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 June 30, 2020

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	**94-3158788**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
177 Bovet Road, Suite 520, San Mateo, CA	**94402**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
None		

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 every Interactive Data File required to be submitted 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 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 ☒	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
June 30, 2020 (unaudited) and December 31, 2019 (audited)
($ in thousands)

	June 30, 2020	December 31, 2019
ASSETS		
Cash, in banks	$ 1,001	$ 4,142
Loans		
Principal	77,895	86,203
Advances	150	167
Accrued interest	955	711
Prepaid interest	—	(121)
Loan balances secured by deeds of trust	79,000	86,960
Allowance for loan losses	(50)	(50)
Loan balances secured by deeds of trust, net	78,950	86,910
Real estate owned (REO), net	8,922	3,252
Debt issuance costs, net	95	—
Other assets, net	233	50
Total assets	$ 89,201	$ 94,354
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable	$ 291	$ 15
Accrued liabilities	722	550
Payable to related parties	35	—
Mortgages payable	2,449	—
Total liabilities	3,497	565
Commitments and Contingencies (Note 8)		
Partners' capital		
Limited partners' capital	90,537	98,770
General partners' deficit	(668)	(689)
Total partners' capital	89,869	98,081
Receivable from manager (formation loan)	(4,165)	(4,292)
Partners' capital, net of formation loan	85,704	93,789
Total liabilities and partners' capital	$ 89,201	$ 94,354

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Income Statements
For the Three and Six Months ended June 30, 2020 and 2019 ($ in thousands) (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenue				
Interest income	$ 2,107	$ 2,103	$ 3,845	$ 4,309
Interest expense				
Line of credit	(13)	—	(13)	—
Mortgages payable	(7)	—	(7)	—
Total interest expense	(20)	—	(20)	—
Net interest income	2,087	2,103	3,825	4,309
Late fees	7	8	13	18
Total revenue, net	2,094	2,111	3,838	4,327
Recovery of loan losses	(126)	—	(126)	—
Operations expense				
Mortgage servicing fees	315	364	638	756
Asset management fees	89	108	181	221
Costs from Redwood Mortgage Corp.	177	307	491	628
Professional services	318	183	610	401
REO, net (Note 5)	21	35	(28)	62
Other	17	19	17	18
Total operations expense	937	1,016	1,909	2,086
Net income	$ 1,283	$ 1,095	$ 2,055	$ 2,241
Net income				
Limited partners (99%)	$ 1,270	$ 1,084	$ 2,034	$ 2,219
General partners (1%)	13	11	21	22
	$ 1,283	$ 1,095	$ 2,055	$ 2,241

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Changes in Partners' Capital

For the Three Months Ended June 30, 2020
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, March 31, 2020	$ 94,142	$ (681)	$ 93,461
Net income	1,270	13	1,283
Distributions	(442)	—	(442)
Withdrawals	(4,433)	—	(4,433)
Balance, June 30, 2020	$ 90,537	$ (668)	$ 89,869

For the Six Months Ended June 30, 2020
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, December 31, 2019	$ 98,770	$ (689)	$ 98,081
Net income	2,034	21	2,055
Distributions	(943)	—	(943)
Withdrawals	(9,324)	—	(9,324)
Balance, June 30, 2020	$ 90,537	$ (668)	$ 89,869

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Changes in Partners' Capital

For the Three Months Ended June 30, 2019
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance, March 31, 2019	$ 115,047	$ (723)	$ 114,324
Net income	1,084	11	1,095
Distributions	(604)	—	(604)
Withdrawals	(6,529)	—	(6,529)
Balance, June 30, 2019	$ 108,998	$ (712)	$ 108,286

For the Six Months Ended June 30, 2019
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance, December 31, 2018	$ 121,012	$ (734)	$ 120,278
Net income	2,219	22	2,241
Distributions	(1,196)	—	(1,196)
Withdrawals	(13,037)	—	(13,037)
Balance, June 30, 2019	$ 108,998	$ (712)	$ 108,286

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2020 and 2019
($ in thousands) (unaudited)

	Six Months Ended June 30	
	2020	2019
Operating Activities		
Interest income received	$ 3,318	$ 4,097
Late fees	13	18
Operations expense	(1,857)	(1,942)
Total cash provided by operating activities	1,474	2,173
Investing Activities		
Loans		
Principal collected - secured	4,572	27,700
Loan transferred to related mortgage fund	2,297	—
Loans funded	(1,500)	(26,394)
Recovery of loan losses	126	—
Advances made on loans	(48)	(91)
Total - Loans	5,447	1,215
REO - sales proceeds, net	186	—
Total cash provided by investing activities	5,633	1,215
Financing Activities		
Partners' capital		
Partner withdrawals	(9,324)	(13,037)
Partner distributions	(943)	(1,196)
Early withdrawal penalties	127	227
Cash distributions to partners, net	(10,140)	(14,006)
Borrowings - debt issuance costs - line of credit	(108)	—
Total cash used in financing activities	(10,248)	(14,006)
Net decrease in cash	(3,141)	(10,618)
Cash, beginning of period	4,142	13,607
Cash, end of period	$ 1,001	$ 2,989

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2020 and 2019
($ in thousands) (unaudited)

Reconciliation of net income to net cash provided by operating activities:

	Six Months Ended June 30	
	2020	2019
Cash flows from operating activities		
Net income	$ 2,055	$ 2,241
Adjustments to reconcile net income to net cash provided by operating activities		
Recovery of loan losses	(126)	—
Amortization of debt issuance costs	13	
REO – gain on disposal	(68)	—
Change in operation assets and liabilities		
Accrued interest	(407)	(120)
Prepaid interest	(121)	(93)
Other assets	(174)	61
Accounts payable and accrued liabilities	267	84
Payable to related parties	35	—
Net cash provided by operating activities	$ 1,474	$ 2,173
Supplemental disclosures of cash flow information - REO		
Non-cash investing activities		
Real estate acquired by foreclosure	$ 5,787	$ —
Mortgage assumed at foreclosure	(2,449)	—
Mortgage interest, property taxes, and other liabilities assumed at foreclosure	(175)	—
Settlement of loan and interest receivable net of liabilities assumed at foreclosure	(3,163)	—

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

NOTE 1 – ORGANIZATION AND GENERAL

In the opinion of management of Redwood Mortgage Corp. (RMC or the manager), 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 unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the partnership's Form 10-K for the year ended December 31, 2019 filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the operating results to be expected for the full year.

Redwood Mortgage Investors VIII, a California Limited Partnership (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, subject to limitations, and operating expenses) from:

- loan payoffs;
- borrowers' monthly principal payments;
- earnings retained (i.e., not distributed) in partners' capital accounts;
- line of credit advances;
- loan sales to unaffiliated third parties and loan transfers by executed assignment to related mortgage funds;
- REO sales; and,
- payments from RMC on the outstanding balance of the formation loan.

The mortgage loans the partnership funds and/or invests in, are arranged and generally are serviced by RMC.

The ongoing ability of the partnership to source funds for loans from one or more of the ongoing sources above may be adversely affected by the COVID-19 pandemic and by the social and governmental responses and severe economic disruptions caused by the pandemic (see COVID-19, below).

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. The partnership intends to hold until maturity the loans in which it invests and does not presently intend to invest in mortgage loans primarily for the purpose of reselling such loans in the ordinary course of business; however, the partnership may sell mortgage loans (or fractional interests therein) when the manager determines that it appears to be advantageous for the partnership to do so, based upon then current interest rates, the length of time that the loan has been held by the partnership, the partnership's credit risk and concentration risk and the overall investment objectives of the partnership. Loans sold to third parties may be sold for par, at a premium or, in the case of non-performing or under performing loans, at a discount. Partnership loans may be sold to third parties or to the manager or its related mortgage funds; however, any loan sold to the manager or a related mortgage fund thereof will be sold for a purchase price equal to the greater of (i) the par value of the loan or (ii) the fair market value of the loan. The manager will not receive commissions or broker fees with respect to loan sales conducted for the partnership; however, selling loans will increase partnership capital available for investing in new loans for which the manager will earn brokerage fees and other forms of compensation.

The rights, duties, and powers of the limited partners and general partners of the partnership are governed by the Limited Partnership Agreement (Partnership Agreement).

The following is a summary of certain provisions of the Partnership Agreement and is qualified in its entirety by the terms of the Partnership Agreement itself. Limited partners should refer to the Partnership Agreement for complete disclosure of its provisions.

The partnership is externally managed by RMC, a general partner. The general partners are RMC and Michael R. Burwell (Burwell), an individual. The manager is solely responsible for managing the business and affairs of RMI VIII, 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 the business as RMI VIII has no employees of its own. The general partners are entitled to one percent (1%) of profits or loss of the partnership. In 2010, and continuing until December 31, 2019, RMC assigned its right to two-thirds of the one percent (0.66%) of RMI VIII's income or losses to Burwell in exchange for Burwell assuming one hundred percent (100%) of the general partners' equity deficit. This agreement expired January 1, 2020 and was not extended.

The partnership's 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 related mortgage funds;
- preserve and protect the partnership's capital by making and/or investing in loans secured by California real estate, preferably income-producing properties geographically situated in the San Francisco Bay Area and the coastal metropolitan regions of Southern California; and,
- generate and distribute cash flow from these mortgage lending and investing activities.

Limited partners representing a majority of the outstanding units may, without the consent of the general partners, vote to:

- dissolve the partnership;
- amend the Partnership Agreement subject to certain limitations;
- approve or disapprove the sale of all or substantially all of the assets of the partnership; and
- 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.

Net income (losses) are allocated among the limited partners according to their respective capital accounts after one percent (1%) of the net income (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 partnership tax shelter investments. Federal and state income taxes are the obligation of the partners, other than the annual California franchise tax and the California LLC cash receipts taxes paid by the partnership's subsidiaries.

COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Since that time, the coronavirus has spread throughout the United States, including in the California regions and markets in which the partnership lends. In response, the State of California, has instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. The COVID-19 pandemic and these restrictions and operating protocols have had a significant adverse effect on the global, US, and California economies and have caused significant disruption to the financial and real estate markets. Restrictions and economic conditions caused by COVID-19 have also caused record unemployment nationwide as well as a significant number of layoffs and furloughs in the regions and communities in which the partnership lends.

