company continues to obtain additional information related to the expected cash flows on the acquired loans, the accretable yield may change. Therefore, the amounts of accretable income recorded for the nine months ended August 31, 2013, are not necessarily indicative of the results to be expected in the future.

5. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The following table shows the activity related to allowance for loan losses for the three and nine months ended August 31, 2013 (in thousands):

	Three Months Ended August 31, 2013				ree Months End August 31, 2013	
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Beginning balance Provision for loan	\$18,716	\$ 1,773	\$20,489	\$12,178	\$ 3,722	\$15,900
losses	3,318	160	3,478	12,849	1,239	14,088
Charge-offs	(1,940)	(1,029)	(2,969)	(4,933)	(4,057)	(8,990)
Ending Balance	\$20,094	\$ 904	\$20,998	\$20,094	\$ 904	\$20,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The following table shows the activity related to allowance for loan losses for the three and nine months ended August 31, 2012 (in thousands):

	Three Months Ended August 31, 2013			Three Months Ended August 31, 2013		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Beginning balance Provision for loan	\$ -	\$ 212	\$ 212	\$ -	\$ 801	\$ 801
losses	17,132 (2,981)	3,170 (412)	20,302 (3,393)	17,132 (2,981)	5,440 (3,271)	22,572 (6,252)
Ending Balance	\$14,151	\$2,970	\$17,121	\$14,151	\$ 2,970	\$17,121

At August 31, 2013 and November 30, 2012, the carrying value of loans accounted for under ASC 310-30 totaled approximately \$311.7 million and \$396.2 million, respectively, and was assessed for impairment at the pool level. The Company's homogeneous pools are comprised of loans with similar characteristics such as loan type and the geographical location of the underlying collateral. At August 31, 2013 and November 30, 2012, the Company had approximately \$20.1 million and \$12.2 million, respectively, of allowance for loan losses against loans of this type.

At August 31, 2013 and November 30, 2012, there were loans receivable with a carrying value of approximately \$17.0 million and \$40.3 million, respectively, which are considered impaired under ASC 310-10, and for which interest income was not being recognized as they were classified as nonaccrual. At August 31, 2013 and November 30, 2012, the Company had approximately \$0.9 million and \$3.7 million, respectively, of allowance for loan losses against the nonaccrual loans.

When forecasted principal and interest cannot be reasonably estimated at the loan acquisition date, management classifies the loan as nonaccrual and accounts for these assets in accordance with ASC 310-10, Receivables ("ASC 310-10"). When a loan is classified as nonaccrual, any subsequent cash receipt is accounted for using the cost recovery method. In accordance with ASC 310-10, a loan is considered impaired when based on current information and events it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Although these loans met the definition of ASC 310-10, these loans were not considered impaired relative to the Company's recorded investment at the time of acquisition since they were acquired at a substantial discount to their unpaid principal balance. A provision for loan losses is recognized when the recorded investment in the loan is in excess of its fair value. The fair value of the loan is determined by using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The following tables represent nonaccrual loans in the FDIC Portfolios and Bank Portfolios accounted for under ASC 310-10 aggregated by collateral type at August 31, 2013 and November 30, 2012 (in thousands):

	August 31, 2013			
	Unpaid	Recorded Investment		Total
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment
Land	\$ 7,486	221	\$ 2,903	\$ 3,124
Single family homes	16,615	1,716	3,815	5,531
Commercial properties	14,694	554	7,803	8,357
Total	\$38,795	<u>2,491</u>	<u>\$14,521</u>	<u>\$17,012</u>

	November 30, 2012				
	Unpaid	Recorded I	Total		
Collateral Type	Principal Balance	With Allowance	Without Allowance	Recorded Investment	
Land	\$23,163	4,983	\$ 2,844	\$ 7,827	
Single family homes	18,966	8,311	2,244	10,555	
Commercial properties	35,996	1,006	20,947	21,953	
Total	\$78,125 	14,300	\$26,035	\$40,335	

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The average recorded investment in impaired loans totaled approximately \$29 million and \$67 million, respectively, for the nine months ended August 31, 2013 and 2012.

The loans receivable portfolios consist of loans acquired at a discount. Based on the nature of these loans, the portfolios are managed by assessing the risks related to the likelihood of collection of payments from borrowers and guarantors, as well as monitoring the value of the underlying collateral. The following are the risk categories for the loans receivable portfolios:

Accrual — Loans in which forecasted cash flows under the loan agreement, as it might be modified from time to time, can be reasonably estimated at the date of acquisition. The risk associated with loans in this category relates to the possible default by the borrower with respect to principal and interest payments and thus a decline in the forecasted cash flows used to determine accretable yield income and the recognition of impairment through an allowance for loan losses.

