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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to _____________

Commission File Number: 000-27816

REDWOOD MORTGAGE INVESTORS VIII,
a California Limited Partnership
(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of incorporation or organization)**	**94-3158788** **(I.R.S. Employer Identification No.)**
1825 S. Grant Street, Suite 250, San Mateo, CA **(Address of principal executive offices)**	**94402-2678** **(Zip Code)**

(650) 365-5341
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ YES ☐ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ YES ☐ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☒
Emerging growth company	☐			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ YES ☒ NO

Part I –FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Balance Sheets
March 31, 2017 (unaudited) and December 31, 2016 (audited)
($ in thousands)

	March 31, 2017	December 31, 2016
ASSETS		
Cash, in banks	$ 37,197	$ 45,323
Loans		
Secured by deeds of trust		
Principal	98,654	94,851
Advances	62	63
Accrued interest	709	641
Loan balance, secured	99,425	95,555
Unsecured	38	46
Allowance for loan losses	—	—
Loans, net	99,463	95,601
Real estate owned (REO)	18,635	19,782
Other assets, net	487	444
Total assets	$ 155,782	$ 161,150
LIABILITIES AND PARTNERS' CAPITAL		
Liabilities		
Accounts payable and other liabilities	$ 208	$ 387
Payable to affiliate	—	—
Total liabilities	208	387
Partners' capital		
Limited partners' capital, subject to liquidation, net	162,620	167,879
General partners' capital (deficit)	(824)	(832)
Total partners' capital, net	161,796	167,047
Receivable from manager (formation loan)	(6,222)	(6,284)
Partners' capital subject to liquidation, net of formation loan	155,574	160,763
Total liabilities and partners' capital	$ 155,782	$ 161,150

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Income Statements
For the three months ended March 31, 2017 and 2016 ($ in thousands) (unaudited)

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
Revenues, net		
Loans		
Interest income	$ 1,994	$ 1,403
Late fees	7	5
Revenue, loans	2,001	1,408
Provision for (recovery of) loan losses	—	—
Loans, net	2,001	1,408
REO		
Rental operations, net	(134)	616
Interest on mortgages	—	(228)
Rental operations, net of mortgage interest	(134)	388
Realized gains/(losses) on sales	102	503
Impairment (loss)/gain	—	—
Holding costs, net of other income	(7)	(12)
REO, net	(39)	879
Total revenues, net	1,962	2,287
Operations Expense		
Mortgage servicing fees	352	233
Asset management fees	158	176
Costs from Redwood Mortgage Corp.	481	484
Professional services	255	280
Other	(6)	(10)
Total operations expense	1,240	1,163
Net income	$ 722	$ 1,124
Net income		
Limited partners (99%)	714	1,113
General partners (1%)	8	11
	$ 722	$ 1,124

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Changes in Partners’ Capital
For the Three Months Ended March 31, 2017
($ in thousands) (unaudited)

	Limited Partners’ Capital Subject to Liquidation, net	General Partners’ Capital (Deficit)	Total Partners’ Capital
Balance, December 31, 2016	$ 167,879	$ (832)	$ 167,047
Net income	714	8	722
Distributions	(710)	—	(710)
Liquidations	(5,263)	—	(5,263)
Balance, March 31, 2017	$ 162,620	$ (824)	$ 161,796

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2017 and 2016
($ in thousands) (unaudited)

	For the Three Months Ended March 31,	
	2017	2016
Cash from Operations		
Interest received	$ 1,926	$ 1,155
Other loan income	7	12
Operations expense	(1,494)	(1,046)
Rental operations, net	(100)	796
Holding costs	(7)	(12)
Mortgage interest and borrowing related fees	—	(211)
Total cash provided (used) by operations	332	694
Cash from Investing Activities		
Loans		
Principal collected on loans - secured	3,995	4,974
Unsecured loan payments received (made)	7	4
Loans originated	(7,798)	(18,220)
Advances on loans	1	(11)
Total - Loans	(3,795)	(13,253)
REO		
Sales	1,317	2,838
Development and acquisition	(69)	(161)
Total - REO	1,248	2,677
Total cash provided (used) by investing activities	(2,547)	(10,576)
Cash from Financing Activities		
Debt activities		
Principal payments	—	(142)
Cash provided (used) by debt activities	—	(142)
Distributions to partners		
Cash – partner liquidations	(5,263)	(5,325)
Formation loan payment, net of early withdrawal fees	62	100
Cash – partner distributions	(710)	(671)
Cash Distributions to partners, net	(5,911)	(5,896)
Total cash provided (used) by financing activities	(5,911)	(6,038)
Net increase/(decrease) in cash	(8,126)	(15,920)
Cash and cash equivalents, beginning of period	45,323	56,673
Cash and cash equivalents, end of period	$ 37,197	$ 40,753

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2017 and 2016
($ in thousands) (unaudited)

Reconciliation of net income to net cash provided by (used in) operations:

	For the Three Months Ended March 31,	
	2017	2016
Cash flows from operations		
Net income	$ 722	$ 1,124
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Amortization of borrowings-related origination fees	—	15
Provision for (recovery of) loan losses	—	—
REO – loss/(gain) on disposal	(102)	(503)
REO – impairment (gain)	—	—
Change in operation assets and liabilities		
Accrued interest	(68)	(248)
Allowance for loan losses-recoveries	—	—
Other assets	(46)	(40)
Accounts payable and other liabilities	(174)	358
Payable to affiliate	—	(12)
Net cash provided by (used in) operations	$ 332	$ 694
Supplemental disclosures of cash flow information		
Non-cash investing activities		
Real estate acquired through foreclosure/settlement on loans, net of liabilities assumed	$ —	$ 416
Cash paid for interest	$ —	$ 225

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

NOTE 1 – ORGANIZATION AND GENERAL

In the opinion of the general partners, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the consolidated financial information included therein. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the partnership's Form 10-K for the fiscal year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three month period ended March 31, 2017 are not necessarily indicative of the operations results to be expected for the full year.

Redwood Mortgage Investors VIII, a California Limited Partnership (we, RMI VIII or the partnership), was formed in 1993 to engage in business as a mortgage lender and investor by making and holding-for-investment mortgage loans secured by California real estate, primarily by first and second deeds of trust.

The ongoing sources of funds for loans are the proceeds (net of withdrawals from partner capital accounts) from

- loan payoffs,
- borrowers' monthly principal and interest payments,
- earnings retained (i.e. not distributed) in partners' capital accounts,
- REO sales, and,
- to a lesser degree and, if obtained, a line of credit.

The partnership is externally managed by Redwood Mortgage Corp., a general partner (or RMC or the manager). The manager is solely responsible for managing the business and affairs of the partnership, subject to the voting rights of the partners on specified matters. The manager acting alone has the power and authority to act for and bind the partnership. RMC provides the personnel and services necessary to conduct our business as we have no employees of our own.

The mortgage loans the partnership funds and/or invests in are arranged and generally are serviced by RMC. The general partner is required to contribute to capital one tenth of one percent (0.1%) of the aggregate capital accounts of the members.

Limited partners representing a majority of the outstanding units may, without the consent of the general partners, vote to: (i) dissolve the partnership, (ii) amend the partnership agreement subject to certain limitations, (iii) approve or disapprove the sale of all or substantially all of the assets of the partnership and (iv) remove or replace one or all of the general partners. A majority in interest of partnership units is required to elect a new general partner to continue the partnership business after a general partner ceases to be a general partner due to its withdrawal.

Profits and losses are allocated among the limited partners according to their respective capital accounts after one percent (1%) of profits and losses are allocated to the general partners. The monthly results are subject to subsequent adjustment as a result of quarterly and year-end accounting and reporting. Investors should not expect the partnership to provide tax benefits of the type commonly associated with limited liability partnership tax shelter investments. Federal and state income taxes are the obligation of the partners, other than the annual California franchise tax and any California LLC cash receipts taxes paid by the partnership's subsidiaries.

Distribution policy

At the time of their subscription for units, partners elect to have distributed to them their monthly, quarterly or annual allocation of profits, or to have profits allocated to their capital accounts be retained by the partnership to compound. Subject to certain limitations, those electing compounding may subsequently change their election. A partner's election to receive cash distributions is irrevocable.

Liquidity, capital withdrawals and early withdrawals

There is no established public trading and/or secondary market for the units, and none is expected to develop. There are substantial restrictions on transferability of units. To provide liquidity to limited partners, the partnership agreement provides that limited partners, after the minimum five-year period, may withdraw all or a portion of their capital accounts in 20 quarterly installments or longer, as determined by the general partners in light of partnership cash flow, beginning the last day of the calendar quarter following the quarter in which the notice of withdrawal is given. A limited partner may liquidate all or a part of the limited partner's capital account in four quarterly installments beginning on the last day of the calendar quarter following the quarter in which the notice of withdrawal is given, subject to a 10% early withdrawal penalty applicable to any sums withdrawn prior to the time when such sums could have been withdrawn without penalty. There is also a limited right of liquidation for an investor's heirs upon an investor's death.

The partnership has not established a cash reserve from which to fund withdrawals and, accordingly, the partnership's capacity to return a limited partner's capital is subject to the availability of partnership cash. No more than 20% of the total limited partners' capital account balances at the beginning of any year may be liquidated during any calendar year.

Investment objectives and lending guidelines

Our primary investment objectives are to

- Yield a high rate of return from mortgage lending, after the payment of certain fees and expenses to the general partners and their affiliates, and
- Preserve and protect the partnership's capital

The partnership generally funds loans

- Having monthly payments of interest only or of principal and interest at fixed rates, calculated on a 30-year amortization basis, and
- Having maturities of 5 years or less.

