



May 20, 2009

To: All Parties Interested in the Homestead Group of Companies

RE: The Homestead Group Status
May 18, 2009

Dear Friends:

This is the first of what we hope will be a series of letters allowing us to keep in touch regarding Homestead Group affairs.

The essential message of this letter is that we are currently operating on only one of the four legs of typical Homestead Group cash flow; that being the retail/resort revenues available to us in late spring and summer. In order for the company to survive and for your investment to be protected, we need to bring back two other legs; the first being construction and the second being the sale of Great Links Resorts timeshare points and/or sale and/or liquidation of that company. If we are unable to bring back construction, the inevitable result would be liquidation of the companies which would yield disastrous results for many of you.

Before I talk about particular issues regarding the restoration of construction and the Great Links Resorts subsidiary, let me talk about what has been going on here in the last 10 days. Last week, Alvin Starkenburg, Brad DeHaan and I went to Desert Canyon and met with a number of investors from the Wenatchee area. That meeting went well. The parties were questioning but civil and the general demeanor was very much the same as we experienced at all of the meetings held in Lynden. Let me personally thank you for the civil tone that was maintained at those meetings. It has helped substantially to allow me and the staff here to remain focused on the issues at hand, the primary goal being the preservation of investor assets.

In an effort to be completely transparent, the following is happening this week: the Ad Hoc Committee and perhaps others (I don't know who is paying the bill, but it is around \$10,000.00) have hired a Certified Public Accountant out of Bellevue who has chief financial officer experience and Chapter 11 reorganization experience. This accountant is completely independent of us; we are allowing him to come to the office and do a complete review of all of our books and records. This is, at this point, not an audit but an informal review and it is my understanding that he will be presenting some kind of a report by the end of this week or sometime next week.

We are currently working on assembling detail for a Chapter 11 filing but have not yet filed. We have not yet established timing for such filing.

There has been a phenomenal outpouring of support to the company, to me and to my family. We have received over 100 letters and 200 emails of support. That means a lot to us at this

Homestead Northwest
Corporate Offices P.O. Box 409
Lynden, WA 98264
(360) 354-3366
(360) 354-7038 fax
www.homesteadnw.com

time. In addition there have been scores of volunteers who are helping us maintain Homestead Farms Golf Course, the Sea Links Golf Course, the restaurants at Homestead Farms and Birch Bay and the Birch Bay Waterslides. Thank you to each of them for their outpouring of love and support at this time.

Meanwhile, we have continued construction company lay-offs as construction slows nearly to a halt. We are currently operating with very tight cash flow. It will be difficult for us to maintain retail/resort operations in the near term and through August. We do have rising revenues through that period, but currently very little to no revenues from any sales of properties; net proceeds of sales are currently being paid over to suppliers and investors.

As noted above, an independent accountant has been granted access to our books and records for the week and will be coming to the office Monday noon to begin his review. I have also been reviewing our situation over the last couple of weeks and put forward my analysis with this letter. It will be interesting to see how the accountant's analysis compares with mine after he has had the opportunity to review our records.

I have attached to this letter a Homestead Group Business Plan short form which briefly outlines steps that I think are necessary for the company to continue and thus protect your investment. Some of these things require a twist or change in how you might think about your position in the company. I will talk about that a little later in this letter. The attached business plan identifies a number of issues; I wish to focus on four of them in a little more depth.

1. The first of these is the matter of **time**. As noted above, it is going to be difficult for us to hang on through the month of August based on revenues from the single leg of retail/resort operations. We need to bring back construction as quickly as possible, preferably not later than August 1, 2009. We could then pick up construction of partially built buildings and deliver them by the end of September restoring construction cash flow at that time. On the other hand it will be extremely difficult to come up with an agreed plan by August 1. This is a very serious conundrum that I don't know how to resolve at this time.

