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

**FORM 10-K**

(Mark one)

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

For the Year Ended December 31, 2013

**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: **333-155428**

**REDWOOD MORTGAGE INVESTORS IX, LLC**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**26-3541068**

(I.R.S. Employer  
Identification Number)

**1825 South Grant Street, Suite 250, San Mateo, CA**  
(Address of principal executive offices)

**94402**  
(Zip Code)

**(650) 365-5341**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**           None

**Securities registered pursuant to Section 12(g) of the Act:**           None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
 YES  NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The registrant's units of membership interests are not publicly traded and therefore have no market value. The registrant is currently conducting the ongoing public offering of its units pursuant to a Registration Statement on Form S-11, which are being sold at \$1.00 per unit.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Prospectus, dated December 4, 2012, included as part of Post-Effective Amendment No. 3, filed with the SEC on January 23, 2014, to the Registration Statement on Form S-11 (SEC File No. 333-181953) are incorporated by reference in the following sections of this report:

- Part I – Item 1 – Business
- Part III – Item 11 – Executive Compensation
- Part III – Item 13 – Certain Relationships and Related Transactions, and Director Independence

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
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December 31, 2013

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## **Part I**

### **Forward-Looking Statements**

Certain statements in this Report on Form 10-K 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 company's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward-looking statements include statements regarding future interest rates and economic conditions and their effect on the company and its assets, that the difference between net income recorded and cash distributed to members will diminish in the future, trends in the California real estate market, estimates as to the allowance for loan losses, estimates of future member redemptions, the company's full investment of cash, future funding of loans by the company, and beliefs relating to how the company will be affected by current economic conditions and trends in the financial and credit markets. Actual results may be materially different from what is projected by such forward-looking statements. Factors that might cause such a difference include unexpected changes in economic conditions and interest rates, the effect of competition and competitive pricing and downturns in the real estate markets in which the company has made loans. All forward-looking statements and reasons why results may differ included in this Form 10-K 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.

### **Item 1 – Business**

#### **Overview**

Redwood Mortgage Investors IX, LLC (the "company") is a Delaware limited liability company, qualified to conduct business in California, formed in October 2008 to make loans secured primarily by first and second deeds of trust on California real estate.

In December 2012, the first follow-on offering was declared effective by the Securities and Exchange Commission. The follow-on offering is offering the same number of units (150,000,000 primary units and 37,500,000 units under the distribution reinvestment plan) as the initial public offering of June 2009.

Offering proceeds are released to the company and applied to investments in mortgage loans and the payment or reimbursement of organization and offering expenses. The amount of loans the company funds or acquires will depend upon the number of units sold in the public offering and the resulting amount of the net proceeds available for investment in loans.

The following summarizes the status of the offering proceeds, at \$1 per unit, as of December 31, 2013:

- Proceeds from investors in applicant status at December 31, 2013 (later accepted by the managers): \$16,766,469
- Proceeds under our distribution reinvestment plan from electing members: \$1,170,365
- Proceeds from premiums paid by RMC: \$132,034<sup>(1)</sup>
- Total proceeds from units sold from October 5, 2009, through December 31, 2013: \$18,068,868

(1) If a member acquired units through an unsolicited sale, the member's capital account will be credited with their capital contribution plus a premium paid by Redwood Mortgage Corp. equal to the amount of the sales commissions that otherwise would have been paid to a broker-dealer by Redwood Mortgage Corp. This amount will be reported in the year paid as taxable income to the member.

Redwood Mortgage Corp. ("RMC") and its wholly-owned subsidiary Gymno LLC ("Gymno") are the managers of the company. The address of the company and the managers is 1825 South Grant Street, Suite 250, San Mateo, CA 94402. The mortgage loans the company invests in are arranged and are generally serviced by RMC. Michael Burwell is the president and majority shareholder (through his holdings and beneficial interests in certain trusts) of RMC. The managers are solely responsible for managing the business and affairs of the company, subject to the voting rights of the members on specified matters. Any one of the managers acting alone has the power and authority to act for and bind the company.

The rights, duties and powers of the managers and members of the company are governed by the company's operating agreement and the Delaware Limited Liability Company Act and the California Corporations Code.

Members representing a majority of the outstanding units may, without the concurrence of the managers, vote to: (i) dissolve the company, (ii) amend the operating agreement, subject to certain limitations, (iii) approve or disapprove the sale of all or substantially all of the assets of the company or (iv) remove or replace one or all of the managers.

A majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

Profits and losses are allocated among the members according to their respective capital accounts monthly after 1% of the profits and losses are allocated to the managers. The allocation to the managers (combined) may not exceed 1%. The monthly results are subject to subsequent adjustment as a result of quarterly and year-end accounting and reporting. Members may elect to have all or a portion of their monthly distributions reinvested in additional units, subject to the availability of units under the distribution reinvestment plan. Members may withdraw from the distribution reinvestment plan with written notice. No provision for federal and state income taxes (other than an \$800 state minimum tax) is made in the financial statements since income taxes are the obligation of the members if and when income taxes apply. Investors should not expect the company to provide tax benefits of the type commonly associated with limited liability company tax shelter investments.

There are substantial restrictions on transferability of units and accordingly an investment in the company is non-liquid. Members have no right to withdraw from the company or to obtain the return of their capital account for at least one year from the date of purchase of units. In order to provide a certain degree of liquidity, we have adopted a unit redemption program, whereby after the one year period, a member may redeem all or part of their units, subject to certain limitations.

The description of the company's operating agreement contained in these financial statements provides only general information. Members should refer to the company's operating agreement for a more complete description of the provisions.

### **Lending and Investment Guidelines, Objectives and Criteria**

The company's primary objectives are to make investments which will:

- Yield a high rate of return from mortgage lending;
- Preserve and protect our capital; and
- Generate and distribute cash flow from operations/investments to members.

Loans are arranged and generally serviced by RMC. The company generally funds loans:

- Secured by deeds of trust on real property located in California;
- Having monthly payments of interest only or principal and interest at fixed rates, calculated on a 30-year amortization basis;
- Having maturities of 5 years or less, not to exceed 15 years.

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

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

Recently adopted regulations and enacted federal legislation impact the lending to non-commercial residential borrowers by requiring the lender consider a borrower's ability to meet payment obligations specified in the loan documents. The manager is monitoring developments and, if and when applicable will adjust underwriting and lending practices accordingly. Residential lending on owner occupied properties subject to the legislation and regulations generally has not been a significant portion of the loans made by the company.

The company's investment criteria and policies are more fully described under the section entitled "Investment Objectives and Criteria," at pages 63 and following of the company's prospectus, dated December 4, 2012, which is incorporated herein by reference.

### **Secured Loan Portfolio**

See Note 4 (Loans) to the financial statements included in Part II, Item 8 of this report for a detailed presentation on the secured loan portfolio, which presentation is incorporated by this reference into this Item 1.

### **Competition**

The San Francisco Bay Area, including the South Bay/Silicon Valley, and the Los Angeles metropolitan area are our most significant locations of lending activity and the economic vitality of these regions – as well as the stability of the national economy and the financial markets – is of primary importance in determining the availability of new lending opportunities and the performance of previously made loans.

