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Dear Redwood Mortgage Investors VIII Limited Partner:

The purpose of this letter is to familiarize you with the liquidation options for Redwood Mortgage Investors VIII (the “partnership”). For additional information, please refer to the prospectus.

Under the Redwood Mortgage Investors VIII Partnership Agreement, liquidation payments to withdrawing limited partners are always subject to the availability of sufficient cash flow generated in the ordinary course of partnership business, after all current partnership expenses have been paid. The partnership is not required to sell loans to meet the withdrawal requests of limited partners and we are not required to establish a reserve to pay withdrawing partners.

In March 2009, to conserve the partnership’s cash and to build cash reserves, withdrawals of limited partners’ capital were suspended and monthly cash distributions were reduced. The beneficial result of those difficult decisions is that the partnership has had the resources needed to meet its operating requirements and preserve the partnership’s investment interest in the real property securing the loans.

The stability, liquidity and continuing success of the partnership depend on taking advantage of the existing lending market. All or nearly all of the partnership’s assets need to remain fully invested in mortgage loans. Currently, the partnership is made up of a blend of properties we own and real estate loans. Very few of our assets are held in low yielding liquid investment vehicles, so liquidation requests must be scheduled and allocated accordingly.

Generally, our withdrawal provisions state you may request withdrawal of your capital account balance in quarterly installments of up to 5% of the then current capital account value, per quarter over the next five years or longer, subject to available cash flow*.

We also provided an accelerated liquidation option. Under this provision, an investor may request to withdraw up to 25% of the then current capital account value per quarter, subject to available cash flow and the priority order detailed in the prospectus*. This type of liquidation is subject to a 10% penalty assessed on each payment.

In the event of a limited partner’s death, the heirs will have the option to liquidate the investment. Such liquidations are not subject to a penalty but are limited to \$50,000 per year, paid quarterly and subject to available cash flow and the priority order detailed in the prospectus*. Heirs are required to notify the general partners in writing of their intent to begin liquidating the account within six months from the date of death.

*If liquidation requests exceed the liquidation amounts allocated for a quarter, the partnership will follow the liquidation priority order that is detailed in the prospectus and outlined below:

- limited partners withdrawing capital accounts according to the 20 quarter (5-year) or longer installment liquidation period,
- then to benefit plan investors withdrawing capital accounts over four quarterly installments,
- then to other limited partners withdrawing capital accounts over four quarterly installments,
- then to executors, heirs or other administrators withdrawing capital accounts upon the death of a limited partner, and
- finally to all other limited partners withdrawing capital accounts.

Until the amount made available for liquidation exceeds the amount necessary to make full payments to those investors using the 5-year or longer liquidation option, payments will not be made to those choosing the 4-quarter or death provision options.

This letter is not all-inclusive. If you have additional questions, please contact your financial advisor or out investor services department at (800) 659-6593, option 1.

Sincerely,

A handwritten signature in cursive script that reads "Michael H. Burwell".

Michael Burwell
General Partner