Nonaccrual — Loans in which forecasted principal and interest could not be reasonably estimated at the date of acquisition. Although the Company believes the recorded investment balance will ultimately be realized, the risk of nonaccrual loans relates to a decline in the value of the collateral securing the outstanding obligation and the recognition of impairment through an allowance for loan losses if the recorded investment in the loan exceeds the fair value of the collateral.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

Risk categories net of allowance for loan losses at August 31, 2013 and November 30, 2012 (in thousands):

August 31, 2013

Non-accrual

\$40,335

Total

\$436,535

Accrual

\$396,200

Land	\$178,631	\$ 3,124	\$181,755
Single family homes	60,234	5,531	65,765
Commercial properties	54,441	8,357	62,798
Multifamily homes	5,000		5,000
Other	13,349		13,349
Total	\$311,655	\$17,012	\$328,667
	No	ovember 30, 201	.2
Collateral Type	Accrual	Non-accrual	.2 Total
Collateral Type			
	Accrual	Non-accrual	Total
Land	Accrual \$208,268	Non-accrual \$ 7,827	Total \$216,095
Land	Accrual \$208,268 82,652	Non-accrual \$ 7,827 10,555	Total \$216,095 93,207

In order to assess the risk associated with each risk category, the Company evaluates the forecasted cash flows and the value of the underlying collateral securing loans receivable on a quarterly basis or when an event occurs that suggests a decline in the assets' fair value.

6. REAL ESTATE OWNED

Collateral Type

The acquisition of properties acquired through, or in lieu of, loan foreclosure are reported within the consolidated balance sheets as REO held-and-used, net and REO held-for-sale. When a property is determined to be held-and-used, net, the asset is recorded at fair value and depreciated over its useful life using the straight line method. When certain criteria set forth in ASC 360, *Property, Plant and Equipment*, are met; the property is classified as held-for-sale. When a real estate asset is classified as held-for-sale, the property is recorded at the lower of its cost basis or fair value less estimated costs to sell. The fair value of REO held-for-sale are determined in part by placing reliance on third party appraisals of the properties and/or internally prepared analyses of recent offers or prices on comparable properties in the proximate vicinity.

Upon the acquisition of REO through loan foreclosure, gains and losses are recorded in REO expense in the accompanying consolidated statements of operations. The amount by which the recorded investment in the loan is less than the REO's fair value (net of estimated cost to sell if held-for-sale), is recorded as an unrealized gain upon foreclosure. The amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is generally recorded as a provision for loan losses.

At times, the Company may foreclose on a loan from an accrual loan pool in which the removal of the loan does not cause an overall decrease in the expected cash flows of the loan pool, and as such, no provision for loan losses is required to be recorded. However, the amount by which the recorded investment in the loan is greater than the REO's fair value (net of estimated cost to sell if held-for-sale) is recorded as an unrealized loss upon foreclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The following tables present the activity in REO for the three and nine months ended August 31, 2013 and 2012 (in thousands):

	Three Mor	nths Ended	ed Nine Months E	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
REO held-for-sale, beginning balance	\$204,385	\$113,115	\$ 134,161	\$ 143,677
Additions	14,833	6,428	16,166	7,783
Improvements	1,949	1,439	4,466	7,438
Sales	(68,087)	(27,956)	(145,363)	(110,010)
Impairments	(169)	(810)	(4,353)	(2,432)
Transfers to Parent	(430)	(7,431)	(430)	(11,335)
Transfer from held-and-used(1)	46,128	30,933	193,962	80,597
REO held-for-sale, ending balance	\$198,609	\$115,718	\$ 198,609	\$ 115,718
	Three Mor	nths Ended	Nine Mon	ths Ended
	Three Mor August 31, 2013	August 31, 2012	Nine Mon August 31, 2013	ths Ended August 31, 2012
REO held-and-used, beginning balance	August 31,	August 31,	August 31,	August 31,
REO held-and-used, beginning balance	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	August 31, 2013 \$478,314	August 31, 2012 \$634,401	August 31, 2013 \$ 601,022	August 31, 2012 \$582,111
Additions	August 31, 2013 \$478,314 14,154	August 31, 2012 \$634,401 44,958	August 31, 2013 \$ 601,022 38,882	August 31, 2012 \$582,111 154,633 2,850
Additions Improvements Sales	August 31, 2013 \$478,314 14,154 517	August 31, 2012 \$634,401 44,958 2,070	August 31, 2013 \$ 601,022 38,882 3,396	August 31, 2012 \$582,111 154,633 2,850 (981)
Additions Improvements Sales Impairments	August 31, 2013 \$478,314 14,154 517 (5,126)	August 31, 2012 \$634,401 44,958 2,070 (1,880)	August 31, 2013 \$ 601,022 38,882 3,396 (5,529)	August 31, 2012 \$582,111 154,633 2,850 (981) (5,153)

⁽¹⁾ During the three and nine months ended August 31, 2013 and 2012, the Company transferred certain properties from REO held-and-used, net to REO held-for-sale as a result of changes in the disposition strategy of the real estate assets.