The partnership's loans generally have shorter maturity than typical mortgages. In the event that a loan is performing, and collection is deemed probable at maturity, we may elect to extend the loans maturity. In the event a borrower is unable to repay in full the principal owing on the loan maturity, we may elect to modify the loan payment terms and designate the loan as impaired, or may foreclose and take back the property for sale.

Generally, interest rates on the partnership's mortgage loans are not affected by market movements in interest rates. If, as expected, we continue to make and invest in fixed rate loans primarily, and interest rates were to rise, a possible result would be lower prepayments of the partnership's loans. This increase in the duration of the time loans are on the books may reduce overall liquidity, which itself may reduce the partnership's investment into new loans at higher interest rates. Conversely, if interest rates were to decline, we could see a significant increase in borrower prepayments. If we then invest in new loans at lower rates of interest, a lower yield to partners may possibly result.

The cash flow and the income generated by the real property securing the loan factor into the credit decisions, as does the general creditworthiness, experience and reputation of the borrower. However, for loans secured by real property, other than owner-occupied personal residences, such considerations are subordinate to a determination that the value of the real property is sufficient, in and of itself, as a source of repayment. The amount of the loan combined with the outstanding debt and claims secured by a senior deed of trust on the real property generally will not exceed a specified percentage of the appraised value of the property (the loan-to-value ratio, or LTV) as determined by an independent written appraisal at the time the loan is made. The LTV generally will not exceed 80% for residential properties (including multi-family), 75% for commercial properties, and 50% for land. The excess of the value of the collateral securing the loan over our debt and any senior debt owing on the property is the "protective equity."

We believe our LTV policy gives us more potential protective equity than competing lenders who fund loans with a higher LTV. However, we may be viewed as an "asset" lender based on our emphasis on LTV in our underwriting process. Being an "asset" lender may increase the likelihood of payment defaults by borrowers. Accordingly, the partnership may have a higher level of payment delinquency and loans designated as impaired for financial reporting purposes than that of lenders, such as banks and other financial institutions subject to federal and state banking regulations, which are typically viewed as "credit" lenders.

Term of the partnership

The partnership will continue until 2032, unless sooner terminated as provided in the partnership agreement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The partnership's consolidated financial statements include the accounts of the partnership, its wholly-owned subsidiaries (consisting of single member limited liability companies owning a single real property asset). All significant intercompany transactions and balances have been eliminated in consolidation.

Management estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Such estimates relate principally to the determination of the allowance for loan losses, including, when applicable, the valuation of impaired loans, (which itself requires determining the fair value of the collateral), and the valuation of real estate held for sale and held as investment, at acquisition and subsequently. Actual results could differ significantly from these estimates.

Fair value estimates

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Fair values of assets and liabilities are determined based on the fair value hierarchy established in GAAP. The hierarchy is comprised of three levels of inputs to be used.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the partnership has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly in active markets and quoted prices for identical assets or liabilities that are not active, and inputs other than quoted prices that are observable or inputs derived from or corroborated by market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the partnership's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the partnership's own data.

The fair value of the collateral is determined by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values, and publicly available information on in-market transactions. Appraisals of commercial real property generally present three approaches to estimating value: 1) market comparables or sales approach; 2) cost to replace and 3) capitalized cash flows or investment approach. These approaches may or may not result in a common, single value. The market-comparables approach may yield several different values depending on certain basic assumptions, such as, determining highest and best use (which may or may not be the current use); determining the condition (e.g. as-is, when-completed, or for land when-entitled); and determining the unit of value (e.g. as a series of individual unit sales or as a bulk disposition).

Management has the requisite familiarity with the markets it lends in generally and of the properties lent on specifically to analyze sales-comparables and assess their suitability/applicability. Management is acquainted with market participants – investors, developers, brokers, lenders – that are useful, relevant secondary sources of data and information regarding valuation and valuation variability. These secondary sources may have familiarity with and perspectives on pending transactions, successful strategies to optimize value, and the history and details of specific properties – on and off the market – that enhance the process and analysis that is particularly and principally germane to establishing value in distressed markets and/or property types.

Cash and cash equivalents

The partnership considers all highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2017, certain partnership cash balances in banks exceed federally insured limits.

Loans and interest income

Loans generally are stated at the unpaid principal balance (principal). Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the partnership's interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums, and attorney fees. Advances generally are stated at the unpaid principal balance and accrue interest until repaid by the borrower.

The partnership may fund a specific loan origination net of an interest reserve (one to two years) to insure timely interest payments at the inception of the loan. As monthly interest payments become due, the partnership funds the payments into the affiliated trust account. In the event of an early loan payoff, any unapplied interest reserves would be first applied to any accrued but unpaid interest and then as a reduction of principal.

If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement, then a loan may be designated as impaired. Impaired loans are included in management's periodic analysis of recoverability. If a valuation allowance had been established on an impaired loan, any subsequent payments on impaired loans are applied to late fees and then to reduce first the accrued interest, then advances, and then unpaid principal.

From time to time, the partnership negotiates and enters into loan modifications with borrowers whose loans are delinquent. If the loan modification results in a significant reduction in the cash flow compared to the original note, the modification is deemed a troubled debt restructuring and a loss is recognized. In the normal course of the partnership's operations, loans that mature may be renewed at then current market rates and terms for new loans. Such renewals are not designated as impaired, unless the matured loan was previously designated as impaired.

Interest is accrued daily based on the unpaid principal balance of the loans. An impaired loan continues to accrue as long as the loan is in the process of collection and is considered to be well-secured. Loans are placed on non-accrual status at the earlier of management's determination that the primary source of repayment will come from the foreclosure and subsequent sale of the collateral securing the loan (which usually occurs when a notice of sale is filed) or when the loan is no longer considered well-secured. When a loan is placed on non-accrual status, the accrual of interest is discontinued; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement.

Allowance for loan losses

Loans and the related accrued interest and advances (i.e. the loan balance) are analyzed on a periodic basis for ultimate recoverability. Delinquencies are identified and followed as part of the loan system. Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, "protective equity" is the arithmetic difference between the fair value of the collateral, net of any senior liens, and the loan balance, where "loan balance" is the sum of the unpaid principal, advances and the recorded interest thereon. This computation is done for each loan (whether impaired or performing), and while loans secured by collateral of similar property type are grouped, there is enough distinction and variation in the collateral that a loan-by-loan, collateral-by-collateral analysis is appropriate.

For loans designated impaired, a provision is made for loan losses to adjust the allowance for loan losses to an amount such that the net carrying amount (unpaid principal less the specific allowance) is reduced to the lower of the loan balance or the estimated fair value of the related collateral, net of any senior loans and net of any costs to sell in arriving at net realizable value.

Loans determined not to be individually impaired are grouped by the property type of the underlying collateral, and for each loan and for the total by property type, the amount of protective equity or amount of exposure to loss (*i.e.,* the dollar amount of the deficiency of the fair value of the underlying collateral to the loan balance) is computed.

The company charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible.

At foreclosure, any excess of the recorded investment in the loan (accounting basis) over the net realizable value is charged against the allowance for loan losses.

Real estate owned (REO)

Real estate owned (REO) is property acquired in full or partial settlement of loan obligations generally through foreclosure, and is recorded at acquisition at the lower of the amount owed on the loan (legal basis), plus any senior indebtedness, or at the property's net realizable value, which is the fair value less estimated costs to sell, as applicable. The fair value estimates are derived from information available in the real estate markets including similar property, and often require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The estimates figure materially in calculating the value of the property at acquisition, the level of charge to the allowance for loan losses and any subsequent valuation reserves. After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, REO is analyzed periodically for changes in fair values and any subsequent write down is charged to operations expense. Any recovery in the fair value subsequent to such a write down is recorded, not to exceed the value recorded at acquisition. Recognition of gains on the sale of real estate is dependent upon the transaction meeting certain criteria related to the nature of the property and the terms of the sale including potential seller financing.

Rental income/depreciation

Rental income is recognized when earned in accordance with the lease agreement. For commercial leases, the costs associated with originating the lease are amortized over the lease term. Residential lease terms generally range from month-to-month to one-year, and the expenses of originating the lease are expensed as incurred. Real estate owned that is designated held for sale is not depreciated. Real estate that was designated held for investment, and rented was depreciated on a straight-line basis over the estimated useful life of the property.

Recently issued accounting pronouncements

-Accounting and Financial Reporting for Expected Credit Losses

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that significantly changes how entities will account for credit losses for most financial assets that are not measured at fair value through net income. The new standard will supersede currently in effect guidance and applies to all entities. Entities will be required to use a current expected credit loss (CECL) model to estimate credit impairment. This estimate will be forward-looking, meaning management will be required to use forecasts about future economic conditions to determine the expected credit loss over the remaining life of an instrument. This will be a significant change from today's incurred credit loss model and generally will result in allowances being recognized more quickly than they are today. Allowances that reflect credit losses expected over the life of an asset are also likely to be larger than allowances entities record under the incurred loss model.

RMI VIII invests in real estate secured loans made with the expectation of zero credit losses as a result of substantial protective equity provided by the underlying collateral. For a loss to be recognized under the CECL or incurred loss model, if the lending/loan-to-value guidelines are followed effectively, an intervening, subsequent-to-loan-funding, event must negatively impact the value of the underlying collateral of the loan in an amount greater than the amount of protective equity provided by the collateral. Such an event would be either (or both) of:

1) An uninsured event (s) specifically impacting the collateral or
2) A non-temporary decline in values generally in the real estate market.

In both of these instances the treatment would be the same in the incurred loss and CECL models of approximately the same amount. Other than in these events, the probable of occurrence criteria of the incurred loss model is not triggered and a loss is not recognized. Further the protective equity provided by the collateral is not impaired and the zero-expected-loss lending guideline in preserved, and a loss is not required to be recognized under the CECL model.