The ultimate effect of COVID-19 on the California real estate markets and broader economy is not known nor is the ultimate length of time California and other regions will be subject to the restrictions described and their accompanying effects. Some states and regions have begun to ease prior restrictions which may improve economic and market conditions; however, the easing of these restrictions has resulted in recent increases in COVID-19 cases and deaths, requiring reinstatement of prior restrictions and the prolonging of the COVID-19 crisis. During the quarter ended June 30, 2020, the partnership has seen a decrease in the amount of payments in arrears compared to December 31, 2019, although the number of loans with payments in arrears increased from four to seven (See Note 4 – Loans for a more detailed presentation on payments in arrears at June 30, 2020 and December 31, 2019). The partnership's favorable experience to date with regards to payments in arrears and payment relief requests received from borrowers may not be indicative of requests or payments in arrears in any future period. A worsening of future cash flows from borrower missed or delayed payments could result in the partnership experiencing an increase in loans being designated non-accrual and an increase in payments in arrears and possibly foreclosures. However, as the partnership generally lends at loan to value ratios below 70%, increases in payments in arrears would not directly increase the credit risk on the loans, and therefore based on the partnership's assessment of the value of real estate collateralizing its loans, there has not been an increase in the allowance for loan losses during the three and six months ended June 30, 2020. In future periods, the impacts of COVID-19 may have significant adverse effects on California real estate markets and thereby the partnership's business, financial condition and result of operations due to the possibility of some borrowers having a reduced capacity and/or commitment to make principal and interest payments and a decrease in the volume of loans funded and a decline in the values of the California real properties that serve as collateral for the loans. Declines in the value of real estate may lead to increases in the allowance for loan losses and increases in the valuation allowance for REO. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate, which may lower the interest rate charged by banks and other competitors of the manager for real estate secured loans and which may reduce loan originations and increase loan payoffs. Such outcomes would negatively affect interest income and, therefore, earnings, financial condition and results of operation of the partnership. Potential other issues and risks resulting from the COVID-19 pandemic include:

- Should key personnel of the manager become incapacitated by the COVID-19 virus, or be required (voluntarily or involuntarily) to terminate active involvement with the manager due to the effects of the virus, the business of the manager and related impact on the partnership could be adversely impacted.
- The ability to enforce loan terms through foreclosure may be delayed and adversely effected by current or future limitations or moratoriums on foreclosures enacted by state or local authorities to address the impacts of COVID-19.
- Loans secured by rental properties may be adversely impacted by restrictions or moratoriums on evictions enacted by federal, state or local authorities to address the impacts of COVID-19.
- Partial or complete closures of county recording offices may affect the ability of the partnership to record deeds of trust and other documents and may affect the cost or ability of the partnership to obtain adequate title insurance for its loans.
- The uncertainty of the effects of COVID-19 on borrowers, properties, and the economy generally may result in inaccuracy or delays in the recognition of loan losses or impairments by the partnership.
- The partnership may incur additional costs to remedy damages caused by such disruptions and restrictions.

Given the ongoing and dynamic nature of the circumstances, it is not possible to predict or estimate the ultimate impact of the coronavirus outbreak on the financial condition or results of operations and liquidity of the partnership for the remainder of 2020. While the partnership has not incurred material disruptions thus far, the rapid developments and fluidity of COVID-19 may cause the manager to adjust its lending parameters and investment strategy.

On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security (CARES) Act" was signed into law. The manager continues to examine the impact that the CARES Act may have on the partnership's business. Although the manager does not expect the CARES Act to have a direct impact on the partnership, it may have an indirect impact on the partnership's borrowers and its manager. At the time of issuance of the partnership's consolidated financial statements, the manager is unable to estimate the impact that the CARES Act will have on the partnership's financial condition, results of operation, or liquidity for the remainder of 2020.

Distribution 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 income 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 income 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. Income allocable to limited partners who elect to compound income 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 approximately 61% and 62% at June 30, 2020 and 2019, respectively.

Capital withdrawals

There are substantial restrictions on transferability of units, and there is no established public trading and/or secondary market for the 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 a limited right of accelerated 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. The general partner is under no obligation to sell loans from the portfolio in order to honor withdrawal requests, and the program can be restricted or suspended at any time. Cash flow is considered to be available only after all current partnership expenses have been paid (including compensation to the general partners and related mortgage funds) and adequate provision has been made for the payment of all periodic cash distributions on a pro rata basis which must be paid to limited partners who elected to receive such distributions upon subscription for units. Per the Partnership Agreement, 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. Notwithstanding this 20%, the general partners have the discretion to further limit the percentage of total limited partners' capital accounts that may be withdrawn in order to comply with the safe harbor provisions of the regulations under Section 7704 of the Internal Revenue Code of 1986, as amended, to avoid the partnership being taxed as a corporation. If notices of withdrawal in excess of these limitations are received by the general partners, the priority of distributions among limited partners is determined as follows: first to those limited partners withdrawing capital accounts according to the 20 quarter or longer installment liquidation period, then to benefit plan investors withdrawing capital accounts after five years over four quarterly installments, then to executors, heirs, and other administrators withdrawing capital accounts upon the death of a limited partner and finally to all other limited partners withdrawing capital accounts. Except as provided above, withdrawal requests will be considered by the general partners in the order received.

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.

Reclassifications

Certain reclassifications, not affecting reported net income or total partners' capital, have been made to the previously issued consolidated financial statements to conform to the current period presentation.

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 owned, at acquisition and subsequently. Actual results could differ materially from these estimates.

Fair value estimates

GAAP defines fair value as the 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 real property 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 income 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 in banks

At June 30, 2020, substantially all of the partnership's cash balances in banks exceed the federal depository insurance limit of $250,000. The bank or banks in which funds are deposited are reviewed periodically for their general credit worthiness/investment grade credit rating. See Note 7 (Line of Credit) for compensating balance arrangements.

Loans and interest income

Performing loans are carried at amortized cost, which is generally equal to 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 amounts paid out on the borrower's behalf and any accrued interest on amounts paid out, until repaid by the borrower. For performing loans, interest is accrued daily on the principal plus advances, if any.

Non-performing loans (i.e., loans with a payment in arears) less than 180 days delinquent continue to recognize interest income as long as the loan is in the process of collection and is considered to be well-secured. Non-performing loans are placed on non-accrual status if 180 days delinquent (or 90 days past maturity without making monthly interest payments) or earlier if management determines 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 for accounting purposes only; 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. Late fees are recognized in the period received.

The partnership may fund a specific loan net of an interest reserve (one to two years) to insure timely interest payments at the inception of the loan. Any interest reserve is amortized over the period that the amount is prepaid. 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.

In the normal course of the partnership's operating activities, performing loans that are maturing or have matured may be renewed at then current market rates of interest and terms for new loans. Such renewals are not designated as impaired.

From time to time, the manager negotiates and enters into loan modifications with borrowers whose loans are delinquent (i.e., non-performing). If a loan modification were to result in an economic concession to the borrower (i.e., a significant delay or reduction in cash flows compared to the original note), the modification is deemed a troubled debt restructuring (TDR).

In March 2020, various federal regulatory agencies issued an interagency statement on loan modifications and reporting for financial institutions working with borrowers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID- 19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

The partnership funds loans with the intent to hold the loans until maturity. From time to time the partnership may sell certain loans when the manager determines it to be in the best interest of the partnership. Loans are classified as held-for-sale once a decision has been made to sell loans and the loans held-for-sale have been identified.

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. Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, "protective equity" is the dollar amount by which the net realizable value (i.e., fair value less the cost to sell) of the collateral, net of any senior liens, exceeds the loan balance, where "loan balance" is the sum of the unpaid principal, advances and the recorded interest thereon.

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. Payments on impaired loans are applied to late fees, then to the accrued interest, then to advances, and lastly to principal.

For loans that are deemed to be collateral dependent, a provision for loan losses is recorded to adjust the allowance for loan losses (principal and/or recorded interest) in 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 costs to sell in arriving at net realizable value and net of any senior loans.

The partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible. Any amounts collected after a charge off is deemed a recovery of loan losses.

At foreclosure, any excess of the recorded investment in the loan (accounting basis) over the net realizable value of the collateral 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 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.

Debt issuance costs

Debt issuance costs are the fees and commissions incurred in the course of obtaining a line of credit for services from banks, law firms and other professionals and are amortized on a straight line basis as interest expense over the term of the line of credit.

Recently issued accounting pronouncements- Accounting and Financial Reporting for Expected Credit Losses

The 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 not only historical trends and current conditions, but must also consider 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 the current incurred credit loss model and generally may result in allowances being recognized in earlier periods than under the current credit loss model. The ASU is effective for smaller reporting companies for interim and annual reporting periods in 2023.

RMI VIII invests in real estate secured loans made with the expectation that the possibility of credit losses is remote as a result of substantial protective equity provided by the underlying collateral. The real estate secured programs and low loan-to-value ratios have caused RMC to expect that the adoption of the CECL model from the incurred loss models presently in use as to credit loss recognition will likely not materially impact the reported results of operations or financial position of the partnership. However, the impact, if any, upon adoption will be dependent upon the facts and circumstances relating to our loans at that date.

NOTE 3 – GENERAL PARTNERS AND OTHER RELATED PARTIES

The general partners are entitled to monthly fees for managing the partnership's loan portfolio. The Partnership Agreement provides for fees as compensation to the manager and for reimbursement of qualifying expenses, as detailed below.

Mortgage servicing fees

The manager acting as servicing agent with respect to all loans is entitled to receive a 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.

Asset management fees

The general partners are entitled to 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).

Costs from Redwood Mortgage Corp.

The manager is entitled to request reimbursement by the partnership for operations expense incurred on behalf of the partnership, including without limitation, accounting, tax and data processing, postage and out-of-pocket general and administration expenses. Certain of these qualifying costs (e.g., postage) can be tracked by RMC as specifically attributable to the partnership. Other costs (e.g., RMC's accounting and audit fees, legal fees and expenses, qualifying payroll expenses, occupancy, and insurance premium) are allocated on a pro-rata basis (e.g., by the partnership's percentage of total capital of all mortgage funds managed by RMC). Payroll and consulting fees are allocated first based on activity, and then to the partnership on a pro-rata basis based on percentage of capital to the total capital of all related mortgage funds managed by RMC. The decision to request reimbursement of any qualifying operating expenses is made by RMC at its sole discretion.