For the three and nine months ended August 31, 2013, the Company recorded \$9.7 million and \$36.9 million, respectively, of net gains from sales of REO. For the three and nine months ended August 31, 2012, the Company recorded \$2.4 million and \$10.9 million, respectively, of net gains from sales of REO. For the three and nine months ended August 31, 2013, the Company recorded net gains of \$2.9 million and \$1.2 million, respectively, from acquisitions of REO through foreclosure. For the three and nine months ended August 31, 2012, the Company recorded net gains (losses) of (\$2.0) million and \$1.7 million, respectively, from acquisitions of REO through foreclosure. These net gains (losses) are recorded in REO expense in the consolidated statements of operations.

7. RIALTO MORTGAGE FINANCE

During the third quarter of 2013, RMF was formed to originate and securitize five, seven and ten year commercial first mortgage loans, generally with principal amounts between \$2 million and \$75 million, which will be secured by income producing properties. As of August 31, 2013, RMF has originated \$245.2 million in total principal balance of loans. On September 30, 2013 RMF sold \$198 million of these loans in a securitization. As of August 31, 2013, RMF had obtained a \$250 million warehouse repurchase

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

financing agreement of which, \$133.1 million was outstanding. On October 9, 2013, the Company closed on a second \$250 million warehouse repurchase facility, bringing its total committed credit facilities to \$500 million.

8. INVESTMENTS

Investments Held-to-Maturity

Commercial Mortgage Backed Securities — The \$43 million of non-investment grade CMBS was acquired for \$19.4 million, representing a 55% discount to par value. These securities bear interest at a coupon rate of 4% and have a stated and assumed final distribution date of November 2020 and a stated maturity date of October 2057. The Company reviews changes in estimated cash flows periodically, to determine if other-than-temporary impairment has occurred on its investment securities. Based on the Company's assessment, no impairment charges were recorded during the nine months ended August 31, 2013 and 2012. The carrying value of the investment securities at August 31, 2013 and November 30, 2012 was \$15.8 million and \$15.0 million, respectively. The fair value of the investment securities at August 31, 2013 and November 30, 2012 was \$15.7 million and \$14.9 million, respectively. The Company classified these securities as held-to-maturity based on its intent and ability to hold the securities until maturity.

In a CMBS transaction, monthly interest received from all of the pooled loans is paid to the investors, starting with those investors holding the highest rated bonds and progressing in an order of seniority based on the class of security. Based on the aforementioned, the principal and interest repayments of a particular class are dependent upon collections on the underlying mortgages, which are affected by prepayments, extensions and defaults.

Investments in Unconsolidated Entities

A subsidiary of the Company has approximately a 5% investment in a service and infrastructure provider to the residential home loan market (the "Service Provider"), which provides services to the consolidated LLCs, among others. As of August 31, 2013 and November 30, 2012, the carrying value of the Company's investment in the Service Provider was \$8.3 million and \$8.4 million, respectively.

Investment Funds — In November 2010, the Company completed its first closing of Fund I. Fund I's objective during its three-year investment period is to invest in distressed real estate assets and other related investments that fit within Fund I's investment parameters.

As of November 30, 2012, the equity commitments of Fund I were \$700 million. All capital commitments have been called and funded. Fund I is closed to additional commitments. During the three and nine months ended August 31, 2013, the Company received distributions of \$2.7 million and \$39.8 million, respectively, as a return of capital from Fund I. During the three and nine months ended August 31, 2012, the Company contributed \$8.8 million and \$26.8 million to Fund I. Of these amounts contributed, \$13.9 million was distributed back to the Company during the nine months ended August 31, 2012 as a return of capital contributions due to a securitization within Fund I. As of August 31, 2013 and November 30, 2012, the carrying value of the Company's investment in Fund I was \$73.9 million and \$98.9 million, respectively. For the three and nine months ended August 31, 2013, the Company's share of earnings from Fund I was \$3.7 million and \$14.8 million, respectively. For the three and nine months ended August 31, 2012, the Company's share of earnings from Fund I was \$6.2 million and \$16.8 million, respectively.

In December 2012, the Rialto segment completed the first closing of Fund II with initial equity commitments of approximately \$260 million, including \$100 million committed by the Company. No cash

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

was funded at the time of the closing. Fund II's objective during its three-year investment period is to invest in distressed real estate assets and other related investments that fit Fund II's investment parameters. As of August 31, 2013, the equity commitments of Fund II were \$643 million. During the nine months ended August 31, 2013, \$240 million of the \$643 million in equity commitments was called, of which, the Company contributed its portion of \$37.4 million.

In the third quarter of 2013, the Rialto segment started raising capital and investing in mezzanine commercial loans creating the Mezzanine Fund with a target of \$300 million in raised capital to invest in performing mezzanine commercial loans. These loans have expected durations of one to two years and are secured by equity interests in the borrowing entity owning the real estate. As of August 31, 2013, the Mezzanine Fund had total equity commitments of \$82 million, including \$25 million committed by the Company. As of August 31, 2013, total invested capital was \$13.5 million, including \$4.1 million by the Company.