This convergence between the CECL and incurred loss models as to loss recognition – as an event driven occurrence – in low LTV, real estate secured programs caused RMC to conclude that the CECL model will not materially impact the reported results of operations or financial position as compared to that which would be reported in the incurred loss model. The manager expects to adopt the ASU for interim and annual reporting in 2020.

-Accounting and Financial Reporting for Revenue Recognition

On May 28, 2014, FASB issued a final standard on revenue from contracts with customers. The standard issued as ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard is effective January 2018.

The goals of the revenue recognition project are to clarify and converge the revenue recognition principles under U.S. GAAP and to develop guidance that would streamline and enhance revenue recognition requirements. A core principle of the standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Revenue is recognized when a performance obligation is satisfied by transferring goods or services to a customer. The FASB intentionally used the wording "be entitled" rather than "receive" or "collect" to distinguish collectability risk from other uncertainties that may exist under a contract.

RMC management concluded that the new standard is consistent with its currently-in-place guidelines for revenue recognition which provided for interest income recognition on loans to borrowers to continue to accrue for financial reporting purposes so long as the loan is well collateralized (such that collection is assured) and – in the judgment of management – the borrower has the intent and capacity to repay, as opposed to management judging that the collection of amounts owing will come from legal action such as the completion of a foreclosure and subsequent sale of the property.

NOTE 3 – GENERAL PARTNERS AND OTHER RELATED PARTIES

The general partners are entitled to one percent (1%) of the profits and losses, which amounted to approximately $8,000 and $11,000 for the three months ended March 31, 2017 and 2016, respectively. Beginning with calendar year 2010, and continuing until January 1, 2020, RMC assigned its right to two-thirds of one percent (0.66%) of profits and losses to Michael R. Burwell (Burwell), President of RMC and himself a general partner of RMI VIII, in exchange for Burwell assuming one hundred percent (100%) of the general partners' equity deficit.

- *Mortgage servicing fees*

  RMC earns mortgage servicing fees of up to 1.5% annually of the unpaid principal balance of the loan portfolio. The mortgage servicing fees are accrued monthly on all loans. Remittance to RMC is made monthly unless the loan has been assigned a specific loss reserve, at which point remittance is deferred until the specific loss reserve is no longer required, or the property has been acquired by the partnership.

  Mortgage servicing fees paid to RMC were approximately $352,000 and $233,000 for the three months ended March 31, 2017 and 2016, respectively. No mortgage servicing fees were waived during any period reported.

- *Asset management fees*

  Asset management fees paid to the general partners were approximately $158,000 and $176,000, for the three months ended March 31, 2017 and 2016 respectively. The general partners receive monthly fees for managing the partnership's loan portfolio and operations of up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually). No asset management fees were waived in any period presented.

- *Costs from Redwood Mortgage Corp*.

  RMC is reimbursed by the partnership for operating expenses incurred on behalf of the partnership, including without limitation, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners, and out-of-pocket general and administration expenses. Other costs are allocated pro-rata based on the percentage of total capital of all mortgage funds managed by RMC. Payroll and consulting fees are broken out first based on activity, and then allocated to the company on a pro-rata basis based on percentage of capital to the total capital of all mortgage funds. The decision to request reimbursement of any qualifying charges is made by RMC at its sole discretion. For the three months ended March 31, 2017 and 2016, operating expenses totaling approximately $481,000 and $484,000, respectively, were reimbursed to RMC.

- *Professional Services*

  Professional services, totaled approximately $255,000 and $280,000 for the three months ended March 31, 2017 and 2016, respectively. Professional services include primarily audit, tax, and accounting fees relating to real estate transactions, tax compliance, LLC California tax returns and entity dissolutions, and financial reporting.

Commissions and fees are paid by the borrowers to RMC

- *Brokerage commissions, loan originations*

  For fees in connection with the review, selection, evaluation, negotiation and extension of loans, the general partners may collect loan brokerage commissions (points) limited to an amount not to exceed 4% of the total partnership assets per year. The loan brokerage commissions are paid by the borrowers and thus, are not an expense of the partnership. The proceeds from loan brokerage commissions and other fees earned are the source of funds for the repayment of the formation loan by RMC.

- *Other fees*

  RMC receives fees for processing, notary, document preparation, credit investigation, reconveyance and other mortgage related fees. The amounts received are customary for comparable services in the geographical area where the property securing the loan is located, payable solely by the borrower and not by the partnership.

Formation loan/Commissions paid to broker-dealers

Commissions for sales of limited partnership units paid to broker-dealers (B/D sales commissions) were paid by RMC and were not paid directly by the partnership out of offering proceeds. Instead, the partnership advanced to RMC amounts sufficient to pay the B/D sales commissions and premiums paid to partners in connection with unsolicited orders up to 7% of offering proceeds. The receivable arising from the advances is unsecured, and non-interest bearing and is referred to as the "formation loan." As of March 31, 2017, the partnership had made such advances of $22,567,000, of which $6,222,000 remain outstanding on the formation loan. If the general partners are removed and RMC is no longer receiving payments for services rendered, the formation loan is forgiven, per the terms of the partnership agreement.

The formation loan activity is summarized in the following table for three months ended March 31, 2017 ($ in thousands).

	2017
Balance, January 1	$ 6,284
Early withdrawal penalties	(62)
Repayments	—
Balance, March 31	$ 6,222

The future minimum payments on the formation loan as of March 31, 2017 are presented in the following table ($ in thousands).

2017	$	588
2018		650
2019		650
2020		650
2021		650
Thereafter		3,034
Total	$	6,222

The formation loan is forgiven if the general partners are removed and RMC is no longer receiving payments for services rendered, per the partnership agreement.

NOTE 4 – LOANS

Loans generally are funded at a fixed interest rate with a loan term of up to five years.

As of March 31, 2017, 57 (79%) of the partnership's 72 loans (representing 96% of the aggregate principal of the partnership's loan portfolio) have a term of five years or less from loan inception. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment penalty clause.

As of March 31, 2017, 25 (35%) of the loans outstanding (representing 61% of the aggregate principal balance of the partnership's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30-year amortization, with the remaining principal balance due at maturity.

Loans unpaid principal balance (principal)

Secured loan transactions are summarized in the following table for the three months ended March 31, 2017 and 2016, respectively ($ in thousands).

		2017
Principal, January 1	$	94,851
Loans funded or acquired		7,798
Principal payments received		(3,995)
Loans sold to affiliates		—
Foreclosures		—
Other - loans charged off against allowance		—
Principal, March 31	$	98,654

No loans were renewed during the three months ended March 31, 2017..

Loan characteristics

Secured loans had the characteristics presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017	December 31, 2016
Number of secured loans	72	75
Secured loans – principal	$ 98,654	$ 94,851
Secured loans – lowest interest rate (fixed)	5.0%	5.0%
Secured loans – highest interest rate (fixed)	10.5%	10.5%
Average secured loan – principal	$ 1,370	$ 1,265
Average principal as percent of total principal	1.4%	1.3%
Average principal as percent of partners' capital	0.9%	0.8%
Average principal as percent of total assets	0.9%	0.8%
Largest secured loan – principal	$ 14,000	$ 14,000
Largest principal as percent of total principal	14.2%	14.8%
Largest principal as percent of partners' capital	9.0%	8.7%
Largest principal as percent of total assets	9.0%	8.7%
Smallest secured loan – principal	$ 47	$ 48
Smallest principal as percent of total principal	0.1%	0.1%
Smallest principal as percent of partners' capital	0.1%	0.1%
Smallest principal as percent of total assets	0.1%	0.1%
Number of counties where security is located (all California)	22	24
Largest percentage of principal in one county	20.4%	23.1%
Number of secured loans with a filed notice of default	1	1
Secured loans in foreclosure – principal	$ 403	$ 405
Number of secured loans with an interest reserve	—	—
Interest reserves	$ —	$ —

As of March 31, 2017, the partnership's largest loan, in the unpaid principal balance of approximately $14,000,000 (representing 14.2% of outstanding secured loans and 9.0% of partnership total assets), had an interest rate of 7.25%, was secured by a commercial building in Contra Costa county, and has a maturity of January 1, 2019.

As of March 31, 2017, the partnership had no outstanding construction or rehabilitation loans and no commitments to fund construction, rehabilitation or other loans.

Lien position

At funding, secured loans had the following lien positions and are presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017			December 31, 2016		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	47	$ 78,620	80%	48	$ 73,712	78%
Second trust deeds	24	17,034	17	26	18,139	19
Third trust deeds	1	3,000	3	1	3,000	3
Total secured loans	72	$ 98,654	100%	75	$ 94,851	100%
Liens due other lenders at loan closing		30,858			35,054	
Total debt		$ 129,512			$ 129,905	
Appraised property value at loan closing		$ 243,361			$ 245,329	
Percent of total debt to appraised values (LTV) at loan closing[1]		56.1%			54.0%	

(1) Based on appraised values and liens due other lenders at loan closing. The weighted-average loan-to-value (LTV) computation above does not take into account subsequent increases or decreases in property values following the loan closing, nor does it include decreases or increases of the amount owing on senior liens to other lenders.

Property type

Secured loans summarized by property type are presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017			December 31, 2016		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family[2]	47	$ 43,280	44%	48	$ 31,773	34%
Multi-family	2	1,414	1	3	1,723	2
Commercial	21	51,985	52	22	59,380	61
Land	2	1,975	3	2	1,975	3
Total secured loans	72	$ 98,654	100%	75	$ 94,851	100%

(2) Single family properties include owner-occupied and non-owner occupied 1-4 unit residential buildings, condominium units, townhouses, and condominium complexes. The single family property type as of March 31, 2017 consists of 19 loans with principal of approximately $10,887,000 that are owner occupied and 28 loans with principal of approximately $32,393,000 that are non-owner occupied. Single family property type as of December 31, 2016 consists of 21 loans with principal of approximately $11,177,000 that are owner occupied and 27 loans with principal of approximately $20,596,000 that are non-owner occupied.