The mortgage lending business in California is highly competitive, and the company will compete with numerous established entities, some of which have more financial resources and experience in the mortgage lending business. Major competitors in providing mortgage loans include banks, savings and loan associations, thrifts, conduit lenders, mortgage bankers, mortgage brokers, and other entities both larger and smaller than the company.

### **Regulations**

We are subject to various federal, state and local laws and regulations that affect our business, described below. The description below and elsewhere in this Form 10-K, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

#### *Regulations Applicable to Mortgage Lenders and Servicers*

We and RMC, which arranges and generally services our loans, are heavily regulated by laws governing lending practices at the federal, state and local levels. In addition, proposals for further regulation of the financial services industry are continually being introduced.

These laws and regulations to which we and RMC are subject include those pertaining to:

- real estate settlement procedures;
- fair lending;
- truth in lending;
- compliance with federal and state disclosure requirements;
- the establishment of maximum interest rates, finance charges and other charges;
- loan servicing procedures;
- secured transactions and foreclosure proceedings; and
- privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers.

Some of the key federal and state laws affecting our business include:

- *Real Estate Settlement Procedures Act (RESPA)*. RESPA primarily regulates settlement procedures for real estate purchase and refinance transactions on residential (1-4 unit) properties. It prohibits lenders from requiring the use of specified third party providers for various settlement services, such as appraisal or escrow services. RESPA also governs the format of the good faith estimate of loan transaction charges and the HUD-1 escrow settlement statement.
- *Truth in Lending Act*. This federal act was enacted in 1968 for the purpose of regulating consumer financing and is implemented by the Consumer Financial Protection Bureau (CFPB). For real estate lenders, this act requires, among other things, advance disclosure of certain loan terms, calculation of the costs of the loan as demonstrated through an annual percentage rate (APR), and the right of a consumer in a refinance transaction on their primary residence to rescind their loan within three days following signing.
- *Home Ownership and Equity Protection Act (HOEPA) and California Covered Loan Law*. HOEPA was passed in 1994 to provide additional disclosures for certain closed-end home mortgages. In 1995, the Federal Reserve Board issued final regulations governing “high cost” closed-end home mortgages with interest rates and fees in excess of certain percentage or amount thresholds. These regulations primarily focus on additional disclosure with respect to the terms of the loan to the borrower, the timing of such disclosures, and the prohibition of certain loan terms, including balloon payments and negative amortization. The failure to comply with the regulations will render the loan rescindable for up to three years. Lenders can also be held liable for attorneys’ fees, finance charges and fees paid by the borrower and certain other money damages. Similarly in California, Assembly Bill 489, which was signed into law in 2001 and became effective as of July 1, 2002, as Financial Code Section 4970, et. seq., provides for state regulation of “high cost” residential mortgage and consumer loans secured by liens on real property, which equal or exceed the Fannie Mae/Freddie Mac conforming loan limits or less, with interest rates and fees exceeding a certain percentage or amount threshold. The law prohibits certain lending practices with respect to high cost loans, including the making of a loan without regard to the borrower’s income or obligations. When making such loans, lenders must provide borrowers with a consumer disclosure, and provide for an additional rescission period prior to closing the loan.
- *Mortgage Disclosure Improvement Act*. Enacted in 2008, this act amended the Truth in Lending Act regulating the timing and delivery of loan disclosures for all mortgage loan transactions governed under RESPA.
- *Home Mortgage Disclosure Act*. This act was enacted to provide for public access to statistical information on a lenders’ loan activity. It requires lenders to disclose certain information about the mortgage loans it originates and acquires, such as the race and gender of its customers, the disposition of mortgage applications, income levels and interest rate (i.e. annual percentage rate) information.
- *Red Flags Rule*. Enacted in 2009, the Red Flags Rule requires lenders and creditors to implement an identity theft prevention program to identify and respond to account activity in which the misuse of a consumer’s personal identification may be suspected.
- *Graham-Leach-Bliley Act*. This act requires all businesses that have access to consumers’ personal identification information to implement a plan providing for security measures to protect that information. As part of this program, we provide applicants and borrowers with a copy of our privacy policy.

- *Dodd-Frank Act.* The Dodd-Frank Act enhanced regulatory requirements on banking entities and other organizations considered significant to U.S. financial markets. The act also provides for reform of the asset-backed securitization market. We do not expect these particular regulatory changes will have a material direct effect on our business or operations. The act imposes significant new regulatory restrictions on the origination of residential mortgage loans, under sections concerning “Mortgage Reform and Anti-Predatory Lending.” For example, when a consumer loan is made, the lender is required to make a reasonable and good faith determination, based on verified and documented information concerning the consumer’s financial situation, whether the consumer has a reasonable ability to repay a residential mortgage loan before extending the loan. The act calls for regulations prohibiting a creditor from extending credit to a consumer secured by a high-cost mortgage without first receiving certification from an independent counselor approved by a government agency. The act also adds new provisions prohibiting balloon payments for defined high cost mortgages. The act also established the CFPB, giving it regulatory authority over most federal consumer lending laws, including those relating to residential mortgage lending.

*Recent or Pending Legislation and Regulatory Proposals.*

The recent credit crisis has led to an increased focus by federal, state and local legislators and regulatory authorities on entities engaged in the financial-services industry generally, principally banks, and on the mortgage industry specifically, principally with respect to residential lending to borrowers who intend to occupy the residence. A broad variety of legislative and regulatory proposals are continually being considered and such proposals cover mortgage loan products, loan terms and underwriting standards, risk management practices, foreclosure procedures and consumer protection, any or all of which could significantly affect the mortgage industry. These actions are intended to make it possible for qualified borrowers to obtain mortgage financing to purchase homes, refinance existing loans, avoid foreclosure on their homes, and to curb perceived lending abuses. It is too early to tell whether these legislative and regulatory initiatives, actions and proposals will achieve their intended effect or how they will affect our business and the mortgage industry generally.