Fund I, Fund II and the Mezzanine Fund are unconsolidated entities and are accounted for under the equity method of accounting. They were determined to have the attributes of an investment company in accordance with ASC Topic 946, *Financial Services — Investment Companies*, the attributes of which are different from the attributes that would cause a company to be an investment company for purposes of the Investment Company Act of 1940. As a result, Fund I, Fund II and the Mezzanine Fund's assets and liabilities are recorded at fair value with increases/decreases in fair value recorded in their respective statement of operations, the Company's share of which will be recorded in equity in earnings from unconsolidated entities in the accompanying consolidated statements of operations. The Company determined that Fund I, Fund II and the Mezzanine Fund are not variable interest entities but rather voting interest entities due to the following factors:

- The Company determined that Rialto's general partner interest and all the limited partners' interests qualify as equity investment at risk.
- Based on the capital structure of Fund I, Fund II and the Mezzanine Fund (100% capitalized via equity contributions), the Company was able to conclude that the equity investment at risk was sufficient to allow Fund I, Fund II and the Mezzanine Fund to finance its activities without additional subordinated financial support.
- The general partner and the limited partners in Fund I, Fund II and the Mezzanine Fund, collectively, have full decision-making ability as they collectively have the power to direct the activities of Fund I, Fund II and the Mezzanine Fund, due to the fact that Rialto, in addition to being a general partner with a substantive equity investment in Fund I, Fund II and the Mezzanine Fund, also provides services to Fund I, Fund II and the Mezzanine Fund under a management agreement and an investment agreement, which are not separable from Rialto's general partnership interest.
- As a result of all these factors, the Company has concluded that the power to direct the activities of Fund I, Fund II and the Mezzanine Fund reside in its general partnership interest and thus with the holders of the equity investment at risk.
- In addition, there are no guaranteed returns provided to the equity investors and the equity contributions are fully subjected to Fund I, Fund II and the Mezzanine Fund's operational results, thus the equity investors absorb the expected negative and positive variability relative to Fund I, Fund II and the Mezzanine Fund.
- Finally, substantially all of the activities of Fund I, Fund II and the Mezzanine Fund are not conducted on behalf of any individual investor or related group that has disproportionately few voting rights (i.e., on behalf of any individual limited partner).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

Having concluded that Fund I, Fund II and the Mezzanine Fund are voting interest entities, the Company evaluated the funds under the voting interest entity model to determine whether, as general partner, it has control over Fund I, Fund II and the Mezzanine Fund. The Company determined that it does not control Fund I, Fund II and the Mezzanine Fund as its general partner, because the unaffiliated limited partners have substantial kick-out rights and can remove Rialto as general partner at any time for cause or without cause through a simple majority vote of the limited partners. In addition, there are no significant barriers to the exercise of these rights. As a result of determining that the Company does not control Fund I, Fund II and the Mezzanine Fund under the voting interest entity model, Fund I, Fund II and the Mezzanine Fund are not consolidated in the Company's financial statements.

Summarized Condensed Financial Information

On a consolidated 100% basis related to Rialto's investments in unconsolidated entities that are accounted for by the equity method was as follows as of August 31, 2013 and November 30, 2012 and for the three and nine months ended August 31, 2013 and 2012 (in thousands):

Balance Sheets	August 31, 2013	November 30, 2012
Assets:		
Cash and cash equivalents	\$ 107,918	\$ 299,172
Loans receivable	406,473	361,286
Real estate owned	247,389	161,964
Investment securities	352,237	182,399
Investments in real estate partnerships	114,258	72,903
Other assets	186,760	199,839
	\$1,415,035	\$1,277,563
Liabilities and equity:		
Accounts payable and other liabilities	\$ 167,813	\$ 155,928
Notes payable	231,960	120,431
Partner loans	163,940	163,516
Equity	851,322	837,688
	\$1,415,035	\$1,277,563

	Three Mo	nths ended	Nine Months ended		
Statements of Operations	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012	
Revenues	\$69,856	\$115,800	\$189,155	\$357,328	
Costs and expenses	65,357	75,233	190,066	178,414	
Other income — net(1)	34,186	366,696	128,973	670,471	
Net earnings of unconsolidated entities	\$38,685	\$407,263	\$128,062	\$849,385	
Equity in earnings from unconsolidated entities	\$ 5,199	\$ 13,551	\$ 15,877	\$ 37,578	

⁽¹⁾ Other income — net for the three and nine months ended August 31, 2012 includes the AB PPIP Fund's mark-to-market unrealized gains and losses, all of which the Company's portion was a small percentage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE
THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

9. OTHER ASSETS

The Company's other assets consisted of the following at August 31, 2013 and November 30, 2012 (in thousands):

	August 31, 2013	November 30, 2012
Management fee receivables	\$14,975	\$ 8,783
REO operations receivables	6,315	4,298
RMF operations receivables	9,371	
Debt issuance costs — net	2,203	5,326
Interest rate contracts	607	
Credit contracts	9,093	
Operating property and equipment	4,437	159
Other	3,431	4,801
Total other assets — net	\$50,432	\$23,367