Distribution by California counties

The distribution of secured loans outstanding by the California county in which the primary collateral is located is presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017		December 31, 2016	
	Unpaid Principal Balance	Percent	Unpaid Principal Balance	Percent
San Francisco Bay Area[3]				
San Mateo	$ 17,215	17.5%	11,267	11.9%
Contra Costa	16,861	17.0	16,863	17.7
San Francisco	12,102	12.3	7,204	7.6
Alameda	7,170	7.3	6,626	7.0
Santa Clara	2,464	2.5	9,938	10.5
Solano	1,875	1.9	1,875	2.0
Marin	1,601	1.6	849	0.9
Napa	954	1.0	956	1.0
Amador	766	0.8	770	0.8
	61,008	61.9	56,348	59.4
Other Northern California				
Sacramento	3,717	3.8	2,118	2.2
Monterey	3,691	3.7	4,007	4.2
El Dorado	2,044	2.1	2,044	2.2
Santa Cruz	832	0.8	852	0.9
Lake	298	0.3	298	0.3
Mariposa	47	0.1	48	0.1
Calaveras	—	0.0	151	0.2
San Benito	—	0.0	94	0.1
	10,629	10.8	9,612	10.2
Total Northern California	71,637	72.7	65,960	69.6
Los Angeles & Coastal				
Los Angeles	20,102	20.3	21,876	23.0
Orange	3,763	3.8	3,765	4.0
San Diego	2,464	2.5	2,464	2.6
Ventura	271	0.3	271	0.3
Riverside	193	0.2	289	0.3
	26,793	27.1	28,665	30.2
Other Southern California				
San Bernardino	124	0.1	124	0.1
Kern	100	0.1	102	0.1
	224	0.2	226	0.2
Total Southern California	27,017	27.3	28,891	30.4
Total Secured Loans Balance	$ 98,654	100.0%	$ 94,851	100.0%

(3) Includes the Silicon Valley

Delinquency

Secured loans summarized by payment delinquency are presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017		December 31, 2016	
	Loans	Amount	Loans	Amount
Past Due				
30-89 days	3	$ 8,029	1	$ 164
90-179 days	—	—	1	405
180 or more days	—	—	—	—
Total past due	3	$ 8,029	2	569
Current	69	90,625	73	94,282
Total secured loan balance	72	$ 98,654	75	$ 94,851

No interest income was accrued on loans contractually past due 90 day or more as to principal and/or interest payments during three months ended March 31, 2017.

Modifications, workout agreements and troubled debt restructurings

At March 31, 2017, the partnership had no modifications, workout agreements, or troubled debt restructurings in effect. At December 31, 2016, the partnership had one workout agreement which qualified as troubled debt restructuring. This loan was paid in-full in January 2017.

Scheduled maturities

Secured loans are scheduled to mature as presented in the following table ($ in thousands).

Scheduled maturities, as of March 31, 2017	Loans	Principal	Percent
2017 (4)	13	$ 20,040	20%
2018	18	27,811	28
2019	19	42,376	43
2020	10	4,207	4
2021	9	2,439	3
Thereafter	3	1,781	2
Total secured loan balance	72	$ 98,654	100%

(4) Loans maturing in 2017 from April 1 to December 31.

It is the partnership's experience that loans may be repaid or refinanced before, at or after the contractual maturity date. For matured loans, the partnership may continue to accept payments while pursuing collection of amounts owed from borrowers. Therefore, the above tabulation for scheduled maturities is not a forecast of future cash receipts.

Matured loans

There were no loans past maturity as of March 31, 2017 or December 31, 2016.

Loans in non-accrual status

Secured loans in non-accrual status are summarized in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017	December 31, 2016
Number of loans	1	1
Principal	$ 229	$ 230
Advances	2	2
Accrued interest	0	2
Total recorded investment	$ 231	$ 234
Foregone interest	$ —	$ —

At March 31, 2017, there were no loans that were contractually 90 or more days past due as to principal or interest and not in non-accrual status. At December 31, 2016, there was one loan with a loan balance of approximately $405,000, that was contractually 90 or more days past due as to principal or interest and not in non-accrual status.

Loans designated impaired

Impaired loans had the balances shown and the associated allowance for loan losses presented in the following table as of March 31, 2017 and December 31, 2016 ($ in thousands).

	March 31, 2017	December 31, 2016
Principal	$ 393	$ 230
Recorded investment(5)	402	234
Impaired loans without allowance	402	234
Impaired loans with allowance	—	—
Allowance for loan losses, impaired loans	—	—
Number of Loans	2	1

(5) Recorded investment is the sum of principal, advances, and interest accrued for financial reporting purposes.

Impaired loans had the average balances and interest income recognized and received in cash as presented in the following table as of, and for, the three months ended March 31, 2017 and the year ended December 31, 2016 ($ in thousands).

	March 31, 2017	December 31, 2016
Average recorded investment	$ 318	$ 509
Interest income recognized	6	27
Interest income received in cash	6	27

Allowance for loan losses

Activity in the allowance for loan losses is presented in the following table for the three months ended March 31, 2017 ($ in thousands).

	2017
Balance, beginning of period	$ —
Provision for (recovery of) loan losses	—
Charge-offs, net	
Charge-offs	—
Recoveries	—
Charge-offs, net	—
Balance, end of period	$ —
Ratio of charge-offs, net during the period to average secured loans outstanding during the period	0.0%

NOTE 5 – REAL ESTATE OWNED (REO)

Transactions and activity, including changes in the net book values, are presented in the following table for the three months ended March 31, 2017 and 2016 ($ in thousands).

	March 31, 2017
Balance, beginning of period	$ 19,782
Acquisitions	—
Dispositions	(1,215)
Improvements/betterments	68
Balance, end of period	$ 18,635

At March 31, 2017, all properties are designated held for sale.

REO summarized by property classification is presented in the following table ($ in thousands).

	March 31, 2017		December 31, 2016	
	Properties	NBV	Properties	NBV
Property classification				
Rental	5	$ 15,027	5	$ 16,174
Non-Rental	3	3,608	3	3,608
Total REO, net	8	$ 18,635	8	$ 19,782

Rental properties consist of the following five properties at March 31, 2017.

- In Los Angeles County, 38 residential units in a condominium complex
- In San Francisco County, 8 residential units in a condominium complex
- In Contra Costa County, a commercial office property
- In Ventura County, a commercial/retail property
- In San Francisco County, an interest in a commercial property

Non-Rental properties consist of the following three properties at March 31, 2017.

- In Fresno County, a partially completed home subdivision
- In Marin County, approximately 13 acres zoned for residential development
- In Stanislaus County, approximately 14 acres zoned commercial

Earnings from rental operations are presented in the following table for the three months ended March 31, 2017 and 2016 ($ in thousands).

	2017	2016
Rental income	$ 207	$ 1,367
Operating expenses, rentals		
Administration and payroll	31	185
Homeowner association fees	43	115
Professional services	10	11
Utilities and maintenance	202	205
Advertising and promotions	1	4
Property taxes	43	209
Other	9	22
Total operating expenses, rentals	339	751
Net operating income	(132)	616
Depreciation	—	—
Receiver fees	2	—
Rental operations, net	(134)	616
Interest on mortgages	—	228
Rental operation, net of mortgage interest	$ (134)	$ 388

Leases on residential properties are one-year lease terms or month to month. There is one commercial lease with a three-year term for annual rent payments of approximately $85,000. The lease expires in August 2017, with an option to extend.

The following transactions closed during the three months ended March 31, 2017:

- Sold 4 of 42 units remaining at the beginning of the period, in a condominium complex in Los Angeles County with a gain of approximately $102,000.

Mortgages payable

The partnership had no mortgages payable during the three months ended March 31, 2017.

NOTE 6 – FAIR VALUE

The partnership does not record loans, REO or mortgages payable at fair value on a recurring basis.

The recorded amount of the performing loans (i.e., the loan balance) is deemed to approximate the fair value, as is the loan balance of loans designated impaired for which a specific reserve has not been recorded (i.e., the loan is well collateralized, such that the collection of the amount owed is assured, including foregone interest, if any).

Certain assets and liabilities are measured at fair value on a non-recurring basis and are listed below.

- Loans designated impaired (i.e., that are collateral dependent with a specific reserve)
- REO for which a valuation reserve has been recorded
- REO acquired through foreclosure during the year

Assets and liabilities measured at fair value on a non-recurring basis in the three months ended March 31, 2017 are presented in the following table ($ in thousands).

	Fair Value Measurement at Report Date Using			
Item	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total As Of 3/31/2017
Impaired loans with specific allowance, net for which an adjustment was recorded in the year	$ —	$ —	$ —	$ —
REO for which a valuation reserve has been recorded in the year	$ —	$ —	$ —	$ —
REO acquired through foreclosure during the year	$ —	$ —	$ —	$ —

The following methods and assumptions are used when estimating fair value.

- *Secured loans, performing (i.e. not designated as impaired)* (Level 2) - Each loan is reviewed quarterly for its delinquency, LTV adjusted for the most recent valuation of the underlying collateral, remaining term to maturity, borrower's payment history and other factors. Also considered is the limited resale market for the loans. Most companies or individuals making similar loans as the company intend to hold the loans until maturity as the average contractual term of the loans (and the historical experience of the time the loan is outstanding due to pre-payments) is shorter than conventional mortgages. As there are no prepayment penalties to be collected, loan buyers may be hesitant to risk paying above par. Due to these factors, sales of the loans are infrequent, because an active market does not exist. The recorded amount of the performing loans (i.e. the loan balance) is deemed to approximate the fair value, although the intrinsic value of the loans would reflect a premium due to the interest to be received.
- *Secured loans, designated impaired (Level 2)* - Secured loans designated impaired are deemed collateral dependent, and the fair value of the loan is the lesser of the fair value of the collateral or the enforceable amount owing under the note. The fair value of the collateral is determined by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values and publicly available information on in-market transactions (Level 2 inputs).