- *Proposed Amendments to the U.S. Bankruptcy Code.* Since 2008, proposed legislation has been introduced before the U.S. Congress for the purpose of amending Chapter 13 in order to permit bankruptcy judges to modify certain terms in certain mortgages in bankruptcy proceedings, a practice commonly known as cramdown. Presently, Chapter 13 does not permit bankruptcy judges to modify mortgages of bankrupt borrowers. While the breadth and scope of the terms of the proposed amendments to Chapter 13 differ greatly, some commentators have suggested that such legislation could have the effect of increasing mortgage borrowing costs and thereby reducing the demand for mortgages throughout the industry. It is too early to tell when or if any of the proposed amendments to Chapter 13 may be enacted as proposed and what effect any such enacted amendments to Chapter 13 would have on the mortgage industry. Some local and state governmental authorities have taken, and others are contemplating taking, regulatory action to require increased loss mitigation outreach for borrowers, including the imposition of waiting periods prior to the filing of notices of default and the completion of foreclosure sales and, in some cases, moratoriums on foreclosures altogether.
- *Consumer Financial Protection Bureau’s Proposed QM and QRM Rules.* Under the Dodd-Frank Act, the Consumer Finance Protection Bureau is charged with writing rules to implement two new underwriting standards, Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM). Although these two regulations affect different areas of lending, they have similar definitions under Dodd-Frank, and their implementation will most likely have a similar effect within the mortgage lending industry. Under Dodd-Frank, securitizers will be required to retain a 5% interest in any securities they issue, unless 100% of the securities in the offering meet the Qualified Residential Mortgage standard. The Qualified Mortgage will provide a safe harbor to lenders in meeting the “ability to pay” requirements in Dodd-Frank. If a residential loan is underwritten under the to-be-determined QM guidelines, it will be presumed to be in compliance. To limit their liability, most institutional lenders will only be interested in writing loans that fall within the QM and QRM standards. If the rules are written with very narrow standards, it could have the possible effect of constricting the availability of credit to real property.
- **State of California Homeowner’s Bill of Rights.** State of California Attorney General Kamala Harris introduced legislation in the first half of 2012 simultaneously to the State Assembly and the State Senate, consisting of eight bills and co-sponsored by the leadership in both houses. This proposed legislation is intended to set industry standards on how loan modifications and delinquent loans are handled and to provide homeowners with assurances that they will be treated fairly by their lenders under these distressed circumstances. Two key pieces of this legislation have been fast-tracked to a joint conference committee, with a final vote expected in the near future. If passed as proposed, this key legislation will provide a private right of action by borrowers against their lenders, which could result in lengthy and costly delays in processing home loan foreclosures in the state.



## Item 1A – Risk Factors

In considering our future performance and any forward-looking statements made in this report, the material risks described below should be considered carefully. These factors should be considered in conjunction with the other information included elsewhere in this report.

### MORTGAGE LENDING AND REAL ESTATE RISKS

#### **If We Are Unable to Raise Substantial Funds, We Will Be Limited in the Number and Type of Properties We May Finance**

The ongoing offering of units to raise capital is being made on a “best efforts” basis, which means the broker-dealers participating in the offering are only required to use their best efforts to sell our units and have no firm commitment or obligation to purchase any of the units. As a result, we cannot assure you that any specific amount of gross proceeds will be raised. The maximum amount of this offering, at \$1 per unit, is up to 150,000,000 units in the primary offering and up to 37,500,000 units in the distribution reinvestment plan. To the extent we sell less than such maximum amount, and thus have less proceeds, we will originate and acquire fewer loans resulting in less diversification in terms of the number of properties financed, the geographic regions in which such properties are located and the types of properties securing the mortgages in which we invest. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. Your investment in our units will be subject to greater risk to the extent that we lack a diversified portfolio of mortgage assets. In addition, our fixed operating expenses, as a percentage of gross income, would be higher, and our financial condition and ability to pay distributions could be adversely affected if we are unable to raise substantial funds.

#### **Suitable Mortgage Loans May Not Be Available From Time to Time, Which Could Reduce Your Return on Investment**

Our managers receive referrals from a variety of sources, but will only originate or arrange loans that satisfy our investment criteria. The ability to find suitable loans is more difficult when the economy is weaker and there is less activity in the real estate market. For example, currently the residential and commercial real estate markets in the San Francisco Bay Area are recovering from a significant downturn in investment and purchase activity in the market and less demand for mortgage loans. From time to time a similar decline in demand for loans may occur, and we may be unable to find a sufficient number of suitable loans which could leave us with excess cash. In such event, we will make short term, interim investments in government obligations, certificates of deposit, money market or other liquid asset accounts, with the offering proceeds pending investment in suitable loans. Interest returns on these investments are usually lower than on mortgage loans, which would reduce our profits and the yield to members.

#### **Loan Defaults and Foreclosures May Adversely Affect Us**

We are engaged in the business of lending and, as such, we are subject to the risk that borrowers may be unable to repay the loans we have made to them in accordance with the terms of the loan agreement. Most loans will be interest only or interest with small periodic repayments of principal. This means:

- The loans are structured to provide for relatively small monthly payments, typically interest only, with a large “balloon” payment of principal due at the end of the term. Many borrowers are unable to repay such loans at maturity out of their own funds and are compelled to refinance or sell their property.

- Defaults and foreclosures may increase if the economy weakens or if interest rates increase, which may make it more difficult for borrowers to refinance their loans at maturity or sell their property.
- If a borrower is unable to repay the loan and defaults, we may be forced to acquire the property at a foreclosure sale. If we cannot quickly sell or refinance such property, and the property does not produce income in excess of expenses, our profitability will be adversely affected.
- Recently enacted borrower protection laws, both Federal and in California, impose additional notice and disclosure requirements on lenders which may slow or limit a lender's ability to exercise remedies against residential real property collateral (principally one to four family properties), including rights to sell the property in a foreclosure sale and certain rights of tenants residing in the properties. We are aware of other proposed federal and state legislation under consideration which, if enacted, may significantly limit a lender's ability to exercise remedies against residential real property collateral following a borrower's default in the performance of its loan obligations.

In addition, any litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property. A "lien" is a charge against the property of which the holder may cause the property to be sold and use the proceeds in satisfaction of the lien. In the event our right to foreclose is contested, the legal proceedings necessary to resolve the issue can be time-consuming. A judicial foreclosure may be subject to most of the delays and expenses of other litigation, sometimes requiring up to several years to complete.

**Our Entry Into Workout Agreements with Delinquent Borrowers Could Lead to a Loss of Revenue**

We may periodically enter into workout agreements with borrowers who are past maturity or delinquent in their regular payments. Typically, a workout agreement allows the borrower to extend the maturity date of the balloon payment and/or allows the borrower to make current monthly payments while deferring for periods of time, past due payments, and allows time to pay the loan in full. In the event we enter into workout agreements, we may experience a loss of revenue, which could adversely affect our profitability and the returns to our members.

**We Must Rely on Appraisals Which May Not Be Accurate or May Be Affected by Subsequent Events**

We will rely on appraisals prepared by unrelated third parties to determine the fair market value of real property used to secure our loans. We rely on such appraisals for, among other matters, determining our loan-to-value ratios. In the case of a loan made in connection with a pending property purchase, an appraisal may, for various reasons, reflect a higher or lower value than the purchase amount; we will nevertheless base our loan-to-value ratios on the appraised value, rather than on such purchase amount. We cannot guarantee that such appraisals will, in any or all cases, be accurate or that the appraisals will reflect the actual amount buyers will pay for the property. If an appraisal is not accurate, our loan would not be as secure as we anticipated. In the event of foreclosure, we may not be able to recover our entire investment. Additionally, since an appraisal fixes the value of real property at a given point in time, subsequent events could adversely affect the value of the real property used to secure a loan. For example, if the value of the property declines to a value below the amount of the loan, the loan could become under-collateralized. This would result in a risk of loss for us if the borrower defaults on the loan.