10. NOTES PAYABLE

In connection with the acquisition of the FDIC Portfolios, the FDIC provided \$626.9 million of financing with 0% interest, which is non-recourse to the Company and the LLCs. Pursuant with ASC Topic 835-30, Imputed Interest, interest has not been imputed, as the Notes are issued and guaranteed by a governmental agency. As of August 31, 2013 and November 30, 2012, the Notes balance was \$110.0 million and \$470.0 million, respectively; however, for the same time periods, \$78.0 million and \$223.8 million, respectively, of cash collections on loans in excess of expenses were deposited in a defeasance account, established for the repayment of the Notes, under the agreement with the FDIC. The funds in the defeasance account are being and will be used to retire the Notes upon their maturity. In February 25, 2013, the Company paid \$302.8 million of the \$314.0 million due to the FDIC on the notes payable. The Company and the FDIC entered into a forbearance agreement whereby the FDIC temporarily waived its right to reissue a new purchase money note for the remaining \$11.2 million balance of the portion of the notes payable that was due on February 25, 2013 until July 25, 2013. This forbearance does not meet the definition of an extension in the financing agreement and thus, no triggering event was deemed to have occurred. The Company agreed to disburse all available funds in the defeasance account on a monthly basis to the FDIC until the remaining \$11.2 million balance of the portion of the Notes that was due on February 25, 2013 was paid in full, but no later than July 25, 2013. In March 2013, the Company paid the remaining balance of the Notes that was due on February 25, 2013 with cash disbursed from the defeasance account. In July 2013, we paid off the remaining balance of one of the notes in the amount of \$46.0 million, seven months ahead of schedule. In October 2013, four months ahead of schedule, the LLCs we own in partnership with the FDIC paid off the balance of the other note in the amount of \$110.0 million, repaying the loans the FDIC made to the LLCs when they were formed. Since the Notes are completely paid off, no further funds will be deposited into the defeasance account. All remaining cash, after considering the priority of payments, will be distributed 60% to the FDIC and 40% to the Company. For the three months ended August 31, 2013, the LLCs distributed \$3.3 million to its members, of which, \$2.0 million was paid to the FDIC and \$1.3 million was paid to the Company. Through October 25, 2013, an additional \$24.6 million was distributed by the LLCs, of which, \$14.8 million was paid to the FDIC and \$9.8 million was paid to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

On January 31, 2011, the Company obtained a monetary judgment on an unpaid principal balance of a loan receivable. Effective May 2, 2011, the Company entered into a settlement agreement in consideration for a stay of execution on the monetary judgment and agreed to accept the conveyance of full and partial ownership interests in entities that own numerous real estate assets. The real estate assets are comprised primarily of commercial office buildings. At the time the Company acquired these ownership interests, the underlying assets were assessed a fair value of approximately \$20.5 million and included the assumption of notes payable totaling approximately \$15.1 million which are reflected within Notes payable — other, in the table below. As part of the settlement agreement, the Company also accepted a secured promissory note receivable in the amount of \$2.5 million from the obligor which is included in the Company's consolidated balance sheet within loans receivable, net. The note bears interest at 5% per annum and requires interest only payments of \$125,000 over the next five years with the principal amount due on May 30, 2016. The \$2.5 million promissory note is secured by a stock pledge and pledge of cash distributions from additional commercial office building assets, of which the obligor is an owner.

In September 2010, the Company acquired approximately 400 distressed residential and commercial real estate loans ("Bank Portfolios") and over 300 REO properties from three financial institutions. The Company paid \$310 million for the distressed real estate and real estate related assets of which \$124 million was financed through a 5-year senior unsecured note provided by one of the selling institutions of which \$33.0 million of principal amount was retired in 2012.

In August 2013, we exercised our right to extend the maturity date of the Bank portfolio's note payable originally due September 30, 2013 to September 30, 2015, with payments in the amount of \$33 million now due on both December 16, 2013 and December 15, 2014, with the remaining principle balance to be paid in full on September 30, 2015.

The RMF Facility has a maturity date of August 9, 2015 with an option for a one time, one year extension. The Facility is secured by a 75% interest in the originated commercial loans financed under the Facility. The Facility bears interest at LIBOR plus 2.25% (with a LIBOR floor of 0.25%) and is calculated on the then outstanding principal amount. The Facility requires the Company to maintain a minimum liquidity, tangible net worth, interest coverage and debt to equity ratios. The Company believes it is in compliance with all debt covenants as of August 31, 2013. The Facility requires immediate repayment of the 75% interest in the secured commercial loans upon the event that such loans are sold in a securitization. As of August 31, 2013, the Company had \$133.1 million outstanding under this Facility.