  The following methods and assumptions are used to determine the fair value of the collateral securing a loan.

  Single family – Management's preferred method for determining the fair market value of its single-family residential assets is the sale comparison method. Management primarily obtains sale comps via its subscription to the RealQuest service, but also uses free online services such as Zillow.com and other available resources to supplement this data. Sale comps are reviewed for similarity to the subject property, examining features such as proximity to subject, number of bedrooms and bathrooms, square footage, sale date, condition and year built.

  If applicable sale comps are not available or deemed unreliable, management will seek additional information in the form of brokers' opinions of value or appraisals.

  Multi-family residential – Management's preferred method for determining the aggregate retail value of its multifamily units is the sale comparison method. Sale comps are reviewed for similarity to the subject property, examining features such as proximity to subject, rental income, number of units, composition of units by the number of bedrooms and bathrooms, square footage, condition, amenities and year built.

Management's secondary method for valuing its multifamily assets as income-producing rental operations is the direct capitalization method. In order to determine market cap rates for properties of the same class and location as the subject, management refers to published data from reliable third-party sources such as the CBRE Cap Rate Survey. Management applies the appropriate cap rate to the subject's most recent available annual net operating income to determine the property's value as an income-producing project. When adequate sale comps are not available or reliable net operating income information is not available or the project is under development or is under-performing to market, management will seek additional information and analysis to determine the cost to improve and the intrinsic fair value and/or management will seek additional information in the form of brokers' opinion of value or appraisals.

Commercial buildings – Where commercial rental income information is available, management's preferred method for determining the fair value of its commercial real estate assets is the direct capitalization method. In order to determine market cap rates for properties of the same class and location as the subject, management refers to reputable third-party sources such as the CBRE Cap Rate Survey. Management then applies the appropriate cap rate to the subject's most recent available annual net operating income to determine the property's value as an income-producing commercial rental project. When adequate sale comps are not available or reliable net operating income information is not available or the project is under development or is under-performing to market, management will seek additional information and analysis to determine the cost to improve and the intrinsic fair value and/or management will seek additional information in the form of brokers' opinion of value or appraisals.

Management supplements the direct capitalization method with additional information in the form of a sale comparison analysis (where adequate sale comps are available), brokers' opinion of value, or appraisal.

Commercial land – Commercial land has many variations/uses, thus requiring management to employ a variety of methods depending upon the unique characteristics of the subject land. Management may rely on information in the form of a sale comparison analysis (where adequate sale comps are available), brokers' opinion of value, or appraisal.

- Unsecured loans (Level 3). Unsecured loans are valued at their principal less any discount or loss reserves established by management after taking into account the borrower's creditworthiness and ability to repay the loan.
- Mortgages payable (Level 2). When the partnership had mortgages payable in 2016 and 2015, the interest rates were deemed to be at market rates for the type and location of the securing property, the length of the mortgage, and the other terms and conditions are deemed to be customary.

NOTE 7 – COMMITMENTS AND CONTINGENCIES, OTHER THAN LOAN AND REO COMMITMENTS

Commitments

The partnership's only commitment is to fund scheduled capital account withdrawal requests at March 31, 2017 as presented in the following table ($ in thousands).

2017	$ 14,571
2018	16,108
2019	12,431
2020	6,053
2021	2,488
Thereafter	172
Total	$ 51,823

Legal proceedings

In the normal course of its business, the partnership may become involved in legal proceedings (such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc.) to collect the debt owed under the promissory notes, to enforce the provisions of the deeds of trust, to protect its interest in the real property subject to the deeds of trust and to resolve disputes with borrowers, lenders, lien holders and mechanics. None of these actions, in and of themselves, typically would be of any material financial impact to the net income or balance sheet of the partnership. As of the date hereof, the partnership is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

NOTE 8 – SUBSEQUENT EVENTS

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto, which are included in Item 1 of this report on Form 10-Q, as well as the audited financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the partnership's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission. The results of operations for the three month period ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year.

Forward-Looking Statements

Certain statements in this Report on Form 10-Q which are not historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the partnership's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward-looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period or periods or by use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," "possible" or similar terms or variations on those terms or the negative of those terms. Forward-looking statements include statements regarding trends in the California real estate market, future interest rates and economic conditions and their effect on the partnership and its assets, estimates as to the allowance for loan losses, estimates of future redemptions of units, future funding of loans by the partnership, and beliefs relating to how the partnership will be affected by current economic conditions and trends in the financial and credit markets. Actual results may be materially different from what is projected by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the following:

- changes in economic conditions, interest rates, and/or changes in California real estate markets,
- the impact of competition and competitive pricing for mortgage loans,
- our ability to grow our mortgage lending business,
- the general partners' ability to make and arrange for loans that fit our investment criteria,
- the concentration of credit risks to which we are exposed,
- increases in payment delinquencies and defaults on our mortgage loans, and
- changes in government regulation and legislative actions affecting our business.

All forward-looking statements and reasons why results may differ included in this Form 10-Q are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results may differ.

Overview

Redwood Mortgage Investors VIII, a California Limited Partnership (we, RMI VIII or the partnership), was formed in 1993 to engage in business as a mortgage lender and investor by making and holding-for-investment loans secured by California real estate, primarily through first and second deeds of trust. The partnership is externally managed. The general partners are Redwood Mortgage Corp. (RMC) and Michael R. Burwell (Burwell), an individual.

See Note 1 (Organization and General) to the financial statements included in Part I, Item 1 of this report on Form 10-Q for additional detail on the organization and operations of RMI VIII which detail is incorporated by this reference into this Item 2. For a detailed presentation of the partnership activities for which the general partners and related parties are compensated and related transactions, including the formation loan to RMC, See Note 1 (Organization and General) and Note 3 (General Partners and Other Related Parties) to the financial statements included in Part I, Item 1 of this report which presentation is incorporated by this reference into this Item 2.

Critical Accounting Policies

See Note 2 (Summary of Significant Accounting Policies) to the financial statements included in Part I, Item 1 of this report for a detailed presentation of critical accounting policies, which presentation is incorporated by this reference into this Item 2.

Results of Operations

General economic conditions- California

All of our mortgage loans are secured by California real estate. Our secured-loan investment activity and the value of the real estate securing our loans is significantly dependent on economic activity and employment conditions in California. Wells Fargo's Economics Group periodically provides timely, relevant information and analysis in its commentary and reports. Highlights from recently issued reports from Wells Fargo Securities Economic Group are presented below.

In the publication dated March 3, 2017 by the Economics Group of Wells Fargo Securities the headline read:

"California's Unemployment Rate Declines to 5.1 Percent / California's unemployment rate fell to 5.1 percent in January but job growth slowed substantially, as retailers and the leisure & hospitality sector cut staff, possibly in response to the higher state minimum wage."

The report goes on "California's unemployment rate continues to edge lower, falling 0.1 percentage points in January to 5.1 percent. The number of Californians stating that they were working rose by 10,600 in January, while the civilian labor force fell by 2,100 persons. The number of unemployed fell by the difference, or 12,700. California's unemployment rate declined 0.6 percentage points over the past year, which is a faster decline than seen nationwide. The gap between California's unemployment rate and the national rate is now just 0.3 percentage points, which is the narrowest it has been since August 2006.

While the decline in California's unemployment rate is encouraging, nonfarm employment growth has been decelerating. Employers added 9,700 jobs in January, following a 4,800-job gain in December. Hiring continues to be driven by California's tech sector. Professional, scientific & technical services firms added 9,000 jobs in January and another 7,200 jobs were added in the information sector. The latter sector includes data processing and Internet search but also includes the motion picture and recording industries. All of the growth in the information sector over the past year, however, has come from software publishers (+4,700 jobs), data processing, hosting and related services (+4,200 jobs) and other information services (+9,700 jobs), most of which were likely in Internet search. Employment in California's motion picture and sound recording sector fell 3.8 percent over the past year, resulting in a net loss of 6,300 jobs.

January's improvement in tech hiring follows an unusually slow patch for the tech sector. Tech employment rose 2.5 percent over the past year, down from roughly 5 percent the prior year. The slower pace for the tech sector is even more disappointing in that the January employment report included revisions to prior months' data, which we had hoped would show upward revisions to tech-related employment. There were some notable revisions within the tech sector, with hiring stronger at web search portals. The books are not completely closed on 2016, however. The revisions are based off of a hard count of jobs, which are only available through June. Almost all of the deceleration in tech employment took place in the second half of the year and those data will be revised again next year.

Overall job growth has also slowed. Employment in retail trade declined by 15,300 jobs in January, marking the largest one-month drop since the dark days of the Great Recession. Employment in the leisure & hospitality sector and transportation & warehousing industries also posted unusually large declines. We suspect increases in the minimum wage may have been the culprit. The retailing industry has been through a tough time of late and many chains are looking to cut costs and close stores."

In the publication "Special Commentary / What's Heating Up and Cooling Off in the San Francisco Bay Area" dated January 31, 2017 by the Economics Group of Wells Fargo Securities the headlines read:

"Bay Area employment growth continues to outpace the nation."

"Late-cycle headwinds have created a more challenging business environment."

"The moderation in employment growth and housing costs should continue in 2017."

"We estimate that the Bay Area's economy grew 5.9 percent in 2016."