**Our Emphasis on the Collateral Value of the Real Estate Securing our Loans May Increase the Risk of Loan Defaults and Foreclosures**

The cash flow and the income generated by the real property that is to secure the loan are factors affecting our decision to make a particular loan, as are the general creditworthiness, experience and reputation of the borrower. For loans secured by real property, other than owner occupied personal residences, those considerations are subordinate to a determination that the value of the real property is sufficient, in and of itself, as a source of repayment. The amount of the loan combined with the outstanding debt and claims secured by a senior deed of trust on the real property generally will not exceed a specified percentage of the appraised value of the property (the loan-to-value ratio) as determined by an independent written appraisal at the time the loan is made. The loan-to-value ratio generally will not exceed 80% for residential properties (including multi-family), 75% for commercial properties, and 50% for land. The excess of the value of the collateral securing the loan over our debt and any senior debt owing on the property is the “protective equity.” Our emphasis on asset based lending may increase the risk of loan defaults by borrowers and foreclosures.

**We Compete With Many Other Mortgage Lenders for Loans Which Could Lead to Lower Yields and Fewer Lending Opportunities**

Increased competition for mortgage loans could lead to reduced yields and fewer investment opportunities. The mortgage lending business is highly competitive, and we compete with numerous established entities, some of which have more financial resources and experience in the mortgage lending business than our managers. We will encounter significant competition from banks, insurance companies, savings and loan associations, mortgage bankers, pension funds, real estate investment trusts and other lenders with objectives similar in whole or in part to ours.

**Some of Our Loans are Junior in Priority and More Difficult and Costly to Protect**

We anticipate that our loans will eventually be diversified as to priority approximately as follows:

- first mortgages – 40-60%
- second mortgages (which will be junior to a first mortgage) – 40-60%
- third mortgages (which will be junior to the two other mortgages) – 0-10%.

The lien securing each loan will not be junior to more than two other encumbrances (a first and, in some cases a second deed of trust) on the real property which is to be used as security for the loan. In the event of foreclosure under a second or third deed of trust the debt secured by a senior deed(s) of trust must be satisfied before any proceeds from the sale of the property can be applied toward the debt owed to us. To protect our junior security interest, we may be required to make substantial cash outlays for such items as loan payments to senior lien holders to prevent their foreclosure, property taxes, insurance, repairs, maintenance and any other expenses associated with the property. These expenditures could have an adverse effect on our profitability.

**We Make Construction Loans Which May Subject Us to Greater Risks**

We may make construction loans up to a maximum of 10% of our loan portfolio. Construction loans are those loans made to borrowers constructing entirely new structures or dwellings, whether residential, commercial or multi-family properties. Investing in construction loans subjects us to greater risk than loans related to properties with operating histories. If we foreclose on property under construction, construction will generally have to be completed before the property can begin to generate an income stream or could be sold. We may not have adequate cash reserves on hand with respect to junior encumbrances and/or construction loans at all times to protect our security. If we have inadequate cash reserves, we could suffer a loss of our investment. Additionally, we may be required to obtain permanent financing of the property in addition to the construction loan which could involve the payment of significant fees and additional cash obligations for us. As of December 31, 2013, we had not funded any construction loans.

**We Make Rehabilitation Loans Which May Subject Us to Greater Risks**

In addition to construction loans, we may make “rehabilitation loans” to finance remodeling, adding to and/or rehabilitating an existing structure or dwelling, whether residential, commercial or multi-family properties. We may make rehabilitation loans up to a maximum of 15% of our loan portfolio. Investing in rehabilitation loans subjects us to greater risk than standard acquisition loans for properties. If we foreclose on a property undergoing remodeling or rehabilitation, such remodeling or rehabilitation will generally have to be completed before the property can realize the anticipated increase in value from such remodeling or rehabilitation. We may not have adequate cash reserves on hand with respect to junior encumbrances and/or rehabilitation loans at all times to protect our security. If we have inadequate cash reserves, we could suffer a loss of our investment. Additionally, we may be required to obtain permanent financing of the property in addition to the rehabilitation loan which could involve the payment of significant fees and additional cash obligations for us.

**Owning Real Estate Following Foreclosure Will Subject Us to Additional Risks**

If a borrower is unable to pay our loan or refinance it when it is due, we may be required to institute foreclosure proceedings against the borrower, and we may sometimes be required to own the property for a period of time. We will be subject to certain economic and liability risks attendant to property ownership which may affect our profitability. The risks of ownership will include the following:

- The property could generate less income for us than we could have earned from interest on the loan.
- If the property is a rental property we will be required to find and keep tenants.
- We will be required to oversee and control operating expenses.
- We will be subject to general and local real estate and economic market conditions which could adversely affect the value of the property.
- We will be subject to any change in laws or regulations regarding taxes, use, zoning and environmental protection and hazards.
- We will be required to maintain insurance for property and liability exposures such as potential liability for any injury that occurs on or to the property.
- We will be subject to state and federal laws and local municipal codes and penalties relating to tenant retention and the maintenance and upkeep of lender owned properties.
- We may be subject to federal and state tax laws and regulations with respect to the tax treatment of items of our income, gain, loss or deductions for real estate held for investment, rental and/or sale, which in turn may result in federal and state tax payment and filing exposure for our members.

**The Newly Effective Consumer Financial Protection Bureau Could Increase Our Administrative Burdens**

Established under the Dodd-Frank Act, the Consumer Financial Protection Bureau, or CFPB, is charged with authority over all federal consumer lending regulations and with implementing a large number of federal consumer legislation, including ECOA, RESPA, the Fair Lending Act, the Truth in Lending Act, the Home Ownership and Equity Protection Act and the Mortgage Disclosure Improvement Act. Residing within the Federal Reserve, the CFPB has been officially operating since July 21, 2011. In addition to its regulatory authority, the CFPB will have examination authority over all federal and state non-depository lending institutions, including mortgage brokers and lenders. In January 2012 the CFPB released examination procedures for loan servicing and for loan origination. The company is subject to possible examination by the CFPB. Such examinations, as well as regulations the CFPB might issue in the future, could ultimately increase our administrative burdens and adversely affect the return to our members.

**If We Decide to Develop Property Acquired by Us, We Will Face Many Additional Risks**

If we have acquired property through foreclosure or otherwise, there may be circumstances in which it would be in our best interest not to immediately sell the property, but to develop it ourselves. Depending upon the location of the property and market conditions, the development done by us could be either residential (single or multi-family) or commercial. Development of any type of real estate involves risks including the following:

- We will be required to rely on the skill and financial stability of third party developers and contractors.
- Any development or construction will involve obtaining local government permits. We will be subject to the risk that our project does not meet the requirements necessary to obtain those permits.
- Any type of development and construction is subject to delays and cost overruns.
- There can be no guarantee that upon completion of the development that we will be able to sell the property or realize a profit from the sale.
- Economic factors and real estate market conditions could adversely affect the value of the property.

As of December 31, 2013, we had not foreclosed on any properties.

**Bankruptcy and Legal Limitations on Personal Judgments May Adversely Affect Our Profitability**

Any borrower has the ability to delay a foreclosure sale by us for a period ranging from several months to several years or more by filing a petition in bankruptcy. The filing of a petition in bankruptcy automatically stops or “stays” any actions to enforce the terms of the loan. The length of this delay and the costs associated with it will generally have an adverse impact on our profitability. We also may not be able to obtain a personal judgment against a borrower.