The Company's notes payable consisted of the following at August 31, 2013 and November 30, 2012 (in thousands):

	August 31, 2013	November 30, 2012
FDIC Financing	\$110,000	\$470,000
Bank Portfolios	90,933	90,933
Warehouse Repurchase Facility	133,103	
Notes payable — other	12,591	13,547
Total notes payable	\$346,627	\$574,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

Notes payable have interest rates ranging from 0% to 6.90%, and mature as follows (in thousands):

Year	Amount
2013	\$134,676
2014	145,500
2015	59,173
2016	4,847
2017	1,153
Thereafter	1,278
Total notes payable	\$346,627

11. REO EXPENSE

The Company's REO income (expense) consisted of the following for the three and nine months ended August 31, 2013 and 2012 (in thousands):

	Three Months Ended		Nine Months Ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Realized gains on the sale of REO	\$ 9,652	\$ 2,419	\$ 36,857	\$ 10,857
Net unrealized (losses) gains on loan foreclosure	2,922	(2,000)	1,199	1,662
Impairment on REO	(5,295)	(2,690)	(9,882)	(7,585)
REO expenses	(10,268)	(12,035)	(33,171)	(40,758)
REO expense	\$ (2,989) ===================================	\$(14,306)	\$ (4,997) ===================================	\$(35,824)

12. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at August 31, 2013 and November 30, 2012 (in thousands), respectively, using available market information and what the Company believes to be appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. The table excludes cash, defeasance cash to retire notes payable, and accounts payable, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

	August 31, 2013		Novem 20	ber 30, 12
	Carrying Fair Amount Value		Carrying Amount	Fair Value
Assets				
Loans receivable — net	\$328,667	\$349,079	\$436,535	\$450,281
Investments held-to-maturity	\$ 15,791	\$ 15,673	\$ 15,012	\$ 14,904
Liabilities				
Notes payable	\$213,524	\$206,076	\$574,480	\$568,702
Warehouse repurchase facility	\$133,103	\$133,103	\$	\$

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The following methods and assumptions are used by the Company in estimating fair value:

Loans Receivable — The fair value of loans receivable is based on discounted cash flows as of August 31, 2013 and November 30, 2012, respectively, or the fair value of the underlying collateral less estimated cost to sell.

Loans Held-for-Sale — The fair value of loans held-for-sale is based on loan collateral information consolidated with management's assumptions using information from new issues, secondary markets and cmbx indices.

 $Interest\ Rate\ Contracts$ — The fair value of interest rate contracts (derivatives) is based on quoted market prices for identical investments traded in active markets.

Credit Contracts — The fair value of credit contracts (derivatives) is based on quoted market prices for similar investments traded in active markets.

Investments Held-to-Maturity — The fair value for investments held-to-maturity is based on discounted cash flows.

Notes Payable — The fair value of the zero percent notes guaranteed by the FDIC was calculated based on a six-month and two-year treasury yield as of August 31, 2013 and November 30, 2012, respectively, and the fair value of other notes payable was calculated based on discounted cash flows using an estimated effective borrowing rate.

Warehouse Repurchase Facility — The fair value of the warehouse repurchase facility is assumed to approximate its carrying value because of its short duration.

Fair Value Measurements — Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These levels include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume).

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair Value on a Recurring Basis — Assets accounted for under ASC 825 are initially measured at fair value. Expected gains and losses from initial measurement and subsequent changes in fair value are recognized in revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The Company's financial instruments measured at fair value on a recurring basis are summarized below (in thousands):

	Three months ended August 31, 2013			
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)	
Financial Assets				
Loans held-for-sale(1)	Level 3	\$244,666	\$(1,086)	
Interest rate contracts	Level 1	607	607	
Credit contracts	Level 2	9,093	1,343	
Financial Liabilities				
Interest rate contracts	Level 1	\$ 701	\$ (701)	

⁽¹⁾ The aggregate fair value of loans held-for-sale of \$244.7 million at August 31, 2013 are below their aggregate principal balance of \$245.2 million by \$0.6 million which consisted of interest of \$0.5 million and a change in fair value of (\$1.1) million.

The Company did not hold financial instruments measured at fair value on a recurring basis as of August 31, 2012.

Fair Value on a Nonrecurring Basis — From time to time, certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of real estate acquisition through foreclosure, the application of the lower of cost or fair value accounting and impairments. For example, if the fair value of an asset in these categories falls below its cost basis, it is considered to be at fair value at the end of the period of the adjustment. In periods where there is no adjustment, the asset is generally not considered to be at fair value. The assets measured at fair value on a nonrecurring basis are summarized below (in thousands):

	Three months ended August 31, 2013		
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$157,955	\$(3,478)
Non-Financial Assets			
REO – held-and-used – net(1)	Level 3	\$ 16,204	\$(4,836)
REO — held-for-sale(2)	Level 3	14,833	2,464

⁽¹⁾ REO — held-and-used — net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$13.9 million and a fair value of \$14.2 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-and-used, net, were \$0.3 million. As part of management's periodic valuations of its REO, held-and-used, net, during the three months ended August 31, 2013, REO, held-and-used, net, with an aggregate value of \$7.2 million were written down to their fair value of \$2.1 million, resulting in impairments of \$5.1 million. These gains and impairments are included within REO expense in the Company's consolidated statement of operations for the three months ended August 31, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

(2) REO — held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$12.2 million and a fair value of \$14.9 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-for-sale, were \$2.7 million. As part of management's periodic valuations of its REO, held-for-sale, during the three months ended August 31, 2013, REO, held-for-sale, with an aggregate value of \$0.2 million were written down to their fair value of \$0.0 million, resulting in impairments of \$0.2 million. These gains and impairments are included within REO expense in the Company's consolidated statement of operations for the three months ended August 31, 2013.