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 paid by the borrowers to RMC are not recorded by the partnership and approximated $44,000 and $252,000 for the three months ended June 30, 2020 and 2019, respectively and $121,000 and $635,000 for the six months ended June 30, 2020 and 2019, respectively.
- *Other fees* – RMC receives fees for processing, notary, document preparation, credit investigation, reconveyance and other mortgage related services. 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.

In the ordinary course of business, performing loans may be transferred by executed assignment, in-part or in-full, between the related mortgage funds at par. During the six months ended June 30, 2020, the partnership transferred one performing loan in-full to Redwood Mortgage Investors IX, LLC, a related mortgage fund, at par value, which approximates fair value, of approximately $2,297,000. The partnership received cash for the transfer and has no continuing obligation or involvement with the assigned loan. No loans were transferred during the six months ended June 30, 2019.

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." Since its inception, the partnership had made such advances of approximately $22,567,000, of which approximately $4,165,000 remain outstanding on the formation loan as of June 30, 2020.

RMC will repay the formation loans principally from loan brokerage commissions earned on loans, early withdrawal penalties on partner withdrawals and other fees paid by the partnership. Since RMC will use the proceeds from loan brokerage commissions on loans to repay the formation loans and, if both or either one of the initial general partners is removed as a general partner by the vote thereafter designated, and if such successor or additional general partner(s) begins using any other loan brokerage firm for the placement of loans, RMC will be immediately released from any further obligation under the formation loans (except for a proportionate share of the principal installment due at the end of that year). In addition, if both of the general partners are removed, no successor general partners are elected, the partnership is liquidated and RMC is no longer receiving any payments for services rendered, the debt on the formation loans shall be forgiven and RMC will be immediately released from any further obligations under the formation loans.

The formation loan activity for the six months ended June 30, 2020 is summarized in the following table ($ in thousands).

		2020
Balance, January 1	$	4,292
Early withdrawal penalties		(127)
Repayments		—
Balance, June 30	$	4,165

RMC is repaying the formation loan in forecasted annual installments of principal, without interest, of $650,000, less early withdrawal penalties, and a final payment of $392,000 in 2026.

Limited partner capital - withdrawals

Withdrawals of limited partners' capital for the three and six months ended June 30, 2020 and 2019 are presented in the following table ($ in thousands).

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
Withdrawals		**2020**		**2019**		**2020**		**2019**
Without penalty	$	3,899	$	5,371	$	8,046	$	10,761
With penalty		534		1,158		1,278		2,276
Total	$	4,433	$	6,529	$	9,324	$	13,037
Scheduled, at June 30	$	35,922	$	43,394	$	35,922	$	43,394

Scheduled withdrawals of limited partners' capital as of June 30, 2020 are presented in the following table ($ in thousands).

2020	$	7,838
2021		11,651
2022		8,194
2023		5,350
2024		2,504
Thereafter		385
Total	$	35,922

Scheduled withdrawals of limited partners' capital of approximately $933,000, are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

Payable to related parties

From time to time, in the normal course of business operations, the partnership may have payables to related parties. At June 30, 2020, the payable to related parties balance consisted of accounts payable and cost reimbursements to the manager of approximately $23,000 and amounts payable to a related mortgage fund of approximately $12,000. All amounts due were fully paid in August 2020.

NOTE 4 – LOANS

As of June 30, 2020, 31 (82%) of the partnership's 38 loans (representing 97% of the aggregate principal of the partnership's loan portfolio) have a term of five years or less. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment penalty clause.

As of June 30, 2020, 16 (42%) of the loans outstanding (representing 72% 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 due at maturity.

Secured loans unpaid principal balance (principal)

Secured loan transactions for the three and six months ended June 30, 2020 are summarized in the following table ($ in thousands).

	Three months ended	Six months ended
Principal, beginning of period	$ 84,553	$ 86,203
Loans funded	—	1,500
Loan transferred to related mortgage fund	—	(2,297)
Collected - secured	(3,719)	(4,572)
Foreclosures[1]	(2,939)	(2,939)
Principal, June 30 2020	$ 77,895	$ 77,895

1) The partnership foreclosed on one loan, with a recorded investment of approximately $3,163,000. The net investment in the loan was adjusted to the estimated fair value of the related collateral, net of any costs to sell in arriving at net realizable value and net of any senior loans, which resulted in the recognition of foregone interest of approximately $140,000 during the three months ended June 30, 2020.

During the three and six months ended June 30, 2020, the partnership renewed three and six maturing (or matured) loans with aggregate principal of approximately $8,277,000 and $15,077,000, respectively, which are not included in the activity shown in the above table. These renewals were for one year or less and did not include additional amounts lent. Renewal agreements may or may not include a requirement that the note rate be brought to market, though no loan extensions in 2020 included a change in note rate. The loans were current and deemed well collateralized at the time they were extended.

See Note 3 (General Partners and Other Related Parties) for a description of loan transfers by executed assignments to a related mortgage fund.

Pursuant to California regulatory requirements borrower payments are deposited into a trust account established by RMC with an independent bank. Funds are disbursed to the partnership as collected which can range from same day for wire transfers and up to two weeks after deposit for checks. Borrower payments held in the trust account that are yet to be disbursed to the partnership are not included in the consolidated financial statements. At June 30, 2020, $110,683 of borrower payments made by check, was on deposit in the trust account, all of which was disbursed to the partnership’s account by July 23, 2020 when the they were recorded by the partnership. At December 31, 2019, $21,592 of borrower payments made by check, was on deposit in the trust account.

Loan characteristics

Secured loans had the characteristics presented in the following table ($ in thousands).

	June 30, 2020	December 31, 2019
Number of secured loans	38	47
Secured loans – principal	$ 77,895	$ 86,203
Secured loans – lowest interest rate (fixed)	5.0%	5.0%
Secured loans – highest interest rate (fixed)	10.8%	10.8%
Average secured loan – principal	$ 2,050	$ 1,834
Average principal as percent of total principal	2.6%	2.1%
Average principal as percent of partners’ capital, net of formation loan	2.4%	2.0%
Average principal as percent of total assets	2.3%	1.9%
Largest secured loan – principal	$ 10,200	$ 10,200
Largest principal as percent of total principal	13.1%	11.8%
Largest principal as percent of partners’ capital, net of formation loan	11.9%	10.9%
Largest principal as percent of total assets	11.4%	10.8%
Smallest secured loan – principal	$ 49	$ 51
Smallest principal as percent of total principal	0.1%	0.1%
Smallest principal as percent of partners’ capital, net of formation loan	0.1%	0.1%
Smallest principal as percent of total assets	0.1%	0.1%
Number of California counties where security is located	15	15
Largest percentage of principal in one California county	42.0%	38.2%
Number of secured loans with a filed notice of default	—	1
Secured loans in foreclosure – principal	$ —	$ 2,939
Number of secured loans with prepaid interest	—	2
Prepaid interest	$ —	$ 121

As of June 30, 2020, the partnership’s largest loan, with principal of approximately $10,200,000, has an interest rate of 9.50%, is secured by an industrial building in San Francisco County, and has a maturity of September 1, 2020. As of June 30, 2020, the partnership had no outstanding construction or rehabilitation loans and had no commitments to fund construction, rehabilitation or other loans.

Lien position

At funding, secured loans had the lien positions presented in the following table ($ in thousands).

	June 30, 2020			December 31, 2019		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	28	$ 70,948	91%	31	$ 72,621	84%
Second trust deeds	10	6,947	9	16	13,582	16
Total principal, secured loans	38	$ 77,895	100%	47	$ 86,203	100%
Liens due other lenders at loan closing		15,960			29,817	
Total debt		$ 93,855			$ 116,020	
Appraised property value at loan closing		$ 188,945			$ 226,185	
Percent of total debt to appraised values (LTV) at loan closing(2)		54.4%			55.1%	

2) 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 on senior liens to other lenders.

Property type

Secured loans summarized by property type are presented in the following table ($ in thousands).

	June 30, 2020			December 31, 2019		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family(3)	22	$ 20,842	27%	32	$ 30,629	36%
Multi-family	2	7,070	9	2	7,072	7
Commercial	12	48,098	62	12	48,117	56
Land	2	1,885	2	1	385	1
Total principal, secured loans	38	$ 77,895	100%	47	$ 86,203	100%

3) 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 June 30, 2020 consists of 10 loans with principal of approximately $5,129,000 that are owner occupied and 12 loans with principal of approximately $15,713,000 that are non-owner occupied. Single family property type at December 31, 2019 consisted of 12 loans with principal of approximately $7,642,000 that are owner occupied and 20 loans with principal of approximately $22,987,000 that are non-owner occupied.

Distribution by California counties

The distribution of secured loans within California by counties is presented in the following table ($ in thousands).

	June 30, 2020		December 31, 2019	
	Principal	Percent	Principal	Percent
San Francisco Bay Area(4)				
San Francisco	$ 32,693	42.0%	$ 32,908	38.2%
San Mateo	17,153	22.0	17,221	20.0
Santa Clara	3,194	4.1	6,281	7.3
Alameda	2,910	3.7	3,349	3.9
Napa	543	0.7	548	0.6
Contra Costa	305	0.4	308	0.3
Marin	179	0.2	513	0.6
	56,977	73.1	61,128	70.9
Other Northern California				
Placer	1,500	1.9	—	—
Santa Cruz	1,327	1.7	1,376	1.6
Amador	710	0.9	719	0.8
Mariposa	49	0.1	51	0.1
Monterey	—	—	193	0.2
	3,586	4.6	2,339	2.7
Total Northern California	60,563	77.7	63,467	73.6
Los Angeles & Coastal				
Los Angeles	9,229	11.9	14,623	17.0
Santa Barbara	2,078	2.7	2,085	2.4
Orange	645	0.8	648	0.8
	11,952	15.4	17,356	20.2
Other Southern California				
San Bernardino	5,380	6.9	5,380	6.2
	5,380	6.9	5,380	6.2
Total Southern California	17,332	22.3	22,736	26.4
Total principal, secured loans	$ 77,895	100.0%	$ 86,203	100.0%

4) Includes the Silicon Valley

Scheduled maturities

Secured loans scheduled to mature as of June 30, 2020 are presented in the following table ($ in thousands).

Scheduled maturities, as of June 30, 2020	Loans	Principal	Percent
2020[5]	9	$ 35,193	45%
2021[6]	16	26,195	34
2022	4	3,639	5
2023	2	3,806	5
2024	2	1,132	1
Thereafter	1	1,594	2
Total scheduled maturities	34	71,559	92
Matured as of June 30, 2020	4	6,336	8
Total principal, secured loans	38	$ 77,895	100%

5) Loans scheduled to mature in 2020 after June 30.
6) One loan scheduled to mature on July 1, 2021 paid down principal by approximately $1,421,000 in July 2020, which is not reflected in the table above.