**Unintended Violations of Usury Statutes May Adversely Affect Us**

Usury laws impose restrictions on the maximum interest that may be charged on our loans. Subject to applicable requirements of California law, loans originated by a licensed California real estate broker or a licensed California Finance Lender will be exempt from applicable California usury provisions. Since Redwood Mortgage Corp., a licensed California real estate broker and a holder of a California Finance Lenders license, or CFL license, originates our loans, our loans should be exempt from applicable state usury provisions. Nevertheless, unintended violations of the usury statutes may occur. In such an event, we may have insufficient cash to pay any damages, thereby adversely affecting our operations. We could also lose our entire investment. We also intend to apply for a CFL license in the name of Redwood Mortgage Investors IX, LLC, to provide additional flexibility in establishing the usury exemption.

**If We Make High Cost Mortgages, We Will Be Required to Comply With Additional Regulations**

Although we anticipate making relatively few loans that would qualify as “high cost mortgages,” as defined by regulations of the CFPB, the failure to comply with these regulations could adversely affect us. A high cost mortgage is any loan made to a consumer secured by the consumer’s principal residence if either (i) the annual percentage rate exceeds by more than 8%, the yield on Treasury securities having comparable periods of maturity for first mortgages, or 10% for junior mortgages or (ii) the total fees payable by a consumer at or before closing exceed 8% of the total loan amount. These regulations primarily focus on:

- additional disclosure with respect to the terms of the loan to the borrower;
- the timing of such disclosures; and
- the prohibition of certain terms in the loan including balloon payments and negative amortization.

The failure to comply with the regulations, even if the failure was unintended, will render the loan rescindable for up to three years. The lender could also be held liable for attorneys’ fees, finance charges and fees paid by the borrower and certain other money damages.

In addition, under California law residential mortgage and consumer loans secured by liens on primary residences in amounts less than the Fannie Mae/Freddie Mac conforming loan limit are considered to be “high cost loans” if they have (i) an annual percentage rate at least 8% above the interest rate on U.S. Treasury securities of a comparable maturity, or (ii) points and fees in excess of 6% of the loan amount, exclusive of the points and fees. While it is unlikely that we would make many high cost loans, the failure to comply with California law regarding such loans could have significant adverse effects on us. The law prohibits certain lending practices with respect to high cost loans, including the making of a loan without regard to the borrower’s income or obligations. When making such loans, lenders must provide borrowers with a consumer disclosure, and provide for an additional rescission period prior to closing the loan. The reckless or willful failure to comply with any provision of this law, including the mandatory disclosure provisions, could result in, among other penalties, the imposition of administrative penalties of \$25,000, loss or suspension of the offending broker’s license, as well as exposure to civil liability to the consumer/borrower (including the imposition of actual and punitive damages).

**We Operate in a Highly Regulated Industry and the Failure to Comply with Such Regulations Will Materially Adversely Affect Our Business**

The mortgage business has traditionally been highly regulated. The costs of complying with these regulations could adversely affect our profitability, and violations of these regulations could materially adversely affect our business and financial results. Recently, the turmoil in our industry has led to various enacted and proposed new legislation, rules and regulations by federal, state and local authorities relating to the origination and servicing of mortgage loans. These initiatives could result in delayed or reduced collections from mortgagors, limitations on the foreclosure process and generally increased loan origination and servicing costs. These legislative and regulatory initiatives could ultimately increase our administrative burdens and adversely affect the returns to our members.

**Since We Are Not Regulated As a Bank, Our Members and Borrowers May Have Fewer Protections**

Although we are engaged in mortgage lending, we and our affiliates are not banks and accordingly, are not generally subject to the federal and state banking regulations, policies and oversight applicable to banks. For example, banks are subject to federal regulation and examination by the Federal Deposit Insurance Corporation, or FDIC, which insures bank deposits up to applicable limits. The operations of banks are also subject to the regulation and oversight of the Federal Reserve Board and state banking regulators. Banks are required to maintain a minimum level of regulatory capital in accordance with stringent guidelines established by federal law. Federal and state banking agencies also regulate the lending practices, capital structure, investment practices and dividend policy of banks, among other things.

Because we and our affiliates are generally not subject to the capital requirements and other regulations and oversight applicable to banks, our members and borrowers may not have the same level of protections and safeguards afforded to owners and customers of banks.

**Larger Loans May Result in Less Diversity and May Increase Risk**

Investing in fewer, larger loans generally decreases diversification of the portfolio and increases the risk of loss and the possible reduction in profits and yield to our members in the case of a delinquency of such a loan. However, since larger loans generally will carry a somewhat higher interest rate, our managers may determine, from time to time, that a relatively larger loan is advisable for us. Our maximum investment in a loan will not exceed 10% of our then total gross offering proceeds. As of December 31, 2013, the company held 51 loans secured by deeds of trust, with an aggregate face value of \$14,698,430. The average loan outstanding principal balance was approximately \$288,200 as of December 31, 2013. Average loan outstanding principal balance as of December 31, 2013, represented 1.84% of members' capital and 1.96% of outstanding secured loans. The size of the largest secured loan as of December 31, 2013, was approximately \$1,200,000 and represented 7.66% of members' capital, 8.16% of outstanding secured loans and 7.44% of our total assets.

**Use of Borrowed Money May Reduce Our Profitability or Cause Losses Through Liquidation**

We are permitted to borrow funds for the purpose of making loans, for increased liquidity, reducing cash reserve needs or for any other proper purpose on any terms commercially available. We may assign all or a portion of our loan portfolio and/or all or a portion of real estate that we own as security for such loans. Our managers may not leverage more than, and our total indebtedness may not at any time exceed, 50% of members' capital.

Changes in the interest rate will have a particularly adverse effect on us if we have borrowed money to fund loans. Borrowed money will likely bear interest at a variable rate, whereas we are likely to be making fixed rate loans. Thus, if prevailing interest rates rise, we may have to pay more in interest on the borrowed money than we make on loans to our borrowers. This will reduce our profitability or cause losses through liquidation of loans in order to repay the debt on the borrowed money. It is possible that we could default on our obligation if we cannot cover the debt on the borrowed money.



**Changes in Interest Rates May Affect Your Return on Your Investment**

We expect that our loans will typically have fixed rates and the majority of our loans will be for terms of one to five years. Consequently, due to the terms of our loans, if interest rates rapidly increase, such interest rates may exceed the average interest rate earned by our loan portfolio. If prevailing interest rates rise above the average interest rate being earned by our loan portfolio, you may be unable to quickly sell your units, as they are an illiquid investment, in order to take advantage of higher returns available from other investments. In addition, an increase in interest rates accompanied by a tight supply of mortgage funds may make refinancing by borrowers with balloon payments difficult or impossible. This is true regardless of the market value of the underlying property at the time such balloon payments are due. In such event, the property may be foreclosed upon.

Moreover, we expect that the majority of our loans will not include prepayment penalties for a borrower paying off a loan prior to maturity. The absence of a prepayment penalty in our loans may lead borrowers to refinance higher interest rate loans in a market of falling interest rates. This would then require us to reinvest the prepayment proceeds in loans or alternative short term investments with lower interest rates and a corresponding lower yield to members.