	Three months ended August 31, 2012		
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$341,060	\$(20,302)
Non-Financial Assets			
$REO - held$ -and-used $- net(1) \dots$	Level 3	\$ 53,292	\$ (2,006)
REO — held-for-sale(2)	Level 3	10,101	(2,682)

- (1) REO held-and-used net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$64.2 million and a fair value of \$63.4 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO, held-and-used, net, were \$0.8 million. As part of management's periodic valuations of its REO, held-and-used, net, during the year ended August 31, 2012, REO, held-and-used, net, with an aggregate value of \$3.3 million were written down to their fair value of \$2.6 million, resulting in impairments of \$0.7 million. These losses and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2012.
- (2) REO held-for-sale, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO held-and-used, net, had a carrying value of \$45.1 million and a fair value of \$45.0 million. The fair value of REO held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO held-and-used, net, were \$0.1 million. As part of management's periodic valuations of its REO held-and-used, net, during the three months ended August 31, 2012, REO held-and-used, net, with an aggregate value of \$10.2 million were written down to their fair value of \$8.3 million, resulting in impairments of \$1.9 million. These losses and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2012.

	Nine months ended August 31, 2012		
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$186,768	\$(14,088)
Non-Financial Assets			
REO — held-and-used — net(1)	Level 3 Level 3	\$ 43,364 34,853	\$ (6,302) (2,380)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

- (1) REO held-and-used net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$39.7 million and a fair value of \$38.9 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO, held-and-used, net, were \$0.8 million. As part of management's periodic valuations of its REO, held-and-used, net, during the nine months ended August 31, 2013, REO, held-and-used, net, with an aggregate value of \$10.0 million were written down to their fair value of \$4.5 million, resulting in impairments of \$5.5 million. These losses and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2013.
- (2) REO held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$2.0 million and a fair value of \$1.3 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO, held-for-sale, were \$0.7 million. As part of management's periodic valuations of its REO, held-for-sale, during the year ended August 31, 2013, REO, held-for-sale, with an aggregate value of \$22.9 million were written down to their fair value of \$18.7 million, resulting in impairments of \$4.2 million. These losses and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2013.

	Nine months ended August 31, 2012		
	Fair Value Hierarchy	Fair Value	Total Gains (Losses)
Financial Assets			
Impaired loans receivable	Level 3	\$341,060	\$(22,572)
Non-Financial Assets			
REO — held-and-used — net (1)	Level 3 Level 3	\$173,665 23,967	\$ (1,051) (4,870)

- (1) REO held-and-used net, assets are initially recorded at fair value at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-and-used, net, had a carrying value of \$150.5 million and a fair value of \$154.6 million. The fair value of REO, held-and-used, net, is based upon the appraised value at the time of foreclosure or management's best estimate. The gains upon acquisition of REO, held-and-used, net, were \$4.1 million. As part of management's periodic valuations of its REO, held-and-used, net, during the nine months ended August 31, 2012, REO, held-and-used, net, with an aggregate value of \$24.2 million were written down to their fair value of \$19.0 million, resulting in impairments of \$5.2 million. These gains and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2012.
- (2) REO held-for-sale, assets are initially recorded at fair value less estimated costs to sell at the time of acquisition through, or in lieu of, loan foreclosure. Upon acquisition, the REO, held-for-sale, had a carrying value of \$10.2 million and a fair value of \$7.8 million. The fair value of REO, held-for-sale, is based upon the appraised value at the time of foreclosure or management's best estimate. The losses upon acquisition of REO, held-for-sale, were \$2.4 million. As part of management's periodic valuations of its REO, held-for-sale, during the nine months ended August 31, 2012, REO, held-for-sale, with an aggregate value of \$18.6 million were written down to their fair value of \$16.2 million, resulting in impairments of \$2.4 million. These losses and impairments are included within REO expense in the Company's consolidated statement of operations for the nine months ended August 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

The following is a description of the valuation methodologies used for certain assets that are potentially recorded at fair value on a nonrecurring basis:

Loans Receivable — If impaired, the fair value of nonaccrual loans is based on discounted cash flows, or the fair value of the collateral less estimated disposition costs. If impaired, the fair value of accrual loan pools are based on discounted cash flows. The fair value of the real estate is determined through a combination of appraisals, broker opinions of value, and management's best estimate. The fair value of the underlying collateral is determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity.