It is the partnership's experience that loans may be repaid or renewed before, at or after the contractual maturity date. For matured loans, the partnership may continue to accept payments while pursuing collection of principal or while negotiating an extension of the loan's maturity date. The timing of future cash receipts from secured loans will differ from scheduled maturities.

Delinquency/Non-performing loans

Secured loans summarized by payment-delinquency status are presented in the following table ($ in thousands).

	June 30, 2020		December 31, 2019	
	Loans	Principal	Loans	Principal
Current	31	$ 53,779	43	$ 73,893
Past Due				
30-89 days	1	7,996	—	—
90-179 days	4	10,380	1	5,355
180 or more days	2	5,740	3	6,955
Total past due	7	24,116	4	12,310
Total principal, secured loans	38	$ 77,895	47	$ 86,203

During the six months ended June 30, 2020 the partnership entered into one forbearance agreement for a loan with principal of $5,355,000, which is collateralized by a commercial building in San Mateo County. The loan matured on October 1, 2019 and was designated impaired and in non-accrual status at June 30, 2020. The partnership entered into a forbearance agreement with the borrower in June 2020 whereby the borrower agreed to resume monthly payments of interest and the partnership agreed to forgo collection of default interest and defer the maturity date until January 1, 2021.

No loan payment modifications (or TDRs) were entered into during the six months ended June 30, 2020 and none were in effect at December 31, 2019.

Payments in arrears for non-performing secured loans (i.e., loans past maturity and monthly payments of principal and interest past due 30 or more days) as of June 30, 2020 and December 31, 2019 are presented in the following tables ($ in thousands).

	Loans		Principal		Interest[7]		
At June 30, 2020	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Total payments in arrears**
Payments in arrears							
30-89 days (1-3 payments)	—	1	$ —	$ —	$ —	$ 112	$ 112
90-179 days (4-6 payments)	2	2	596	12	18	272	898
180 or more days (more than 6 payments)[8]	2	—	5,740	—	266	—	6,006
Total past due[9]	4	3	$ 6,336	$ 12	$ 284	$ 384	$ 7,016

7) Interest includes foregone interest of $197,000 on non-accrual loans past maturity. June 2020 interest is due on July 1, 2020 and is not included in the payments in arrears at June 30, 2020.

8) One loan, with principal of approximately $5,355,000, which is included in past maturity payments (principal and interest) 180 or more days, entered into a forbearance agreement in June 2020. See the disclosure above for a discussion of the terms of the forbearance agreement.

9) In July 2020, three loans, paid the amounts in arrears and were brought current as to principal and interest at July 31, 2020. Two loans with the same borrower, with aggregate principal of approximately $596,000, were past maturity (principal and interest) 90-179 days at June 30, 2020. The borrower made payments on both loans totaling approximately $20,000 consisting of approximately $2,000 of principal and approximately $18,000 of interest in arrears. Both loans executed extension agreements in July 2020, which extended their respective maturity dates to March 31, 2021. One loan made payments which included approximately $112,000 of payments of interest in arrears 30-89 days.

The total payments in arrears at June 30, 2020, updated for the July extension agreements and July payments totaling approximately $132,000 is approximately $6,290,000, consisting of: for loans past maturity – two loans with principal of approximately $5,740,000 and interest of $266,000, and for monthly payments in arrears – two loans with principal of $12,000 and interest of $272,000.

	Loans		Principal		Interest[10]		
At December 31, 2019	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Total payments in arrears**
Payments in arrears							
30-89 days (1-2 payments)	—	—	$ —	$ —	$ —	$ —	$ —
90-179 days (3-5 payments)	1	—	5,355	—	76	—	5,431
180 or more days (6 or more payments)	3	—	6,955	—	394	—	7,349
Total payments in arrears	4	—	$ 12,310	$ —	$ 470	$ —	$ 12,780

10) Interest includes foregone interest of approximately $243,000 on non-accrual loans past maturity. December 2019 interest was due on January 1, 2020 and is not included in the payments in arrears at December 31, 2019.

Delinquency/Loans in non-accrual status

Secured loans in non-accrual status are summarized in the following table ($ in thousands).

	June 30, 2020	December 31, 2019
Number of loans	4	3
Principal	$ 6,336	$ 6,955
Advances	106	25
Accrued interest	88	184
Total recorded investment	$ 6,530	$ 7,164
Foregone interest	$ 238	$ 298

Non-performing loans are placed on non-accrual status if 180 days delinquent (or 90 days past maturity without making monthly interest payments) or earlier if management determines 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 for accounting purposes only (i.e., foregone interest in the table above); however, previously recorded interest is not reversed.

At June 30, 2020, four loans with aggregate principal of approximately $6,336,000 were past maturity 90 or more days, and were in non-accrual status. At June 30, 2020, two loans, with aggregate principal of approximately $9,784,000 and accrued interest of approximately $340,000 were contractually 90 or more days past due as to principal or interest and not in non-accrual status.

At December 31, 2019, three loans with aggregate principal of approximately $6,955,000 were past maturity 180 or more days, and were in non-accrual status. At December 31, 2019, one loan with a principal of approximately $5,355,000 and accrued interest of approximately $114,000 was 90 days past maturity and was not in non-accrual status. The loan was designated as in non-accrual status as of January 2020.

Provision/allowance for loan losses and impaired loans

Generally, the partnership has not recorded an allowance for loan losses as all loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan. From time to time, the manager may deem it in the best interest of the partnership to agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions primarily for secured loans in second lien position.

Accordingly, at December 31, 2019, RMI VIII had a recorded allowance for loan losses of $50,000. There was no provision for loan losses for the three or six months ended June 30, 2020. In June 2020, the partnership recorded a recovery of loan losses of $126,000 from a court order dated June 2020 pursuant to the terms of a judgment dated October 2012 against a borrower/guarantor. The amounts recovered were previously charged off. The funds were received in July 2020.

Loans designated impaired and any associated allowance for loan losses is presented in the following table ($ in thousands).

	June 30, 2020	December 31, 2019
Principal	$ 16,120	$ 12,310
Recorded investment[11]	16,655	12,931
Impaired loans without allowance	16,655	12,931
Impaired loans with allowance	—	—
Allowance for loan losses, impaired loans	—	—
Number of Loans	6	4
Weighted average LTV, at origination	53.3%	68.0%

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

Loans designated impaired had an average recorded investment balance, interest income recognized and interest income received in cash for the six months ended June 30, 2020 and the year ended December 31, 2019 as presented in the following table ($ in thousands).

	June 30, 2020	December 31, 2019
Average recorded investment	$ 12,407	$ 8,160
Interest income recognized	444	298
Interest income received in cash	65	284

NOTE 5 – REAL ESTATE OWNED (REO)

REO transactions and valuation adjustments for the three and six months ended June 30, 2020 are summarized in the following table ($ in thousands).

	Three months ended			Six months ended		
	REO	Valuation Allowance	REO, net	REO	Valuation Allowance	REO, net
Balance, beginning of period	$ 6,374	$ (3,239)	$ 3,135	$ 6,491	$ (3,239)	$ 3,252
Acquisitions from foreclosure	5,787	—	5,787	5,787	—	5,787
Dispositions	—	—	—	(117)	—	(117)
Balance, June 30, 2020	$ 12,161	$ (3,239)	$ 8,922	$ 12,161	$ (3,239)	$ 8,922

The following transactions closed during the six months ended June 30, 2020.

- In June, acquired – in Los Angeles County (Hollywood Hills) – by two foreclosure sales, two single-family residences on separate adjoining parcels with a shared driveway. The larger parcel and residence are 0.31 acres and approximately 5,200 square feet, respectively. The other parcel and residence are 0.12 acres and approximately 3,100 square feet, respectively. The aggregate estimated net realizable value of the two properties based on recent appraisals was $5,787,000 (see below for mortgages payable and other liabilities assumed at foreclosure).
- In March, sold – in San Francisco County – a unit in a condominium complex for approximately $186,000, with a gain of approximately $68,000.

There were no REO transactions or valuation allowance adjustments during the six months ended June 30, 2019.

REO at June 30, 2020 was comprised of five properties with a carrying value, net of approximately $8,922,000. REO is recorded at fair value at acquisition, and subsequently adjusted to the lower of the recorded cost or fair value based on appraisals and analysis by RMC:

- In Los Angeles Country (Hollywood Hills) two single-family residences on separate adjoining parcels with a shared driveway, being marketed by a broker.
- In San Francisco County, 2 residential units in a condominium complex, which are being marketed as affordable-units to qualifying buyers pursuant to listings approved by the City of San Francisco.
- In Fresno County, a partially completed home subdivision, being marketed by a broker.
- In Stanislaus County, approximately 14 acres of undeveloped land zoned commercial, being marketed by a broker.
- In San Francisco County, a real estate interest comprised of a condominium unit/storage lockers and signage rights on the exterior façade of the building.

In June 2020, in conjunction with the REO acquisitions by foreclosure sales (Hollywood Hills), the partnership assumed two first mortgages, with aggregate principal outstanding of approximately $2,449,000, and mortgage interest, property taxes, and other liabilities totaling approximately $175,000. The interest rates on the mortgages payable assumed at foreclosure are deemed to be at market rates for the type and location of the securing property, the remaining term of the mortgage note, and the other terms and conditions are deemed to be customary.

Mortgages payable at June 30, 2020 are summarized in the following table ($ in thousands).

Lender - summary of terms		2020
Wells Fargo Bank - secured by a first trust deed on a single family residence located in Los Angeles County, matures November 1, 2044, monthly payment $7,754.40, and interest at 4.125% until October 31, 2024; thereafter interest at LIBOR plus 2.25%, Wells Fargo submitted a payoff statement in July 2020.	$	1,453
East West Bank - secured by first trust deed on a single family residence located in Los Angeles County, matures January 14, 2035, interest at (Prime plus 1% or 4.25% at June 30, 2020). Subsequent to foreclosure, East West Bank submitted a demand to be paid in full in July 2020.		996
Total mortgages payable	$	2,449

The mortgages assumed at the foreclosure sales were 201 and 242 days delinquent, with accrued interest in arrears of approximately $33,000 and $40,000, and delinquent property taxes of $23,000 and $47,000 (advanced by the first mortgage lender), respectively. Interest in arrears and delinquent property taxes are included in accounts payable on the balance sheet.