**Marshaling of Assets Could Delay or Reduce Recovery of Loans**

As security for a single loan, we may require a borrower to execute deeds of trust on other properties owned by the borrower in addition to the property the borrower is purchasing or refinancing. In the event of a default by the borrower, we may be required to “marshal” the assets of the borrower. Marshaling is an equitable doctrine used to protect a junior lienholder with a security interest in a single property from being “squeezed out” by a senior lienholder, such as us, with a security interest not only in the property, but in one or more additional properties. Accordingly, if another creditor of the borrower forced us to marshal the borrower’s assets, foreclosure and eventual recovery of the loan could be delayed or reduced, and our costs associated therewith could be increased.

**We May Provide Loans to Borrowers Who Are in Default Under Other of Their Obligations**

The cash flow and the income generated by the real property that is to secure the loan are factors affecting our decision to make a particular loan, as are the general creditworthiness, experience and reputation of the borrower. For loans secured by real property, other than owner occupied personal residences, those considerations are subordinate to a determination that the value of the real property is sufficient, in and of itself, as a source of repayment. Accordingly, loans may be made to borrowers who are in default under other of their obligations (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations. There is a greater risk that such borrowers will default under loans we make to them.

**We May Face Potential Liability for Toxic or Hazardous Substances**

If we take an equity interest in, management control of, or foreclose on any of the loans, we may be considered the owner of the real property securing such loans. In the event of any environmental contamination, there can be no assurance that we would not incur full recourse liability for the entire cost of any such removal and cleanup, even if we did not know about or participate in the contamination. Full recourse liability means that any of our property, including the contaminated property, could be sold in order to pay the costs of cleanup in excess of the value of the property at which such contamination occurred. In addition, we could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. Consequential damages are damages that are a consequence of the contamination but are not costs required to clean up the contamination, such as lost profits of a business.

**If Properties We Own Contain Hazardous Substances, We Could Be Required to Pay for Their Removal or Clean Up**

If we became the “owner” of any real property containing hazardous substances, we would also be exposed to risk of lost revenues during any cleanup, the risk of lower lease rates or decreased occupancy if the existence of such substances or sources on the property were a health risk. If we fail to remove the substances or sources and clean up the property, federal, state, or local environmental agencies could perform such removal and cleanup. Such agencies would impose and subsequently foreclose liens on the property for the cost thereof. We may find it difficult or impossible to sell the property prior to or following any such cleanup. If such substances are discovered after we sell the property, we could be liable to the purchaser thereof if our managers knew or had reason to know that such substances or sources existed. In such case, we could also be subject to the costs described above.

If we are required to incur such costs or satisfy such liabilities, this could have a material adverse effect on our profitability. Additionally, if a borrower is required to incur such costs or satisfy such liabilities, this could result in the borrower’s inability to repay its loan from us.

**Conflicts May Arise if We Participate in Loans With Other Programs Organized by Our Managers**

In certain limited circumstances and subject to compliance with applicable regulations or guidelines, we may participate in loans with other programs organized by our managers, where we purchase a fractional undivided interest in a loan. Our portion of the total loan may be smaller or greater than the portion of the loan made by the other programs. You should be aware that participating in loans with other programs organized by our managers could result in a conflict of interest between us and our managers as well between us and such other programs, in the event that the borrower defaults on the loan and our managers protect the interests of other programs, which they have organized, in the loan and in the underlying security.

**Certain Economic Events Could Cause Declines in Cash Flows**

Events and/or conditions such as general economic downturns, recessions, depressions, dramatic changes in interest rates and periods of illiquidity can disrupt expected cash returns from mortgage lending. These types of events are difficult to predict and can occur unexpectedly.

Should a significant economic deterioration occur we could suffer declines in cash flows and increases in loan delinquencies as was experienced by mortgage lenders in general during the period of financial crisis which began in 2009.

**Our Operating Results May be Affected by Economic and Regulatory Changes That Have an Adverse Impact on the Real Estate Market**

Our operating results will be subject to risks generally associated with the ownership of assets related to the real estate industry, including:

- changes in interest rates and availability of mortgage loans;
- changes in general economic or local conditions; and
- changes in tax, environmental, zoning and other real estate laws.

Due to these reasons, among others, we cannot assure you that we will be profitable or that we will maintain profitability.

**The Concentration of Loans with a Single Borrower May Increase Our Risks**

We may invest in multiple secured loans that share a common borrower. The aggregate of our loans, however, to any one borrower may not exceed 10% of the then total gross offering proceeds. The bankruptcy, insolvency or other inability of any borrower that is the subject of multiple loans to pay interest or repay principal on its loans would have adverse effects on our income and reduce the amount of funds available for distribution to members. The more concentrated our portfolio is with one or a few borrowers, the greater credit risk we face. The loss of any one of these borrowers would have a material adverse effect on our financial condition and results of operations.

**INVESTMENT RISKS**

**Lack of Liquidity of Units Increases Their Risks**

There are substantial restrictions on the transferability of the units. You will not be free to sell or transfer your units at will, and they may not be acceptable by a lender as security for borrowing. No public trading market for the units is expected to exist after the offering. It is highly unlikely that a public trading market will ever develop. The California Commissioner of Corporations also imposes a restriction on sale or transfer, except to specified persons, because of the investor suitability standards that apply to a purchaser of units who is a resident of California. Units may not be sold or transferred without consent of the Commissioner, except to family members, other holders of units, and us.

Our operating agreement also imposes substantial restrictions upon your ability to transfer units. The operating agreement provides you with a limited right to redeem units, subject to certain limitations and requirements. The amount that a redeeming member will receive from the company is based on the lesser of the purchase price paid by the redeeming member or the redeeming member's capital account balance as of the date of each redemption payment. A capital account is a sum calculated for tax and accounting purposes, and may be greater than or less than the fair market value of such member's interest in the company. The fair market value of your units will be irrelevant in determining amounts to be paid upon redemption. As described above, the amount received by a redeeming member may, under certain circumstances, be based on the member's capital account balance as of the date of each redemption payment, rather than the date of the redemption request. Accordingly, the amount paid to a member upon redemption may not reflect the redeeming member's capital balance as of the date on which the redemption request was made. In addition, your units may not be readily accepted as collateral for a loan. Consequently, you should consider the purchase of units only as a long-term investment.

**You are Limited in Your Ability to Have Your Units Redeemed Under Our Unit Redemption Program**

Our unit redemption program contains significant restrictions and limitations that limit your ability to redeem your units. The number of units you may redeem per quarter will be subject to a maximum of the greater of 100,000 units or 25% of your units outstanding. In addition, we will not, in any calendar year, redeem from all of our members a total of more than 5% (or in any calendar quarter, redeem more than 1.25%) of the weighted average number of all units outstanding during the twelve month period immediately prior to the date of the redemption.