2. The second key issue, and this one requires a large twist in thinking, is the matter of the **collateralization of property** as it relates to our ability to build on the property. Last week we received a note from one investor who sees through this issue. He has indicated that he would be willing to go on a list of investors who are willing to give up their collateral position so that we can begin construction. For many investors the release of collateral would, in my opinion, yield a better result than if they cling to their collateral. We need collateral to be opened up so that we can build on property, sell the property, pay the suppliers and use proceeds for internal operations so the company can be maintained over the next few years. **No** new investment notes will be issued. Investors would become unsecured creditors who would be paid according to agreed amendment to their note, amending rates and terming. Any of this would be accomplished only according to proper procedure in a Chapter 11 filing, with required investor/court approval. Over the next few years we would hope to repay banks and get them out of the way of investors. We would also be able to pay suppliers for work they have done on the units. We are currently in gridlock (unable to continue most construction) because of the collateral issue. This is a bit of a difficult issue to wrap your minds around, but it is of primary importance with respect to allowing the Homestead Group to continue construction operations. If collateral is released, your protection will lie in the overall

assets available within the company. Remember that I have secreted nothing, have committed everything I have to the company; there are very substantial assets currently held by the company, which if properly managed to build out, hold the possibility of yielding a reasonably favorable result for investors.

3. The next matter of importance is to **confirm and continue payment to institutional lenders**. The primary institutional lender is Frontier Bank which holds about \$19Million of secured debt. The Bank of the Pacific has a loan in the amount of \$2Million on the Ocean Shores properties. There are substantial equity positions in junior positions behind these banks. It is important that the banks work with us to preserve values of your investment. We may need you to join us in petitioning and urging banks to continue with the Homestead Group. In a Chapter 11, banks are stayed or precluded from foreclosing for three months, after which they may petition the court to be released from the stay to proceed with foreclosure.

4. The last item of key importance is the need for some **new capital** to support initiation of operations. I estimate this amount in the range of \$3.5 - \$5Million. About \$1Million would be needed to clean up some debt and the remaining \$2.5Million to pay for re-initiation of construction activities. This group would have to be carefully put together in accordance with Securities laws and would sit in some kind of preferred position to the remaining investors. They, however, would be providing the needed capital for the company to continue.


These are very difficult issues to get by. Getting by them, however, in my opinion, is of the essence of preserving their investment value for many of the investors in Homestead; the resolution of issues in these areas hold the best opportunity for substantial recovery for all involved.

We will soon learn what the outside accountant thinks of the situation and we will see if his evaluation is similar to or very different from mine.

Unfortunately we are all involved in a complex and difficult process. Though we wish we could, we cannot change the current situation. We cannot grant new Deeds of Trust to certain parties and not to others because that would be a preference. We have to work from where we are. Please understand that we are doing the best we can in the circumstances to yield the best result for each of you. We remain open to any ideas about how we might better proceed. Thank you for your patience. Thank you for working with us in these circumstances.

Sincerely yours,

THE HOMESTEAD GROUP


James A. Wynstra
CEO

JAW:rjl

THE HOMESTEAD GROUP
BUSINESS PLAN
SHORT FORM
May 14, 2009

A. Immediate.

1. File Chapter 11 ASAP
2. Survive financially until Chapter 11 plan can be implemented operating resort properties during summer 2009
- *3. September Cutbacks. Try to maintain banks/lenders as we slow down into fall. There currently is no solution for this issue.

B. Chapter 11 Plan.

1. Moderate interest rates
2. Extend terming
- *3. Release collateral to open up construction
- *4. Confirm institutional lenders
- *5. Re-capitalize to clean up some taxes and debt and fund construction (The Super Group?)
6. Sell some major holdings in a controlled liquidation

C. Restart.

1. Build to salable, affordable side as we move through and out of recession. We have over 200 serviced sites for such product.
2. Broaden programs and products as we move out of recession
3. Restart or sell Great Links Resorts
4. Try to take the banks substantially out in 3 – 5 years
5. Eventually develop premium resorts (Birch Bay, Sea Links, Desert Canyon and Ocean Shores) which yield possible larger profit profiles and pay back

* Most challenging issues