The report goes on: "California's economy has outpaced the nation for the past six years, and the San Francisco Bay Area has been the fastest growing part of the state by far (Figure 1). Annual real GDP growth in the greater Bay Area has averaged a strong 4.0 percent between 2010 and 2015. Growth in the local economy has been driven by the strength of the region's technology sector and its impact on construction and supporting industries. The surge of economic growth at a time when the national economy has been growing only modestly is largely without precedent. Combined, the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metropolitan areas accounted for 8.0 percent of all U.S. real GDP growth from 2010 to 2015, despite comprising just 3.8 percent of the nation's economy.

Bay Area employment growth continues to outpace the nation (Figure 2). Payroll gains have cooled relative to recent years, however, as late-cycle headwinds, including tighter labor market conditions and rising compensation costs, have created a more challenging business environment. Annual job growth in the Bay Area has slowed to between 2.5 percent and 3 percent compared to the 3.5 percent to 4 percent pace registered during the majority of 2013 to 2015. Notably, this slowdown has also been evident in the region's tech sector. Job growth in the professional, scientific & technical services and information sectors, which capture a significant portion of high-tech professions such as computer programmers, software developers and engineers, has decelerated over the past year.

The greater San Francisco Bay Area is comprised of the 12 counties that make up the San Jose-San Francisco-Oakland combined statistical area, which include Alameda, Contra Costa, Napa, Marin, San Francisco, San Mateo, Santa Clara, Sonoma, Solano, Santa Cruz, San Benito and San Joaquin.

The persistent tightening of the labor market has been a notable development across the country this past year, as the labor market has reached levels widely thought to be consistent with full employment. The U.S. unemployment rate stood at 4.7 percent in December and has been at or below 5 percent for the past year. In comparison, labor market conditions in the Bay Area have been tight for quite some time, as the jobless rate in the greater San Francisco Bay Area has been below 5 percent for nearly two years. The Bay Area's unemployment rate is trending near 4.3 percent and is just about even with its previous 2006 low, but remains a full percentage point above the low reached during the height of the dot-com era in 1999.

With the pool of available workers continuing to diminish, labor costs have been edging higher as employers compete to attract and retain qualified workers. By a range of measures, wage growth has picked up across the country. Average hourly earnings in the United States were up 2.9 percent year over year in December after rising by an average of around 2 percent from 2010 to 2015. Wages have risen much faster in the Bay Area, and the region is home to some of the highest earning counties in the country.

The strength in average hourly earnings is largely due to the preponderance of higher-paying jobs in information technology and life sciences. The rapid growth in these jobs has supported hiring in other industries, which has worsened income polarization within the region and made it much more difficult for a large proportion of Bay Area residents to find affordable housing. Wages in lower-paying parts of the economy have also been pulled higher in recent years, however.

Adding to these building wage pressures, California's state minimum wage increased $0.50 to $10.50 an hour at the start of 2017. The state's minimum wage is scheduled to increase every year until it reaches $15 for all businesses by Jan. 1, 2023. Many Bay Area cities have been at the forefront of local wage increases, with some implementing changes as part of a plan to reach a $15 minimum wage ahead of the statewide mandate. … While the rise of the minimum wage is providing some relief to workers, it places an additional burden on many businesses and will likely slow job growth modestly in the affected sectors.

Strong economic growth is pushing the Bay Area's already high cost of living up at a faster pace relative to the nation. The Consumer Price Index (CPI) for the San Francisco-San Jose-Oakland combined metropolitan region has risen 3.1 percent year over year compared to the national increase of just 1.3 percent. Higher energy prices have played a meaningful role in price increases this past year, as gasoline prices have rebounded. We note that energy prices are more volatile in California due to environmental restrictions on the blends of gasoline used in the state and initiatives to promote green energy. The core CPI, which strips out the more volatile food and energy components, is still up 3.8 percent in the Bay Area and 2.2 nationwide. Shelter costs, which account for roughly 40 percent of the core CPI and captures rental prices, are up a sizable 6.9 percent over the past year in the Bay Area. In comparison, shelter prices nationwide are up just 3.6 percent over the period.

Skyrocketing home prices and rents continue to top the list of cost burdens for Bay Area residents. Higher housing costs are not a new development for the Bay Area, as the region's perennially tight housing market tends to support prices and rents even when the economy is growing slowly. When growth picks up, the high costs and considerable delays in bringing new properties to the market tend to cause prices and rents to surge. In economic terms, San Francisco has an incredibly inelastic supply of housing.

Home prices have been rising steadily throughout the region since the end of the Great Recession as the Bay Area was one of the first major regions to see economic growth kick into higher gear. Home prices in San Francisco recovered back in April 2013 and currently stand nearly 40 percent higher than their previous 2007 peak. Despite the increases, home price appreciation across the Bay Area has largely decelerated. San Francisco County has seen a particularly notable slowdown in home price gains, with home price appreciation falling from an annual average increase of 12 percent in 2015 to a modest pickup of 1.3 percent year over year in November 2016. Much of this deceleration has occurred at the top of the market where price gains had been the greatest. Price increases for more modestly priced homes have actually accelerated in many parts of the Bay Area, as relatively little new supply has come on line.

Effective apartment rents were $2,472 per month in San Francisco, $2,059 per month in San Jose and $1,719 per month in the East Bay in the third quarter, according to data from Reis, which has pushed the vacancy rate slightly higher and helped cool off the rise in apartment rents. San Francisco's apartment vacancy rate has risen about a percentage point over the past two years to 4.4 percent in the third quarter."

In the section "Summary and Outlook" the report concludes:

"After five years of exceptionally solid economic growth, the Bay Area is beginning buckle on some of the strains generated from growing at such a rapid pace. Annual real GDP growth averaged a 4.0 percent pace in the Bay Area from 2010 to estimate that the economy grew 5.9 percent in 2016. By contrast, real GDP growth has averaged just a 1.9 percent pace nationwide over this period, and the U.S. economy grew just 1.6 percent in 2016. Stronger economic growth has brought the unemployment rate back down to levels long considered to be near full employment and wage gains have accelerated. The cost of living has also ramped up in the region, where growth has been much stronger and impediments to development are much greater. Traffic congestion has also worsened considerably, raising the costs of commuting. The higher costs of doing business and increasing frustration with traffic congestion have contributed to the out- migration of some businesses away from the region. Growth has also shifted to lower-cost parts of the Bay Area, most notably Oakland and the East Bay in general.

Growth in the region has shown some signs of moderation this past year. Nonfarm employment growth has decelerated. Job growth in the San Francisco metropolitan division was 3.1 percent in 2016, down from 4.8 percent the prior year. That still left payrolls some 32,400 jobs higher than the prior year, but the increase was down from a gain of 47,700 jobs in 2015. Much of the deceleration occurred during the second half of the year. Employment growth in Oakland followed a similar pattern, with nonfarm payrolls rising 2.5 percent in 2016, following a 3.1 percent rise the prior year. Oakland saw a net increase of 27,100 jobs in 2016, which is smaller than the 32,800 jobs added in 2015.

Housing costs are also showing some tentative signs of cooling. Home price appreciation has moderated, following huge gains at the higher-end of the market. In addition to suffering from some indigestion from previous price spikes, demand for higher-priced homes also likely cooled off a bit as the IPO market slowed and interest from overseas buyers waned. Apartment rent growth has also lessened as development has increased significantly in recent years and the sudden onslaught of new units caused rents to rise more slowly this past year.

The moderation in employment growth and housing costs should continue in 2017. Hiring has cooled off as employers have had a more difficult time filling vacant positions and rising compensation costs have raised the bar for many new hires. In addition, with the unemployment rate near 5 percent, many of the jobs being added are pulling workers from the ranks of the underemployed and involuntary part-time workers. The net result has been stronger wage and salary growth but less employment growth."

Key performance indicators

Key performance indicators are presented in the following table for the three months ended March 31, 2017, 2016, and 2015 ($ in thousands).

		2017	2016	2015
Secured loans – average daily balance	$	94,458	66,124	76,535
Secured loans – end-of-period	$	98,654	75,641	76,742
Interest on loans	$	1,994	1,403	1,366
Portfolio interest rate(1)		8.1%	8.3%	7.2%
Effective yield rate(2)		8.4%	8.5%	7.1%
Provision for (recovery of) loan losses	$	—	—	400
Percent(2)		0.0%	0.0%	2.1%
Real estate owned (REO)				
REO – end of period	$	18,635	82,164	146,975
Mortgages payable – end-of-period	$	—	28,293	35,540
Rental operations, net	$	(134)	616	1,122
Interest on mortgages payable	$	—	228	380
Rental operations, net after mortgage interest	$	(134)	388	742
Realized gains on REO sales	$	102	503	320
Operations expense	$	1,240	1,163	1,230
Net Income	$	722	1,124	1,075
Percent(3)(4)		1.5%	2.4%	2.2%
Partner Distributions	$	710	671	569
Percent (annual rate)(5)		3.0%	2.5%	2.0%
Limited Partners' capital – average balance	$	165,250	185,054	195,633
Limited Partners' capital – end-of-period	$	162,620	182,612	194,776
Partner Liquidations(6)	$	5,263	5,325	2,209

(1) Stated note interest rate, weighted daily average (annualized)

(2) Percent of secured loans – average daily balance (annualized)

(3) Percent of limited partners' capital – average balance (annualized)

(4) Percent based on the net income available to limited partners (excluding 1% of profits and losses allocated to general partners)

(5) Percent distributed from limited partners' capital accounts for partners electing periodic distributions.

(6) Scheduled liquidations as of March 31, 2017 were approximately $51,823,000. Additional detail regarding limited partner capital withdrawals is available under the caption "Cash flows and Liquidity" in this Management Discussion and Analysis.