Moreover, our managers reserve the right, in their sole discretion, at any time, to reject any request for redemption, or to suspend or terminate the acceptance of new redemption requests without prior notice, or to terminate, suspend or amend the unit redemption program upon 30 days' written notice. Therefore, in making a decision to purchase units, you should not assume that you will be able to sell any of your units back to us pursuant to our redemption program.

We will fund redemptions solely from available company cash flow and will not establish a reserve from which to fund redemptions. Accordingly, we cannot guarantee that we will have sufficient funds to accommodate all redemption requests made in any given year.

**There is No Assurance You Will Receive Cash Distributions**

Our managers and their affiliates will be paid and reimbursed by us for certain services performed for us and expenses paid on our behalf. We will bear all other expenses incurred in our operations. All of these fees and expenses are deducted from cash funds generated by our operations prior to computing the amount that is available for distribution to you. Our managers, in their discretion, may also retain a portion of cash funds generated from operations for working capital purposes. Accordingly, there is no assurance as to when or whether cash will be available for distributions to you.

**We May Pay Distributions From Sources Other Than Cash Flow From Operating Activities Which Will Result in Fewer Funds Available to Invest in Mortgages and Could Reduce Our Members' Overall Return**

In the event we do not have enough cash flow from operating activities to fund our distributions, we may need to defer or reduce distributions or fund distributions from cash on hand, which may include proceeds from offerings and loan repayments from borrowers. In 2013 and 2012, we did not generate enough cash flow from operating activities to fully fund distributions. Therefore, some of those distributions were paid from sources other than cash flow from operating activities. Distributions in excess of our cash flow from operating activities have been funded from cash on hand, which can include proceeds from offerings, borrowing, if any, and loan repayments from borrowers.

**You Must Rely on Our Managers for Management Decisions; You Will Have No Control Over Our Operation**

All decisions with respect to our management will be made exclusively by our managers. In addition, our managers originate or arrange all of our mortgage loans. Our success will, to a large extent, depend on the quality of our management, particularly as it relates to lending decisions. You have no right or power to take part in our management. Accordingly, you should not purchase any of the units offered unless you are willing to entrust all aspects of management to our managers. You should carefully evaluate our managers' capabilities to perform such functions.

**Because We Do Not Have Independent Directors, Members May Have Less Protection Against Affiliated Transactions and Conflicts of Interests**

We are managed by our managers who have various conflicts of interest in connection with their management of us. We do not have a board of directors or any independent directors. The absence of independent directors may leave our members with less protection against affiliated transactions and conflicts of interest arising out of our relationship with our managers and their affiliates and similar matters. These include arrangements pursuant to which our managers and their affiliates are compensated by us. If actions are taken by our managers, or expenses are incurred that are not in our best interests, it could have a material adverse effect on our business and operations.

**Because We Do Not Have an Audit or Compensation Committee, Members Will Have to Rely on Our Managers, Who are Not Independent, to Perform These Functions**

Since the units are not listed for trading on a national securities exchange, we are not subject to certain of the corporate governance rules established by the national securities exchanges pursuant to the Sarbanes-Oxley Act of 2002. Among other things, these rules relate to independent director standards, audit and compensation committees standards and the use of an audit committee financial expert. Accordingly, our members will not receive the protections these rules and standards were enacted to provide, such as protections against interested director transactions, conflicts of interest and similar matters.

We do not have an audit or compensation committee. As a result, members will have to rely on our managers, none of whom are independent, to perform these functions. Thus, there is a potential conflict in that our managers, who are engaged in management, will participate in decisions concerning management compensation and audit issues that may affect management performance.

**Your Ability to Recover Your Investment on Dissolution and Termination Will Be Limited**

In the event of our dissolution or termination, the proceeds realized from the liquidation of assets, if any, will be distributed to the members only after the satisfaction of claims of creditors. Accordingly, your ability to recover all or any portion of your investment under such circumstances will depend on the amount of funds so realized and claims to be satisfied from those proceeds. Additionally, if you have elected to reinvest your distributions into additional units through your participation in our distribution reinvestment plan, you could lose such reinvested distributions in addition to the amount of your initial investment.

**We Established the \$1 Per Unit Offering Price on an Arbitrary Basis**

We arbitrarily determined the \$1 per unit selling price for this offering as well as the \$1 per unit price for reinvestment of distributions. Such price bears no relationship to our book or asset values. Such price also is not necessarily the amount you may receive pursuant to your limited right to redeem units, subject to certain requirements. The amount that a redeeming member will receive is the lesser of the purchase price for the redeemed units or the redeeming member's capital account balance as of the date of each redemption payment. The fair market value of your interest in the company will be irrelevant in determining amounts to be paid upon redemption.

**Our Managers and Their Affiliates May Purchase Units**

Our managers and their affiliates may, in their discretion, purchase units for their own account. The maximum amount of units that may be purchased by our managers or their affiliates is 1,000,000 units (\$1,000,000). Upon any such purchases of units, our managers or their affiliates will have the same rights as other members in respect of the units owned by them, including the right to vote on matters subject to the vote of members, subject to certain exceptions.

**We May Be Unable to Insure Against Certain Kinds of Losses**

We will require comprehensive insurance, including fire and extended coverage, which is customarily obtained for or by a lender, on properties in which we acquire a security interest. Generally, such insurance will be obtained by and at the cost of the borrower. However, there are certain types of losses (generally of a catastrophic nature, such as civil disturbances and acts of God such as earthquakes, floods and slides) which are either uninsurable or not economically insurable. Should such a disaster occur to, or cause the destruction of, any property serving as collateral for a loan, we could lose both our invested capital and anticipated profits from such investment. In addition, on certain real estate owned by us as a result of foreclosure, we may require homeowner's liability insurance. However, insurance may not be available for theft, vandalism, land or mud slides, hazardous substances or earthquakes on all real estate owned and losses may result from destruction or vandalism of the property which would adversely affect our profitability.

**Our Anticipated Concentration of Mortgages in the San Francisco Bay Area Exposes Us to Greater Risks of Loss if the Local Economy Weakens**

We expect that a significant majority of our loans will be secured by properties located in nine counties that comprise the San Francisco Bay Area (San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Marin, Napa, Solano and Sonoma). Our anticipated concentration of loans in the San Francisco Bay Area exposes us to greater risk of loss if the economy in the San Francisco Bay Area weakens than would be the case if our loans were spread throughout California or the nation. The San Francisco Bay Area economy and/or real estate market conditions could be weakened by:

- an extended economic slowdown or recession in the area;
- overbuilding of commercial and residential properties;
- relocation of businesses outside of the area due to economic factors such as high cost of living and of doing business within the region;

- increased interest rates, thereby weakening the general real estate market; and
- reductions in the availability of credit.

If the economy were to weaken, it is possible that there would be more property available for sale, values would fall and lending opportunities would decrease. In addition, a weak economy and increased unemployment could adversely affect borrowers resulting in an increase in the number of loans in default.

As of December 31, 2013, 46% (\$6,800,815) of our loans were secured by properties located in the nine counties that comprise the San Francisco Bay Area.

**You Will Be Bound by Decision of Majority Vote**

Subject to certain limitations, members holding a majority of units may vote to, among other things:

- dissolve and terminate the company;
- amend the operating agreement, subject to certain limitations;
- approve or disapprove the sale of all or substantially all of our assets; and
- remove or replace one or all of our managers or elect additional or new managers.