REO, net

REO, net in operations expense on the consolidated income statements is comprised of the following for the three and six months ended June 30, 2020 and 2019 ($ in thousands).

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Holding costs, net of other income	$ 21	$ 35	$ 40	$ 62
(Gains)/losses on sales	—	—	(68)	—
REO, net	$ 21	$ 35	$ (28)	$ 62

Month-to-month occupancy rents received of approximately $16,000 and $16,000 for the three months ended June 30, 2020 and 2019, respectively, and approximately $31,000 and $32,000 for the six months ended June 30, 2020 and 2019, respectively, and sign and storage rents of approximately $13,000 and $3,000 for the three months ended June 30, 2020 and 2019, respectively, and approximately $21,000 and $6,000 for the six months ended June 30, 2020 and 2019, respectively, are included in holding costs, net of other income.

NOTE 6 – FAIR VALUE

Secured loans

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

Secured loans, performing and non-performing not designated as impaired (Level 3) - 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. Due to the nature of the partnership's loans and borrowers the fair value of loan balances secured by deeds of trust is deemed to approximate the recorded amount (per the financial statements) as our loans:

- are of shorter terms at origination than commercial real estate loans by institutional lenders and conventional single-family home mortgage lenders;
- are written without a prepayment penalty causing uncertainty/a lack of predictability as to the expected duration of the loan; and
- have limited marketability and are not yet sellable into an established secondary market.

Secured loans, non-performing and designated impaired (Level 3) - The fair value of secured loans, non-performing and designated impaired is the lesser of the fair value of the collateral or the enforceable amount of the note. Secured loans designated impaired are collateral dependent because it is expected that the primary source of repayment will not be from the borrower but rather from the collateral. The fair value of the collateral is determined on a nonrecurring basis 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 3 inputs). When the fair value of the collateral exceeds the enforceable amount of the note, the borrower is likely to redeem the note. Accordingly, third party market participants would generally pay the fair value of the collateral, but no more than the enforceable amount of the note.

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 sales comparables (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 and adjusted 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.

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. When adequate sale comps are not available or reliable rental 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 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, including a determination of its highest and best use. 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.

NOTE 7 – LINE OF CREDIT

RMI VIII can borrow up to a maximum principal of $10 million subject to a borrowing base calculation pursuant to a credit and term loan agreement (the loan agreement) with a bank. Amounts under the loan agreement are secured by a first priority security interest in the notes and deeds of trust of the pledged loans in the borrowing base. The loan agreement matures March 13, 2022 when all amounts outstanding are then due. The partnership has the option at the maturity date to convert the then outstanding principal balance on the line of credit to a one-year term loan - for a fee of one-quarter of one percent (0.25%) – thereby extending the maturity date to March 13, 2023.

Interest on the outstanding principal is payable monthly and accrues at the per annum rate of the greater of (i) five percent (5%) or (ii) the sum of the one-month LIBOR rate plus three and one-quarter percent (3.25%). If the partnership does not maintain the required compensating balance with a minimum daily average of $1.0 million for any day during the calendar quarter, the interest rate automatically increases by one-quarter of one percent (0.25%) above that rate which would otherwise be applicable for the next calendar quarter retroactive to the beginning of the calendar quarter in which the compensating balance is not maintained. Commencing with the quarter ending September 30, 2020, for each calendar quarter during which the aggregate average daily principal is less than fifty percent (50%) of the maximum principal of $10 million
, there is a quarterly unused line fee equal to one-half of one percent (0.50%) per annum of the average daily difference between the principal outstanding and fifty percent (50%) of the maximum principal of $10 million ($5,000,000).

The loan proceeds are to be used exclusively to fund secured loans. The loan agreement provides for customary financial and borrowing base reporting by RMI VIII to the lending bank and specifies that RMI VIII shall maintain (i) minimum tangible net worth of $50 million, net of amounts due from related companies; (ii) debt service coverage ratio at all times of not less than 2.00 to 1.00; and (iii) loan payment delinquency of less ten percent (10%) on a quarterly basis as of the calendar quarter-end, calculated as the principal of loans with payments over 61-days past due, less loan loss allowances, divided by total principal of RMI VIII loans. The loan agreement provides that in the event the loan payment delinquency rate exceeds 10.0% as of the end of any quarter, the bank will cease to make any further advances but agrees to not accelerate repayment of the loan.

At June 30, 2020 the partnership's loan payment delinquency rate exceeded the 10.0% covenant. Advances under the line of credit, are deferred until the loan payment delinquency rate is below the 10.0% covenant.

There were no advances taken on the line of credit at and for the three months ended June 30, 2020. Debt issuance costs of approximately $108,000 are being amortized over the two-year term of the loan agreement. Amortized debt issuance costs totaled approximately $13,000 for the three and six months ended June 30, 2020, and are recorded as interest expense.

NOTE 8 – COMMITMENTS AND CONTINGENCIES, OTHER THAN LOAN AND REO COMMITMENTS

Commitments

The partnership's only commitment at June 30, 2020 is to fund the scheduled withdrawals of limited partner capital as presented in the following table ($ in thousands).

2020	$	7,838
2021		11,651
2022		8,194
2023		5,350
2024		2,504
Thereafter		385
Total	$	35,922

The partnership has contractual obligations to RMC per the Partnership Agreement. See Note 3 (General Partners and Other Related Parties) for a more detailed discussion on the partnership's contractual obligations to RMC.

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 9 – SUBSEQUENT EVENTS

The manager evaluated subsequent events that have occurred after June 30, 2020 and determined that there were no events or transactions occurring during this reporting period that require recognition or disclosure in the consolidated financial statements.

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, 2019, filed with the U.S. Securities and Exchange Commission. The results of operations for the three and six month periods ended June 30, 2020 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 withdrawals 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, therefore, you should not place undue reliance on forward-looking statements which reflect our view only as of the date hereof.

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 volume and timing of loan sales to third parties or if we are able to sell loans at all;
- the concentration of credit risks to which we are exposed;
- increases in payment delinquencies and defaults on our mortgage loans;
- changes in government regulation and legislative actions affecting our business; and,
- the COVID-19 pandemic and social and governmental responses to the pandemic have caused, and are likely to continue to cause, severe economic, market and other disruptions worldwide. The extent to which COVID-19 and related actions impact our operations will depend on future developments, which are highly uncertain and cannot be predicted with any degree of certainty, including the scope, severity, and duration of the outbreak, the actions taken to contain the pandemic or mitigate its impact by governmental authorities or otherwise voluntarily taken by individuals or businesses, the success of governmental actions undertaken to support the economy and the duration and severity of direct and indirect economic effects of the illness and containment measures, among others. As a result, we cannot at this time predict or estimate the impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, liquidity and results of operations for the remainder of 2020.

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 unless required by law.

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.

See Note 1 (Organization and General) to the consolidated 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 consolidated 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 owned, at acquisition and subsequently. Actual results could differ significantly from these estimates.

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. Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, “protective equity” is the dollar amount by which the fair value of the collateral, net of any senior liens, exceeds 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.

A provision for loan losses to adjust the allowance for loan losses (principal and/or recorded interest) is recorded such that the net carrying amount 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.

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

Fair value estimates

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 income 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.

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 property’s net realizable value, which is the fair value less estimated costs to sell, as applicable. 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 or losses 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.

Results of Operations

COVID-19

The following discussion describes our results of operations for the three and six months ended June 30, 2020. While the COVID-19 outbreak did not have a material adverse effect on our reported results for our first or second quarter, we are actively monitoring the impact of COVID-19, which may negatively impact our business and results of operations for subsequent quarters.

In March 2020, the World Health Organization declared COVID-19 a pandemic. The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption including in the United States and both Northern and Southern California where the partnership's lending operations are located. In response to the COVID-19 outbreak, federal, state and local governments as well as the business community have implemented voluntary and increasingly mandatory policies and restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions and protocols have resulted in increases in unemployment rates, disruptions to businesses, increased volatility in the financial markets and overall economic uncertainty at the state, local and national levels. The impact from the rapidly changing market and economic conditions due to the COVID-19 outbreak is uncertain and will impact our business and results of operations and could impact our financial condition in the future. While we have not incurred significant disruptions thus far from the COVID-19 outbreak, we are unable to accurately predict the impact that COVID-19 will have due to numerous evolving factors, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities, the impact to our borrowers, including the ability of our borrowers to make their loan payments and qualify for future loans and a decrease in the values of California real estate which serves as collateral for the partnership’s loans. Any of these events or consequences could materially adversely impact our business, financial condition, or results of operations.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” was signed into law. The manager continues to examine the impact that the CARES Act may have on the partnership’s business. Although the manager does not expect the CARES Act to have a direct impact on the partnership, it may have an indirect impact on the partnership’s borrowers and its manager. At the time of issuance of these consolidated financial statements, the manager is unable to estimate the impact that the CARES Act will have on the partnership’s financial condition, results of operation, or liquidity for the remainder of 2020.

The partnership received a number of short-term loan payment relief requests, most of which were in the form of requests for deferral of payments or requests for further discussion of COVID-19 related relief. No requests were granted and one remained pending as of August 14, 2020. We are evaluating each loan payment relief request on an individual basis, considering a number of factors. Not all of the requests made to the partnership will result in agreements and we are not considering the waiver or modification of any of our contractual rights under our loan agreements other than extensions of the maturity date of the loan.

It is not possible at this time to predict or estimate the ultimate impact of COVID-19 on the financial condition or results of operations and liquidity of the partnership for the remainder of 2020. Management also continues to monitor the impact that COVID-19 may have on California real estate values (see the LTV by lien position tables under “*Secured Loan*” following the Key Performance Indicators below).

General economic and real estate market 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 dependent significantly on economic activity and employment conditions in California. Wells Fargo’s Economics Group periodically provides timely, relevant information and analysis in its reports and commentary regarding California’s employment and economic conditions. Highlights from a recently issued report from Wells Fargo Securities Economics Group is presented below.

In the publication “California Adds Back More Than Half a Million Jobs in June” dated July 17, 2020:

“The re-opening of California’s economy provided a much needed boost to hiring this past month, with nonfarm payrolls adding back 558,200 new jobs. June’s gain easily marks the largest monthly increase ever for California but nonfarm employment remains 1.93-million jobs below its February peak. While employment rose solidly in nearly every major industry, more than half of the bounce back was centered in California’s hard-hit leisure & hospitality sector. Those gains may prove fleeting, however, as the resurgence in COVID-19 has brought new restrictions on economic activity.”