Secured loans

The March 31, 2017 end-of-period secured loan balance was approximately $98.7 million, up 30.4% ($23.0 million) compared to the March 31, 2016 end-of-period secured loan balance of approximately $75.6 million, which was down 1.4% ($1.1 million) compared to the March 31, 2015 end-of-period secured loan balance of approximately $76.7 million. The overall increased balance of the secured loan portfolio is due to the 1) favorable economic environment generally and to the increased investment in California real estate markets specifically, and 2) the proceeds from the sale of REO properties being reinvested, both of which expands the opportunity for new loans.

Loans generally are funded at a fixed interest rate with a loan term of up to five years. Loans acquired are generally done so within the first six months of origination, and purchased at the current par value, which approximates fair value. As of March 31, 2017, 57 (79%) of the partnership's 72 loans (representing 96% of the aggregate principal of the partnership's loan portfolio) had a loan term of five years or less from inception. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment-penalty clause. As of March 31, 2017, 25 (35%) of the loans outstanding (representing 61% of the aggregate principal of the partnership's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30 year amortization, with the remaining principal balance due at maturity.

We have sought to exercise strong discipline in underwriting loan applications and lending against collateral at amounts that create a mortgage portfolio that has substantial protective equity (i.e., safety margins to outstanding debt) as indicated by the overall conservative weighted-average loan-to-value ratio (LTV) which at March 31, 2017 was 56.1%. Thus, per the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 43.9% in the property, and we as lenders have loaned in the aggregate 56.1% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans.

See Note 4 (Loans) to the financial statements included in Part I, Item 1 of this report for detailed presentations on the secured loan portfolio and on the allowance for loan losses, which presentations are incorporated by this reference into this Item 2.

Performance overview

For the three months ended March 31, 2017, net income available to limited partners as a percent of Limited Partners' capital – average daily balance was 1.5% (annualized). Distributions to those limited partners electing periodic distributions was 3.0% (annualized).

For three months ended March 31, 2017, continuing improvement in interest on loans ($2.0 million in 2017, $1.4 million in 2016, and $1.4 million in 2015) is reflective of the growth in the portfolio of performing loans and the increasing effective yield rate (8.4% in 2017, 8.5% and 2016, and 7.1% in 2015). For the three months ended March 31, 2017, the effective yield rate on the loan portfolio was higher than the portfolio interest rate (8.4% and 8.1%, respectively) due to interest received on loans with previously recorded discounts.

Net income for the three months ended March 31, 2017 was $722,000 a decrease of $402,000 (35.8%) compared to the same period in 2016 due to the decrease in REO income as the REO portfolio is liquidated, and proceeds reinvested in loans. Total operations expense as a percent of interest income on loans was 62.2% and 82.9% for the three months ended March 31, 2017 and 2016, respectively

REO income decreased approximately $918,000 (104.4%) for the three months ended March 31, 2017 compared to the same period in 2016, due primarily to the sale of certain REO properties and the overall reduction in the REO portfolio. As the REO portfolio continues to sell in a favorable real estate market, and the proceeds are reinvested in performing loans, REO income is expected to decline with offsetting increases to interest income. REO income includes earnings from rental operations, net of mortgage interest, holding costs of non-rental properties, impairment gains or losses on all REO and gains or losses on the sale of REO.

Analysis and discussion of income from operations 2017 v. 2016

Significant changes to revenue and expense for the three month period ended March 31, 2017 compared to the same period in 2016 are summarized in the following table ($ in thousands).

	Interest on Loans	Provision for (Recovery of) Loan Losses	Operations Expense	REO, net Rental, Net After Interest	REO, net Realized Gains on REO Sales	REO, net Impairment (Loss)/Gain	REO, net Holding Costs, Net	Net Income
2017	$ 1,994	$ —	$ 1,240	$ (134)	$ 102	$ —	$ (7)	$ 722
2016	1,403	—	1,163	388	503	—	(12)	1,124
Change	$ 591	$ —	$ 77	$ (522)	$ (401)	$ —	$ 5	$ (402)
Explanation								
Loan balance increase (decrease)	600	—	119	—	—	—	—	481
Effective yield rate	(9)	—	—	—	—	—	—	(9)
REO sales	—	—	—	(522)	(401)	—	5	(918)
Professional services	—	—	(25)	—	—	—	—	25
Other	—	—	(17)	—	—	—	—	19
Change	$ 591	$ —	$ 77	$ (522)	$ (401)	$ —	$ 5	$ (402)

The table above displays only significant changes to net income for the period and is not intended to cross foot.

Interest on loans

Interest income increased approximately $591,000 for the three month period ending March 31, 2017 compared to the same period in 2016, due to growth of the secured loan portfolio and the portfolio's strong payment history. The secured loans- average daily balance increased approximately $28.3 million, or approximately 42.8%.

Provision for (recovery of) loan losses/allowance for loan losses

At March 31, 2017, the partnership had no allowance for loan losses as all loans had protective equity such that at March 31, 2017, collection was deemed probable for amounts owing. There were no loans past due more than 90 days at March 31, 2017 and 2016.

Operations expense 2017 v. 2016

Significant changes to operations expense for the three month period ended March 31, 2017 compared to the same period in 2016 are summarized in the following table ($ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	Other	Total
2017	$ 352	$ 158	$ 481	$ 255	$ (6)	$ 1,240
2016	233	176	484	280	(10)	1,163
Change	$ 119	$ (18)	$ (3)	$ (25)	$ 4	$ 77
Explanation						
Loan balance increase (decrease)	119	—	—	—	—	119
Professional services rendered	—	—	—	(25)	—	(25)
Capital balance decrease	—	(18)	(3)	—	—	(21)
Other	—	—	—	—	4	4
Change	$ 119	$ (18)	$ (3)	$ (25)	$ 4	$ 77

- *Mortgage servicing fees*

The increase in mortgage servicing fees of approximately $119,000 for the three month period ending March 31, 2017 over the same period in 2016, is due to the increase in the average secured loan balance. Fees are charged at the annual rate of 1.5%.

• *Asset management fees*

The decrease in asset management fees of approximately $18,000 was due to the reduction in the total capital under management. Total partners' capital at March 31, 2017 and 2016, was approximately $162.6 million and $182.6 million, respectively.

• *Costs from RMC*

The decrease in costs from RMC of $3,000 was due primarily to a reduction in total capital under management.

• *Professional services*

Professional services, including audit & tax fees, decreased approximately $25,000 due primarily to audit, tax, and accounting fees relating to real estate transactions, tax compliance, LLC returns and dissolutions, and financial reporting.

REO – rental operations, net after mortgage interest

Rental financial highlights by property type are presented in the table below for the three months ended March 31, 2017 ($ in thousands).

	Rental Income	**Rental Expenses**	**Depreciation**	**Receiver Fees**	**Mortgage Interest**	**Rental, Net After Interest**
Property type						
Residential	$ 170	$ 291	$ —	$ —	$ —	$ (121)
Commercial	36	47	—	2	—	(13)
Total	$ 206	$ 338	$ —	$ 2	$ —	$ (134)

(1) At March 31, 2017, all rental properties were designated held for sale, and accordingly were not depreciated.

(2) At March 31, 2017, there were 5 rental properties comprised of 2 residential and 3 commercial properties. The residential rental properties were substantially vacated by January 31, 2017 as the units are being sold.

REO – end-of-period balance, mortgages payable and realized gains/(losses) on REO sales and valuation adjustments

At March 31, 2017, the partnership held eight (8) REO properties, all of which were designated held for sale. At March 31, 2016 and 2015, total REO properties held were 12 and 11, respectively.

The March 31, 2017, REO balance, end of period, was approximately $18.6 million, down 77.0% ($62.5 million) compared to the March 31, 2016 balance of approximately $82.2 million, which was down 44.0% ($64.8 million) compared to the March 31, 2015 balance of approximately $147.0 million. At March 31, 2017, approximately 61.0% ($11.4 million) of total REO was one property located in Glendale California.

See Note 5 (Real Estate Owned (REO)) to the financial statements included in Part I, Item 1 of this report for detailed presentations of REO sales transactions, rental activity, and additional information regarding REO activity during the period.

Cash flows and liquidity
Cash flows by business activity are presented in the following table ($ in thousands).

	2017	2016	2015
Partners' capital			
Distributions	$ (710)	$ (671)	$ (569)
Formation loan, net of early withdrawal fees	62	100	—
Liquidations	(5,263)	(5,325)	(2,209)
Cash used in partners' capital	(5,911)	(5,896)	(2,778)
Loan earnings and payments			
Interest	1,926	1,155	1,031
Other loan income	7	12	5
Operations expense	(1,494)	(1,092)	(1,146)
Principal payments and recoveries	4,003	4,978	1,864
Total cash from loan earnings	4,442	5,053	1,754
Loans originated, net	(7,799)	(18,220)	(7,654)
Advances on loans	1	(11)	(121)
Total cash from loan production	(7,798)	(18,231)	(7,775)
Cash from loan earnings and production	(3,356)	(13,178)	(6,021)
REO operations, sales and development			
Rental operations, net	(100)	681	1,777
Holding costs	(7)	(12)	(397)
Other Assets	(69)	—	—
Proceeds from real estate sales	1,317	2,838	1,178
Cash from REO operations, sales and development	1,141	3,507	2,558
Outside financing			
Interest expense	—	(211)	(357)
Principal, net	—	(142)	(202)
Cash from outside financing	—	(353)	(559)
Net cash increase/(decrease) before distributions to limited partners	(2,215)	(10,024)	(4,022)
Net increase/(decrease) in cash	$ (8,126)	$ (15,920)	$ (6,800)
Cash, end of period	$ 37,197	$ 40,753	$ 3,068

Withdrawals of limited partner capital

The table below sets forth withdrawals of limited partner capital ($ in thousands).