Real Estate Owned — Held-and-Used and Held-for-Sale — Real estate owned classified as held and used is initially recorded at fair value and real estate classified as held for sale is recorded at fair value less estimated disposition costs at the time of acquisition. The fair values of these assets are determined in part by placing reliance on independent third-party appraisals of the properties and/or internally prepared analysis of recent offers or prices on comparable properties in the proximate vicinity.

13. INCOME TAXES

Rialto is included in the consolidated federal income tax return of Lennar. Although some entities in the Rialto consolidated reporting group are limited liability companies that have elected to be treated as disregarded entities or partnerships for federal income tax purposes, in accordance with the tax sharing arrangement with Lennar, income taxes have been provided as if the Rialto reporting group filed as a separate federal consolidated group. Income taxes are accounted for in accordance with ASC Topic 740, Income Taxes, ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on temporary differences between financial reporting carrying values and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. Rialto recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes.

During the three and nine months ended August 31, 2013, Rialto recorded a tax provision of \$0.5 million and \$2.6 million, respectively. The actual income tax differs from the "expected" tax expense for the period (computed by applying the U.S. federal corporate tax rate of 35% to earnings before income taxes) primarily due to the amount of state income taxes, net of the related federal tax benefit, and for amounts recorded for changes in tax reserves and interest expense.

During the year ended November 30, 2012, Lennar concluded that it was more likely than not that the majority of its deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative, including such factors as eleven consecutive quarters of earnings, the expectation of continued earnings and signs of recovery in the housing markets that Lennar operates. As a result, no valuation allowance is required. At August 31, 2013 and November 30, 2012, Rialto has a net deferred tax liability totaling \$14.3 million and \$22.2 million.

ASC 740 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with the tax sharing arrangement with Lennar, the gross unrecognized tax benefits of Lennar were allocated to the Company on a pro rata basis based on revenues. At August 31, 2013 and November 30, 2012, Rialto had \$0.2 million and \$0.4 million of gross unrecognized tax benefits.

The IRS is currently examining Lennar's federal income tax return for fiscal year 2011, and certain state taxing authorities are examining various fiscal years. The final outcome of these examinations is not

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued) AS OF AUGUST 31, 2013 AND NOVEMBER 30, 2012 AND FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012 (UNAUDITED)

yet determinable. The statute of limitations for Lennar's major tax jurisdictions remains open for examination for fiscal year 2005 and subsequent years.

14. COMMITMENTS AND CONTINGENCIES

The following table summarizes certain of our contractual obligations at August 31, 2013 (in thousands):

		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable(1)	\$213,524 133,103	\$ 1,573 133,103	\$204,673	\$6,000	\$1,278
Investment commitments(2)	83,518	20,777	62,741		
Operating leases	8,412	343	2,163	2,438	3,468
Total contractual obligations	\$438,557 	\$155,796	\$269,577	\$8,438	<u>\$4,746</u>

⁽¹⁾ Amount includes \$110 million of notes payable that was consolidated as part of the LLC consolidation related to the FDIC transaction and is non-recourse to the Parent; however, at August 31, 2013, \$78.0 million of cash collections on loans in excess of expenses had been deposited in a defeasance account established for the repayment of the FDIC notes payable.

(2) Amount includes our capital commitments to Fund II and the Mezzanine Fund.

15. PARENT COMPANY TRANSACTIONS

Lennar provides certain management, treasury, information technology, income tax, payroll and administrative services to the Company. No amounts are charged by Lennar for these services. In addition, cash funding is provided for operating capital on an as-needed basis. Excess operating funds generated by the Company and any cash distributions from unconsolidated entities are swept back to Lennar. No interest is charged for the use of funds provided by the Parent. All cash funding, net of amounts swept back to Lennar are recorded as due to Parent in the accompanying consolidated balance sheets.

For the nine months ended August 31, 2013, the Company transferred \$0.4 million of REO to Lennar at its carrying value and thus, no gain or loss was recognized. For the nine months ended August 31, 2012, the Company transferred \$11.3 million of REO to Lennar and recognized a gain of \$0.2 million.

Also, during the three months ended August 31, 2013, in accordance with a tax sharing arrangement with Lennar, \$0.5 million of tax reserves were allocated to the Company and recorded within Accrued expenses and other liabilities in the accompanying consolidated balance sheet.

16. SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, the Company evaluated subsequent events occurring after the balance sheet date of August 31, 2013 through October 30, 2013, the date the financial statements were available to be issued, and concluded that no events, other than those already described, have occurred that required recognition or disclosure in the consolidated financial statements.









RIALTO HOLDINGS, LLC RIALTO CORPORATION \$250,000,000

7.000% Senior Notes due 2018

OFFERING MEMORANDUM NOVEMBER 8, 2013

Joint Book-Running Managers

Wells Fargo Securities
J.P. Morgan
Deutsche Bank Securities

Co-Manager
Goldman, Sachs & Co.