“California’s unemployment rate fell 1.5 percentage points in June to 14.9%. The drop results from a 653,200 person increase in civilian employment, or the number of Californians working, compared to a somewhat smaller 441,200 person increase in the civilian labor force. Typically, economists tend to focus on nonfarm employment, as it is derived from a larger sample and provides more detail on changes in employment. The civilian (or Household) employment measure, however, is more inclusive and provides insight into employment trends in important classifications of workers, such as independent contractors and sole proprietors. This category of workers was particularly hard hit by COVID-19 shutdowns and has been slower to recover. Household employment fell 17.6% from February to May, resulting in a loss of 3.3 million jobs, compared to a 14.9% February to April drop in nonfarm employment, which resulted in the loss of 2.6 million jobs.”

“Farm employment in California—the nation’s largest farm economy— continues to tumble. California farms cut 8,500 jobs in June, bringing the total loss since February to 118,000 jobs, or more than one of every four jobs that used to exist in California’s farm sector. The bounce back in leisure and hospitality employment, most of which was at restaurants, is clearly evident in the employment data. California’s largest MSAs accounted for the bulk of June’s job gains. Los Angeles added back 147,000 jobs in June and has now regained 25.6% of the jobs lost earlier this year. Orange County added the second largest number of jobs in the state, with nonfarm payrolls regaining 71,600 jobs, or 27% of what was lost in March and April. The Inland Empire added 43,800 jobs in June, Ventura County added back 10,300 jobs and Bakersfield added 9,900 jobs. San Diego was another big standout, as employers added back 51,600 jobs.”

“California’s tech sector has proved fairly resilient. Early on there were worries advertising revenues would nosedive and venture capital would dry up, neither have transpired. Instead the surge in working remotely has boosted demand for all sorts of tech services and social media continues to flourish. Employment in the Bay Area reflect these trends, with hiring bouncing back stronger in South Bay than San Francisco or Oakland. The San Jose MSA has regained 31.6% of the jobs lost in March and April, while San Francisco-Oakland-Hayward MSA regained 23.8%.”

Key performance indicators

Key performance indicators for the six months ended June 30, 2020 and 2019 are presented in the following table ($ in thousands).

	2020	2019
Secured loans principal – end-of-period	$ 77,895	$ 96,132
Secured loans principal – average daily balance	$ 84,103	$ 100,035
Interest income	$ 3,845	$ 4,309
Portfolio interest rate[1]	8.9%	8.6%
Effective yield rate[2]	9.1%	8.6%
Recovery of loan losses	$ (126)	$ —
Operations expense	$ 1,909	$ 2,086
Net income	$ 2,055	$ 2,241
Percent[3][4]	4.3%	3.9%
Limited Partners’ capital – end-of-period	$ 90,537	$ 108,998
Limited Partners’ capital – average balance	$ 94,483	$ 115,019
Partner withdrawals[5]	$ 9,324	$ 13,037

(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 (net of 1% of profits and losses allocated to general partners)

(5) Scheduled liquidations as of June 30, 2020 were approximately $35,922,000 (approximately $43,394,000 at June 30, 2019). Additional detail regarding limited partner capital withdrawals is available under the caption “Cash flows and Liquidity” in this Management Discussion and Analysis.

Key performance indicators for the three months ended June 30, 2020 and 2019 are presented in the following table ($ in thousands).

	2020	2019
Secured loans principal – end-of-period	$ 77,895	$ 96,132
Secured loans principal – average daily balance	$ 82,125	$ 96,700
Interest income	$ 2,107	$ 2,103
Portfolio interest rate(1)	8.9%	8.6%
Effective yield rate(2)	10.3%	8.7%
Recovery of loan losses	$ (126)	$ —
Operations expense	$ 937	$ 1,016
Net income	$ 1,283	$ 1,095
Percent(3)(4)	5.5%	3.9%
Limited Partners' capital – end-of-period	$ 90,537	$ 108,998
Limited Partners' capital – average balance	$ 92,340	$ 112,023
Partner withdrawals(5)	$ 4,433	$ 6,529

(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 (net of 1% of profits and losses allocated to general partners)

(5) Scheduled liquidations as of June 30, 2020 were approximately $35,922,000 (approximately $43,394,000 at June 30, 2019). 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 June 30, 2020 secured loan principal – end of period of approximately $77.9 million, was a reduction of 19.0% ($18.2 million) compared to the June 30, 2019 secured loan principal – end of period of approximately $96.1 million. New loans are funded from limited partners' capital available to lend which is declining due to partner withdrawals exceeding the net income retained in limited partners' capital accounts. Limited partners' capital at June 30, 2020 declined $18.5 million to approximately $90.5 million from approximately $109.0 million at June 30, 2019. In future periods, reductions in limited partners' capital (and thereby in capital available to lend) may be offset in part by advances on the line of credit. The REO acquired by foreclosure sale, net of mortgages payable assumed, during the six months ended June 30, 2020 reduces capital available to lend until the REO is sold.

See Note 3 (General Partners and Other Related Parties) to the consolidated financial statements included in Part I, Item 1 of this report for detailed presentations on withdrawals of limited partners' capital, which presentations are incorporated by this reference into this Item 2.

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

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 our overall conservative weighted-average loan-to-value ratio (LTV) at time of origination which at June 30, 2020 was 54.4%. Thus the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 45.6% in the property, and we as lenders have loaned in the aggregate 54.4% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans.

Secured loans, principal by LTV and lien position as of June 30, 2020 are presented in the following table ($ in thousands).

	Secured loan, principal					
LTV	First trust deeds	Percent(1)	Second trust deeds	Percent(1)	Total	Percent(1)
<40%	$ 21,245	27.3%	$ 1,600	2.1%	$ 22,845	29.4%
40-49%	1,414	1.8	359	0.5	1,773	2.3
50-59%	15,691	20.1	845	1.1	16,536	21.2
60-69%	20,943	26.9	3,659	4.7	24,602	31.6
Subtotal <70%	59,293	76.1	6,463	8.4	65,756	84.5
70-79%	11,655	15.0	484	0.5	12,139	15.5
Subtotal <80%	70,948	91.1	6,947	8.9	77,895	100.0
≥80%	—	0.0	—	0.0	—	0.0
Total	$ 70,948	91.1%	$ 6,947	8.9%	$ 77,895	100.0%

Non-performing secured loans, principal by LTV and lien position as of June 30, 2020 are presented in the following table ($ in thousands).

	Non-performing secured loans, principal					
LTV	First trust deeds	Percent(1)	Second trust deeds	Percent(1)	Total	Percent(1)
<40%	$ 4,789	6.1%	$ —	0.0%	$ 4,789	6.1%
40-49%	596	0.8	—	0.0	596	0.8
50-59%	5,380	6.9	—	0.0	5,380	6.9
60-69%	7,996	10.3	—	0.0	7,996	10.3
Subtotal <70%	18,761	24.1	—	0.0	18,761	24.1
70-79%	5,355	6.9	—	0.0	5,355	6.9
Subtotal <80%	24,116	31.0	—	0.0	24,116	31.0
≥80%	—	0.0	—	0.0	—	0.0
Total	$ 24,116	31.0%	$ —	0.0%	$ 24,116	31.0%

Non-performing secured loans past maturity, principal by LTV and lien position as of June 30, 2020 are presented in the following table ($ in thousands).

	Non-performing loans, principal past maturity					
LTV	First trust deeds	Percent(1)	Second trust deeds	Percent(1)	Total	Percent(1)
<40%	$ 385	0.5%	$ —	0.0%	$ 385	0.5%
40-49%	596	0.8	—	0.0	596	0.8
50-59%	—	0.0	—	0.0	—	0.0
60-69%	—	0.0	—	0.0	—	0.0
Subtotal <70%	981	1.3	—	0.0	981	1.3
70-79%	5,355	6.9	—	0.0	5,355	6.9
Subtotal <80%	6,336	8.2	—	0.0	6,336	8.2
≥80%	—	0.0	—	0.0	—	0.0
Total	$ 6,336	8.2%	$ —	0.0%	$ 6,336	8.2%

1) Percent of secured loan principal, end of period balance.

Payments in arrears for non-performing secured loans (i.e., principal and interest payments past due 30 or more days) at June 30, 2020, totaled approximately $7,016,000 of which $6,348,000 was principal, and approximately $668,000 was interest receivable. Of the $6,348,000 principal in arrears, approximately $6,336,000 was relating to loans past maturity, all of which were in first lien position.

In July 2020, three loans paid the amounts in arrears and were brought current as to principal and interest at July 31, 2020. Two loans with the same borrower, were past maturity at June 30, 2020. Both loans which were past maturity executed extension agreements in July 2020, which extended their respective maturity dates to March 31, 2021.

The total payments in arrears at June 30, 2020, updated for the July extension agreements and July payments would have been approximately $6,290,000 of which approximately $5,752,000 was principal and approximately $537,000 was interest receivable. Of the $5,752,000 principal in arrears, approximately $5,740,000 was relating to loans past maturity, all of which were in first lien position. See detail as to payments in arrears on non-performing loans in Note 4 (Loans) for additional discussion.

Although there is an increase in the number of non-performing loans from four loans ($12,310,000 in principal) as of December 31, 2019 to seven loans ($24,116,000 in principal) as of June 30, 2020, the partnership has reviewed the loan to value ratios for each non-performing loan and has determined since there is appropriate protective equity, there is no increase in the provision for loan losses required during the six months ended June 30, 2020.

Performance overview/net income 2020 v. 2019

Net income available to limited partners as a percent of Limited Partners' capital – average daily balance (annualized) was 4.4% and 3.9% for the six months ended June 30, 2020 and 2019, respectively. Limited partners' capital – average daily balance for the six months ended June 30, 2020 was approximately $94.5 million, a reduction of 17.8% ($20.5 million) compared to the limited partners' capital – average daily balance for the six months ended June 30, 2019 of approximately $115.0 million, due to partner withdrawals exceeding net income retained in limited partners' capital accounts.

Analysis and discussion in income from operations 2020 v. 2019 (six months ended)

Significant changes to revenue and expense for the six month period ended June 30, 2020 compared to the same period in 2019 are summarized in the following table ($ in thousands).