	2017	2016
Capital liquidations-without penalty	$ 4,489	$ 4,075
Capital liquidations-subject to penalty	774	1,250
Total	$ 5,263	$ 5,325

Scheduled limited partner capital withdrawals at March 31, 2017 are presented in the following table ($ in thousands).

2017	$	14,571
2018		16,108
2019		12,431
2020		6,053
2021		2,488
Thereafter		172
Total	$	51,823

The ongoing sources of funds for loans are the proceeds (net of withdrawals from partner capital accounts) from

- loan payoffs,
- borrowers' monthly principal and interest payments,
- earnings retained (i.e. not distributed) in partners' capital accounts,
- REO sales, and,
- to a lesser degree and, if obtained, a line of credit.

The partnership's loans generally have shorter maturity terms than typical mortgages. As a result, constraints on the ability of our borrowers to refinance their loans at maturity possibly would have a negative impact on their ability to repay their loans. In the event that a loan is performing, and collection is deemed probable at maturity, we may elect to extend the loans maturity. In the event a borrower is unable to repay in full the principal owing on the loan maturity, we may elect to modify the loan payment terms and designate the loan as impaired, or we may elect to foreclose and take back the property for sale. A reduction in loan repayments would reduce the partnership's cash flows and restrict the partnership's ability to invest in new loans and/or, if ongoing for an extended period, provide earnings distributions and fund capital account withdrawal requests.

Generally, within a broad range, the partnership's rates on mortgage loans is not affected by market movements in interest rates. If, as expected, we continue to make and invest in fixed rate loans primarily, and interest rates were to rise, a possible result would be lower prepayments of the partnership's loans. This increase in the duration of time loans are on the books may reduce overall liquidity, which itself may reduce the partnership's investment into new loans at higher interest rates. Conversely, if interest rates were to decline, we could see a significant increase in borrower prepayments. If we then invest in new loans at lower interest rates of interest, a lower yield to limited partners may possibly result.

Contractual Obligations

The partnership's only contractual obligation is to fund capital account withdrawal requests, subject to cash available per the terms of the partnership agreement. See Note 3 (Partners) and Note 7 (Commitments and Contingencies, Other Than Loan Commitments) to the financial statements included in Part I, Item 1 of this report for a detailed presentation on mortgage notes payable, which presentation is incorporated by this reference into this Item 2.

At March 31, 2017, the partnership had no construction or rehabilitation loans outstanding.

We had no off-balance sheet arrangements as such arrangements are not permitted by the partnership agreement.

Distributions to limited partners

At the time of their subscription to the partnership, limited partners elected either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound profits in their capital account. If an investor initially elected to receive monthly, quarterly or annual distributions, such election, once made, is irrevocable. If the investor initially elected to compound profits in their capital account, in lieu of cash distributions, the investor may, after three (3) years, change the election and receive monthly, quarterly or annual cash distributions. Profits allocable to limited partners who elect to compound profits in their capital account will be retained by the partnership for making further loans or for other proper partnership purposes and such amounts will be added to such limited partners' capital accounts. The percentage of limited partners electing distribution of allocated net income, by weighted average to total partners' capital was 58% and 59% at March 31, 2017 and 2016, respectively.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk (Not included as smaller reporting company)

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The partnership is externally managed by RMC. The manager is solely responsible for managing the business and affairs of the company, subject to the voting rights of the partners on specified matters. The manager acting alone has the power and authority to act for and bind the company. RMC provides the personnel and services necessary for us to conduct our business, as we have no employees of our own.

As a partnership, we do not have a board of directors, nor, therefore, do we have an audit committee of the board. Accordingly, the manager provides the equivalent functions of a board of directors and of an audit committee for, among other things, the following purposes: appointment, compensation, review and oversight of the work of our independent public accountants, and establishing and maintaining internal controls over our financial reporting. Since the partnership does not have an audit committee and the manager is not independent of the partnership, there is no independent oversight of the partnership’s financial reporting processes.

RMC, as the manager, carried out an evaluation, with the participation of RMC's principal executive officer/principal financial officer, of the effectiveness of the design and operation of the manager's disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, RMC's principal executive officer/principal financial officer concluded that the manager's disclosure controls and procedures were not effective as of March 31, 2017, as a result of material weaknesses in internal control over financial reporting discussed below.

This conclusion by the management of RMC did not preclude the partnership’s independent auditors from issuing an unqualified opinion on the 2016 financial statements included in the 2016 Annual Report on Form 10-K. RMC believes that the items identified will be fully remediated as the planned 2017 undertakings of system and organizational enhancements are brought online as described below.

RMC concluded that it has material weaknesses resulting from the following:

Control Environment and Monitoring - The board of directors of RMC consists of the following officers of RMC: the President, Secretary, Treasurer (who serves as the principal executive officer and principal financial officer); the Vice President of Investor Sales (the President's brother); and the Vice President of Loan Production and Underwriting. There is no independent board member with financial background and experience which increases the risk of management override.

- RMC’s management is consulting with its securities law firms and other professionals to determine best practices as applied to independent board members and other appropriate organizational changes to enhance internal controls for public reporting companies (and/or their sponsors) not subject to national securities exchange rules or other guidance. RMC expects to conclude this program in the second quarter of 2017. Two candidates have been approached and have consented to join the Board in late May/early June 2017, both with significant financial and public-reporting-company experience. Additional director candidates are being identified by ongoing search.

Information and Communication – As of December 31, 2016, access to RMC's general ledger system does not require passwords with appropriate complexity. Further, during 2016 the President had administrator access to the general ledger as well as to RMC's loan servicing system. These weaknesses create a lack of segregation of duties and a risk of management override.

- These matters are being remediated, by actions taken beginning in the first quarter of 2017, with testing to be completed in the second quarter of 2017. These actions include the implementation of the Microsoft Dynamics general ledger and management software suite which requires robust password protocols, and includes a built-in architecture for segregation of duties and reviews.

Risk Assessment, Monitoring and Control Activities - RMC has not sufficiently documented that its management review controls over financial reporting are performed to a level of precision and has also not sufficiently documented how variances from expectations are investigated and resolved. Further, the operating effectiveness of the activity level control surrounding cutoff was not sufficient to ensure revenue and/or expenses are being recorded in the correct period.

- These matters are to be remediated by actions to be taken in the second quarter of 2017, including the introduction of additional entity level and management review controls in conjunction with the implementation of Microsoft Dynamics.

Changes to Internal Control Over Financial Reporting

In addition to the items noted above, RMC has undertaken the following programs.

Beginning in 2014 and ongoing, RMC's management undertook a technology upgrade initiative. The objective of this program was to implement available, advanced -and proven - technologies to enable digital imaging and storage; concurrent, shared and remote processing; and more robust data management. A core part of the program was the elimination of desktop computers in favor of server and cloud-based platforms. The programs were expected to increase collaboration, reduce dependency on paper-based, linear processes; enable multi-thread processes; and enhance real-time controls, security and recoverability. These programs enable digital interfaces to external service providers including banks, the service bureau that processes investor accounts and professional firms. Concurrent with these build-and-convert efforts, RMC undertook to upgrade its in place processing controls generally, but particularly in accounting/finance, to enhance its capabilities as to internal and external financial reporting, planning and analysis and to better its internal controls and data reliability. To assist (and in some cases to lead) these efforts, RMC engaged qualified professionals and firms experienced in the successful implementation and utilization of these technologies. These efforts culminated in the successful installation of and conversion to the Microsoft Dynamics general ledger and financial management software suite that became the system of record on January 1, 2017.

While proceeding with this project, RMC also engaged a California-based CPA firm to assist in the review and testing of the internal controls at the entity level in 2016, and in 2017 to collaborate with RMC accounting personnel in the implementation, documentation and ultimately testing of the processing and control features of the new Microsoft Dynamics software. The firm is experienced, subject-matter experts in both the implementation of the control and processing features of this software, and in the required internal control analysis and testing required by SEC regulation. This same firm is to assist in the implementation of the COSO 2013 Framework in 2017.

PART II – OTHER INFORMATION

ITEM 1. **Legal Proceedings**

In the normal course of business, the partnership may become involved in various types of legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc. to enforce provisions of the deeds of trust, collect the debt owed under promissory notes or protect or recoup its investment from real property secured by the deeds of trust and resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions would typically be of any material importance. As of March 31, 2017, the partnership was not involved in any legal proceedings other than those that would be considered part of the normal course of business.

ITEM 1A. **Risk Factors**

Not included as the partnership is a smaller reporting company.

ITEM 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

There were no sales of securities by the partnership which were not registered under the Securities Act of 1933.

Liquidations are made once a quarter, on the last business day of the quarter. Liquidations for the three months ended March 31, 2017 were $5,263,135. The unit liquidation program is ongoing and available to partners beginning one year after the purchase of the units. The maximum number of units that may be liquidated in any year and the maximum amount of liquidation available in any period to partners are subject to certain limitations.

ITEM 3. **Defaults Upon Senior Securities**

Not Applicable.

ITEM 4. **Mine Safety Disclosures**

Not Applicable.

ITEM 5. **Other Information**

None.

ITEM 6. **Exhibits**

Exhibit No.	Description of Exhibits
31.1	Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REDWOOD MORTGAGE INVESTORS VIII, a California Limited Partnership
(Registrant)

Date: May 22, 2017

By: **Redwood Mortgage Corp., General Partner**

By: /s/ Michael R. Burwell
Name: Michael R. Burwell
Title: President, Secretary and Treasurer
(On behalf of the registrant, and in the capacity of principal financial officer), Director

Date: May 22, 2017

By: **Michael R. Burwell, General Partner**

By: /s/ Michael R. Burwell
Name: Michael R. Burwell
Title: General Partner

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