	Net Interest Income	Provision for (Recovery of) Loan Losses	Operations Expense	Net Income
For the six months ended				
June 30, 2020	$ 3,825	$ (126)	$ 1,909	$ 2,055
June 30, 2019	4,309	—	2,086	2,241
Change	$ (484)	$ (126)	$ (177)	$ (186)
Change				
Decrease secured loans principal - average daily balance	(672)	—	(118)	(554)
Effective yield rate	208	—	—	208
Amortization of debt issuance costs	(13)	—	—	(13)
Interest on mortgages payable assumed at foreclosure	(7)	—	—	(7)
REO sales, net	—	—	(117)	117
Decrease limited partners capital - average daily balance	—	—	(73)	73
Cost reimbursements - recovery of loan losses	—	—	100	(100)
Recovery from judgment against borrower	—	(126)	—	126
Information technology for partners' capital accounts	—	—	3	(3)
Tax compliance costs for partners' capital accounts	—	—	52	(52)
Other	—	—	(24)	19
Change	$ (484)	$ (126)	$ (177)	$ (186)

The table above displays only significant changes to net income for the period and does not cross foot as insignificant components (e.g. other income) are not included.

Net interest income

Net interest income decreased approximately $484,000 for the six months ended June 30, 2020 compared to the same period in 2019.

Interest income decreased approximately $464,000 for the six months ended June 30, 2020 compared to the same period in 2019. The secured loan principal – average daily balance decreased to approximately $84.1 million from $100.0 million for the six months ended June 30, 2020 and 2019, respectively. The decrease of $15.9 million in secured loan principal – average daily balance is consistent with the reduction in limited partners' capital – end of period balance to approximately $90.5 million from approximately $109.0 million at June 30, 2020 and 2019, respectively. The decrease in secured loans principal – average daily balance reduced interest income approximately $676,000 which was offset in part by an increase in the effective yield rate to 9.1% for the six months ended June 30, 2020 from 8.6% for the six months ended June 30, 2019. The increase in the effective yield rate is due primarily to the resolution of two loans which had previously been designated non-accrual resulting in the recognition of approximately $490,000 in previously foregone interest during the six months ended June 30, 2020. The portfolio interest rate for the six months ended June 30, 2020 increased 0.3 percentage points due to the pricing strategies of the manager.

Interest expense for the six months ended June 30, 2020 totaled approximately $20,000, which consisted of approximately $7,000 due to mortgages payable assumed at foreclosure in June 2020, and approximately $13,000 due to the amortization of debt issuance costs associated with the line of credit, beginning in April 2020. There were no advances on the line of credit at or for the six months ended June 30, 2020.

Provision/allowance for loan losses

Generally, the partnership has not recorded an allowance for loan losses as all loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan. From time to time, the manager may deem it in the best interest of the partnership to agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions primarily for secured loans in second lien position.

Accordingly, at December 31, 2019, RMI VIII had a recorded allowance for loan losses of $50,000. There was no provision for loan losses for the six months ended June 30, 2020. In June 2020, the partnership recorded a recovery of loan losses of $126,000 from a court order dated June 2020 pursuant to the terms of a judgment dated October 2012 against a borrower/guarantor. The amounts recovered were previously charged off.

Operations expense

Significant changes to operations expense for the six month period ended June 30, 2020 compared to the same period in 2019 are summarized in the following table ($ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	REO, net	Other	Total
For the six months ended							
June 30, 2020	$ 638	181	491	610	(28)	17	$ 1,909
June 30, 2019	756	221	628	401	62	18	2,086
Change	$ (118)	(40)	(137)	209	(90)	(1)	$ (177)
Change							
Decrease secured loans principal - average daily balance	(118)	—	—	—	—	—	(118)
REO sales, net	—	—	(27)	—	(90)	—	(117)
Decrease limited partners' capital - average daily balance	—	(40)	(33)	—	—	—	(73)
Cost reimbursements - recovery of loan losses	—	—	100	—	—	—	100
Information technology for partners' capital accounts	—	—	(95)	98	—	—	3
Tax compliance costs for partners' capital accounts	—	—	—	52	—	—	52
Other	—	—	(82)	59	—	(1)	(24)
Change	$ (118)	(40)	(137)	209	(90)	(1)	$ (177)

Mortgage servicing fees

The decrease in mortgage servicing fees for the six month period ended June 30, 2020 as compared to the same period in 2019, was primarily due to the decrease in the secured loans principal – average daily balance to approximately $84.1 million from approximately $100.0 million. Fees are charged by RMC at the annual rate of 1.5%.

Asset management fees

The decrease in asset management fees for the six month period ended June 30, 2020 as compared to the same period in 2019, was due to the overall reduction in the total capital under management. Total limited partners' capital at June 30, 2020 and 2019, was approximately $90.5 million and $109.0 million, respectively. Asset management fees are charged up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually).

Costs from RMC

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 out-of-pocket general and administration expenses. The decrease in costs from RMC was due to the reduction in total capital under management, a decrease in the cost of REO management, and a decrease in allocable payroll and consulting expenses incurred by RMC. The reduction of costs from RMC was offset in part by the final cost reimbursements to the manager of $100,000 relating to the recovery of loan losses from a workout agreement which was received in the third quarter of 2019. Other costs (e.g., RMC's accounting and audit fees, legal fees and expenses, qualifying payroll expenses, occupancy, and insurance premium) are allocated on a pro-rata basis (e.g., by the partnership's percentage of total capital of all mortgage funds managed by RMC). Payroll and consulting fees are allocated first based on activity, and then to the partnership on a pro-rata basis based on percentage of capital to the total capital of all related mortgage funds managed by RMC. The decision to request reimbursement of any qualifying operating expenses is made by RMC at its sole discretion.

Prior to September 2019, allocable costs included fees paid to an independent service bureau for information technology related to record keeping and reporting for accounts of individual investors. In September 2019 – and implemented at September 30, 2019 retroactive to January 2019 – these fees were invoiced separately and directly to RMI VIII. For the six months ended June 30, 2019, fees paid for such information technology totaled approximately $95,000, and were included in Costs from RMC.

Professional services

Professional services consist primarily of information technology, legal, audit and tax compliance, and consulting expenses.

The increase in professional services of approximately $209,000 for the six months ended June 30, 2020 over the same period in 2019 was due primarily to:

- The recorded expense for fees paid to an independent service bureau for information technology related to recordkeeping and reporting for the accounts of individual investors was approximately $98,000 and $0 for the six months ended June 30, 2020 and 2019, respectively. Beginning in September 2019 – and implemented retroactive to January 2019 – applicable service bureau fees were invoiced separately and directly to RMI VIII. In prior periods, service bureau fees were invoiced to RMC (generally without separately identified specific-fund detail) and were allocated to the related mortgage funds as Costs from RMC. During the six months ended June 30, 2019, service bureau fees included in Costs from RMC approximated $95,000.
- Attorney and audit fees increased approximately $12,000 to approximately $138,000, primarily due to increased costs related to annual SEC filings.
- Tax compliance and advisory expenses increased by approximately $49,000 to approximately $94,000. The increase is primarily due to the true up of approximately $52,000 during the three months ended June 30, 2020 of the accrual for expenses relating to the preparation of limited partners' K-1 tax forms.
- Consulting/contractor fees increased approximately $50,000 due in part to outside contractors being engaged to provide services previously performed by employees of the manager. The increase is offset in part by a reduction in operating expense incurred by the manager due in part to a decrease in employee expense for which reimbursement could have been requested (Costs from RMC).

REO, net

The June 30, 2020, REO balance, end of period, was approximately $8.9 million, an increase of 114.8% ($4.7 million) compared to the June 30, 2019 balance of approximately $4.2 million. During the six months ended June 30, 2020, one condominium unit in a REO property located in San Francisco County was sold with a gain of approximately $68,000. In June 2020, two single family residences on separate adjoining parcels with a shared driveway in Los Angeles County (Hollywood Hills) were acquired by two separate foreclosure sales, totaling approximately $5.8 million. At acquisition, mortgages payable, principal assumed totaled approximately $2.4 million and other liabilities assumed totaled $170,000.

Month-to-month occupancy rents received of approximately $31,000 and $32,000 for the six months ended June 30, 2020 and 2019, respectively, and sign and storage rents of approximately $21,000 and $6,000 for the six months ended June 30, 2020 and 2019, respectively, are included in REO, net.

See Note 5 (Real Estate Owned (REO)) to the consolidated financial statements included in Part I, Item 1 of this report for detailed presentations of REO sales transactions, and additional information regarding REO activity during the period, which presentation is incorporated by reference into this Item 2.

Analysis and discussion in income from operations 2020 v. 2019 (three months ended)

Significant changes to revenue and expense for the three month period ended June 30, 2020 compared to the same period in 2019 are summarized in the following table ($ in thousands).

	Net Interest Income	Provision for (Recovery of) Loan Losses	Operations Expense	Net Income
For the three months ended				
June 30, 2020	$ 2,087	(126)	937	$ 1,283
June 30, 2019	2,103	—	1,016	1,095
Change	$ (16)	(126)	(79)	$ 188
Change				
Decrease secured loans principal - average daily balance	(317)	—	(49)	(268)
Effective yield rate	321	—	—	321
Amortization of debt issuance costs	(13)	—	—	(13)
Interest on mortgages payable assumed at foreclosure	(7)	—	—	(7)
REO sales, net	—	—	(25)	25
Decrease limited partners capital - average daily balance	—	—	(33)	33
Recovery from judgment against borrower	—	(126)	—	126
Information technology for partners' capital accounts	—	—	(1)	1
Tax compliance costs for partners' capital accounts	—	—	52	(52)
Other	—	—	(23)	22
Change	$ (16)	(126)	(79)	$ 188

The table above displays only significant changes to net income for the period and does not cross foot as insignificant components (e.g. other income) are not included.

Net interest income

Net interest income decreased approximately $16,000 for the three months ended June 30, 2020 compared to the same period in 2019.

Interest income increased approximately $6,000 for the three months ended June 30, 2020 compared to the same period in 2019. The secured loan principal – average daily balance decreased to approximately $82.1 million from $96.7 million for the three months ended June 30, 2020 and 2019, respectively. The decrease of $14.6 million in secured loan principal – average daily balance is consistent with the reduction in limited partners' capital – end of period balance of $18.4 million to approximately $90.6 million from approximately $109.0 million at June 30, 2020 and 2019, respectively. The decrease in secured loans – average daily balance reduced interest income by approximately $317,000, which was offset in part by an increase in the effective yield rate to 10.3% for the three months ended June 30, 2020 from 8.7% for the three months ended June 30, 2019. The portfolio interest rate for the three months ended June 30, 2020 increased 0.3 percentage points due to the pricing strategy of the manager.

Interest expense for the three months ended June 30, 2020 totaled approximately $20,000, which consisted of approximately $7,000 due to mortgages payable assumed at foreclosure in June 2020, and approximately $13,000 due to the amortization of debt issuance costs associated with the line of credit, beginning in April 2020. There were no advances on the line of credit at or for the three months ended June 30, 2020.

Provision/allowance for loan losses

Generally, the partnership has not recorded an allowance for loan losses as all loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan. From time to time, the manager may deem it in the best interest of the partnership to agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions primarily for secured loans in second lien position.

Accordingly, at December 31, 2019, RMI VIII had a recorded allowance for loan losses of $50,000. There was no provision for loan losses for the three months ended June 30, 2020. In June 2020, the partnership recorded a recovery of loan losses of $126,000 from a court order dated June 2020 pursuant to the terms of a judgment dated October 2012 against a borrower/guarantor. The amounts recovered were previously charged off.

Operations expense

Significant changes to operations expense for the three month period ended June 30, 2020 compared to the same period in 2019 are summarized in the following table ($ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	REO, net	Other	Total
For the three months ended							
June 30, 2020	$ 315	89	177	318	21	17	$ 937
June 30, 2019	364	108	307	183	35	19	1,016
Change	$ (49)	(19)	(130)	135	(14)	(2)	$ (79)
Change							
Decrease secured loans principal - average daily balance	(49)	—	—	—	—	—	(49)
REO sales, net	—	—	(11)	—	(14)	—	(25)
Decrease limited partners' capital - average daily balance	—	(19)	(14)	—	—	—	(33)
Information technology for partners' capital accounts	—	—	(49)	48	—	—	(1)
Tax compliance costs for partners' capital accounts	—	—	—	52	—	—	52
Other	—	—	(56)	35	—	(2)	(23)
Change	$ (49)	(19)	(130)	135	(14)	(2)	$ (79)

Mortgage servicing fees

The decrease in mortgage servicing fees for the three month period ended June 30, 2020 as compared to the same period in 2019, was primarily due to the decrease in the secured loans principal – average daily balance to $82.1 million from $96.7 million. Fees are charged by RMC at the annual rate of 1.5%.

Asset management fees

The decrease in asset management fees for the three month period ended June 30, 2020 as compared to the same period in 2019, was due to the overall reduction in the total capital under management. Total limited partners' capital at June 30, 2020 and 2019, was approximately $90.6 million and $109.0 million, respectively. Asset management fees are charged up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually).

Costs from RMC

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 out-of-pocket general and administration expenses. The decrease in costs from RMC was due to the reduction in total capital under management, a decrease in the cost of REO management, and a decrease in allocable payroll and consulting expenses incurred by RMC. Other costs (e.g., RMC's accounting and audit fees, legal fees and expenses, qualifying payroll expenses, occupancy, and insurance premium) are allocated on a pro-rata basis (e.g., by the partnership's percentage of total capital of all mortgage funds managed by RMC). Payroll and consulting fees are allocated first based on activity, and then to the partnership on a pro-rata basis based on percentage of capital to the total capital of all related mortgage funds managed by RMC. The decision to request reimbursement of any qualifying operating expenses is made by RMC at its sole discretion. Prior to September 2019, allocable costs included fees paid to an independent service bureau for information technology related to record keeping and reporting for accounts of individual investors. In September 2019 – and implemented at September 30, 2019 retroactive to January 2019 – these fees were invoiced separately and directly to RMI VIII. For the three months ended June 30, 2019, fees paid for such information technology totaled approximately $49,000, and were included in Costs from RMC.

Professional services

Professional services consist primarily of information technology, legal, audit and tax compliance, and consulting expenses.

The increase in professional services of approximately $135,000 for the three months ended June 30, 2020 over the same period in 2019 was due primarily to:

- The recorded expense for fees paid to an independent service bureau for information technology related to recordkeeping and reporting for the accounts of individual investors was approximately $48,000 and $0 for the three months ended June 30, 2020 and 2019, respectively. Beginning in September 2019 – and implemented at September 30, 2019 retroactive to January 2019 – applicable service bureau fees were invoiced separately and directly to RMI VIII. Prior to September 30, 2019, these fees were invoiced to RMC (generally without separately identified specific-fund detail) and were included in other allocable expenses reimbursed to RMC (Costs from RMC). During the three months ended June 30, 2019, service bureau fees included in Costs from RMC approximated $49,000.
- Attorney and audit fees increased approximately $11,000 to approximately $52,000, primarily due to increased costs related to annual SEC filings.
- Tax compliance and advisory expenses increased by approximately $48,000 to approximately $73,000. The increase is primarily due to the true up of approximately $52,000 during the three months ended June 30, 2020 of the accrual for expenses relating to the preparation of limited partners' K-1 tax forms.
- Consulting/contractor fees increased approximately $28,000 due in part to outside contractors being engaged to perform services previously performed by employees of the manager. The increase is offset in part by a reduction in operating expense incurred by the manager due in part to a decrease in employee expense for which reimbursement could have been requested (Costs from RMC).

REO, net

The June 30, 2020, REO balance, end of period, was approximately $8.9 million, an increase of 114.8% ($4.7 million) compared to the June 30, 2019 balance of approximately $4.2 million. The increase in the June 30, 2020 REO balance, end of period, was due to two single family residences on separate adjoining parcels with a shared driveway in Los Angeles County (Hollywood Hills), which were acquired by two separate foreclosure sales, totaling approximately $5.8 million in June 2020.

Month-to-month occupancy rents received of approximately $16,000 for each of the three months ended June 30, 2020 and 2019, and sign and storage rents of approximately $13,000 and $3,000 for the three months ended June 30, 2020 and 2019, respectively, are included in REO, net.

See Note 5 (Real Estate Owned (REO)) to the consolidated financial statements included in Part I, Item 1 of this report for detailed presentations of REO sales transactions, and additional information regarding REO activity during the period, which presentation is incorporated by reference into this Item 2.

Cash flows and liquidity

Cash flows by business activity for the six months ended June 30, 2020 and 2019 are presented in the following table ($ in thousands).

	2020	2019
Limited partners' capital		
Withdrawals	$ (9,324)	$ (13,037)
Distributions	(943)	(1,196)
Early withdrawal penalties	127	227
Cash used in limited partners' capital	(10,140)	(14,006)
Borrowings		
Debt issuance costs paid - line of credit	(108)	—
Cash used in borrowings	(108)	—
Loan earnings and payments		
Interest income	3,318	4,097
Late fees	13	18
Recovery of loan losses	126	—
Principal collected	4,572	27,700
Loan transferred to related mortgage fund	2,297	—
Loans funded, net	(1,500)	(26,394)
Advances (made) received on loans	(48)	(91)
Total cash from loan production	8,778	5,330
REO		
Sale proceeds, net	186	—
Holding costs	(40)	(62)
Cash from (used in) REO operations and sales	146	(62)
Operations expense, excluding REO holding costs	(1,817)	(1,880)
Net decrease in cash	$ (3,141)	$ (10,618)
Cash, end of period	$ 1,001	$ 2,989

Limited partners' capital - withdrawals

Withdrawals of limited partners' capital for the three and six months ended June 30, 2020 and 2019 are presented in the following table ($ in thousands).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Withdrawals	**2020**	**2019**	**2020**	**2019**
Without penalty	$ 3,899	$ 5,371	$ 8,046	$ 10,761
With penalty	534	1,158	1,278	2,276
Total	$ 4,433	$ 6,529	$ 9,324	$ 13,037
Scheduled, at June 30	$ 35,922	$ 43,394	$ 35,922	$ 43,394

Scheduled withdrawals of limited partners' capital at June 30, 2020 are presented in the following table ($ in thousands).

2020	$	7,838
2021		11,651
2022		8,194
2023		5,350
2024		2,504
Thereafter		385
Total	$	35,922

Scheduled withdrawals of limited partners' capital of approximately $933,000, are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

Borrowings

In March 2020, RMI VIII entered into a revolving line of credit and term loan agreement. As of June 30, 2020, no advances on the line of credit had been made.

See Note 7 (Line of Credit) to the financial statements included in Part I, Item 1 of this report for a detailed discussion on the terms and provisions of the loan agreement, which presentation is incorporated by this reference into this Item 2

In June 2020, the partnership assumed mortgages payable of approximately $2,449,000 in conjunction with the acquisition of REO by foreclosure sale.

See Note 5 (Real Estate Owned (REO)) 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.

Contractual obligations and commitments

In addition to the borrowings described above, the partnership's only commitment at June 30, 2020 is to fund the scheduled withdrawals of limited partner capital subject to cash available pursuant to the terms of the Partnership Agreement.

At June 30, 2020, the partnership had no construction or rehabilitation loans outstanding and had no loan commitments pending.

At June 30, 2020, the partnership had no off-balance sheet arrangements as such arrangements are not permitted by the Partnership Agreement.

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 partnership, subject to the voting rights of the members 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 for us to conduct our business, as we have no employees of our own.

California limited partnerships generally do not have a board of directors, nor, therefore, do we have an audit committee of the board of directors. Thus, there is no conventional independent oversight of the partnership’s financial reporting process. The manager, however, 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 the independent public accountants; and
- establishing and maintaining internal controls over financial reporting.

RMC, as the manager, carried out an evaluation, with the participation of RMCs President (acting as principal executive officer/principal financial officer) of the effectiveness of the design and operation of the manager's controls and procedures over financial reporting and disclosure (as defined in Rule 13a-15 of the Exchange Act) for and as of the end of the period covered by this report. Based upon that evaluation, RMC's principal executive officer/principal financial officer concluded, as of the end of such period, that the manager's disclosure controls and procedures were effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by us in our reports that we file or submit under the Exchange Act.

Changes to Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the manager’s or partnership’s internal control over financial reporting.

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 June 30, 2020, 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 June 30, 2020 were approximately $4,433,000. 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 described in the Partnership Agreement.

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
10.1	Business Loan Agreement; Promissory Note dated March 13, 2020; Pledge and Security Agreement
31.1	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
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: August 14, 2020

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: August 14, 2020

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

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