If you do not vote with the majority in interest of the other members, you nonetheless will be bound by the majority vote. Our managers will have the right to increase this offering or conduct additional offerings of units without obtaining your consent or the consent of any other member.

**The Formation Loan May Be Forgiven Under Certain Circumstances**

We will loan to Redwood Mortgage Corp., a manager, funds in an amount equal to the sales commissions and amounts payable in connection with unsolicited sales. The formation loan will be an unsecured loan that will not bear interest and will be repaid in annual installments. During the offering period, Redwood Mortgage Corp. will make annual installments of one-tenth of the principal balance of the formation loan as of December 31 of the prior year. Such payment will be due and payable by December 31 of the following year. Prior to the termination of our offering of units, the principal balance of the formation loan will increase as additional sales of units are made each year. Upon completion of the offering, the balance of the formation loan will be repaid in 10 equal annual installments of principal, without interest, commencing on December 31 of the year following the year the offering terminates.

A portion of the amount we receive from redeeming members as early redemption penalties may first be applied to reduce the principal balance of the formation loan. This will have the effect of reducing the amount owed by Redwood Mortgage Corp. to us. If all or any one of the initial managers are removed as a manager by the vote of a majority in interest of the members and a successor or additional manager begins using any other loan brokerage firm for the placement of loans or loan servicing, Redwood Mortgage Corp. will be immediately released from any further payment obligation under the formation loan. If all of the managers are removed, no other managers are elected, the company is liquidated and Redwood Mortgage Corp. is no longer receiving payments for services rendered, we will forgive the debt on the formation loan and Redwood Mortgage Corp. will be immediately released from any further obligations under the formation loan. The non-interest bearing feature of the formation loan will have the effect of slightly diluting your rate of return, but to a much lesser extent than if we were required to bear all of our own syndication expenses out of the offering proceeds.

**You Will Have Limited Ability to Liquidate Your Investment Prior to the End of Our Term and May Experience Delays in Receiving Distributions Upon Liquidation**

Under our operating agreement, we will continue to operate until October 8, 2028, unless our term is extended by the vote of a majority in interest of the members. We do not currently intend to cease operations prior to the end of our term, nor do we anticipate providing liquidity to our members prior to such time (other than on a limited basis through our unit redemption program). We could be dissolved and terminated earlier by operation of law or upon the occurrence of various events described in our operating agreement. Upon our dissolution, our managers will seek to promptly liquidate our assets for the best price reasonably obtainable, to use any proceeds to satisfy our debts and to distribute any remaining proceeds to our members and managers in accordance with the terms of our operating agreement. Our managers may not be successful in liquidating us regardless of whether it occurs on our anticipated termination date or on an earlier dissolution date. Delays in liquidation could arise due to market conditions and other factors beyond the control of our managers. In the event we are unable to liquidate on or prior to the end of our anticipated term, you and other members may not receive distributions of remaining proceeds, if any, in a timely manner or at all.



**Our Managers Have Limited Assets Which May Affect Their Ability to Fulfill Their Obligations to Us**

Our managers have limited assets and financial resources. As a result, they may be unable to fulfill their obligations and responsibilities to us. Our managers also serve as the sponsors and managers of other mortgage programs and have legal and financial obligations with respect to these other programs. Additionally, they may have contingent liability for the obligations of such other programs. To the extent that our managers are required to expend a significant portion of their assets and financial resources to satisfy their obligations or liabilities to such other programs or otherwise, their ability to fulfill their financial and other obligations to us may be adversely affected.

**Delays in Investment Could Adversely Affect Your Return**

A delay will occur between the time you purchase your units and the time the net proceeds of the offering are invested. This delay could adversely affect the return paid to you. In order to mitigate this risk, pending the investment of the proceeds of this offering, funds will be placed in highly liquid, short-term investments designated by our managers. The interest earned on such interim investments is expected to be less than the interest we would earn on loans.

**We Cannot Precisely Determine Compensation to be Paid to Our Managers and Their Affiliates**

Our managers and their affiliates are unable to predict the amounts of compensation to be paid to them. Any such prediction would necessarily involve assumptions of future events and operating results which cannot be made at this time. As a result, there is a risk that members will not have the opportunity to judge ahead of time whether the compensation realized by our managers is commensurate with the return generated by the loans.

**Payment of Fees to Our Managers and Their Affiliates Will Reduce Cash Available for Investment and Distribution**

Our managers and their affiliates will perform services for us in connection with the offer and sale of the units, the selection and acquisition of our investments and the administration of our investments. They will be paid substantial fees for these services, which will reduce the amount of cash available for investment in properties or distribution to members.

**Working Capital Reserves May Not be Adequate**

We intend to maintain working capital reserves to meet our obligations, including our carrying costs and operating expenses. Our managers believe such reserves are reasonably sufficient for our contingencies. If for any reason those reserves are insufficient, we will have to borrow the required funds or liquidate some or all of our loans. In the event our managers deem it necessary to borrow funds, such borrowings may not be on acceptable terms or even available to us. Such a result might require us to liquidate our investments and abandon our activities.

**We May be Required to Forego More Favorable Investments to Avoid Regulation Under Investment Company Act of 1940**

Our managers intend to conduct our operations so that we will not be subject to regulation under the Investment Company Act of 1940. Among other things, they will monitor the proportions of our funds which are placed in various investments and the form of such investments so that we do not come within the definition of an investment company under such Act. As a result, we may have to forego certain investments which would produce a more favorable return.

**Conflicts May Arise as a Result of Our Managers' Legal and Financial Obligations to Other Mortgage Programs**

Our managers and their affiliates are currently involved with five mortgage programs with investment objectives similar to ours. They may also organize other mortgage programs in the future with investment objectives similar to ours. Our managers and such affiliates have legal and financial obligations with respect to these other mortgage programs that are similar to their obligations with respect to us. These obligations may at times conflict or require our managers to limit the resources allocated to us and these other programs.

**Conflicts May Arise From Our Managers' Allocation of Time Between Us and Other Activities**

Our managers and their affiliates have conflicts of interest in allocating the time of their personnel between us and other activities in which they are involved. Redwood Mortgage Corp. also provides loan brokerage services to investors other than us. As a result, there will exist conflicts of interest on the part of our managers between us and the other mortgage programs or investors with which they are affiliated at such time.

**The Amount of Loan Brokerage Commissions and Other Compensation of Our Managers May Affect the Rate of Return to You**

None of the compensation payable to our managers was determined by arm's-length negotiations. We anticipate that the loan brokerage commissions charged to borrowers by Redwood Mortgage Corp., one of our managers, will average approximately 2%-5% of the principal amount of each loan, but may be higher or lower depending upon market conditions. Any increase in the loan brokerage commission charged on loans may have a direct, adverse effect on the interest rates we charge on loans and thus the overall rate of return to you. This conflict of interest will exist in connection with every loan transaction, and you must rely upon the fiduciary duties of our managers to protect your interests.

**If Our Managers Lose or are Unable to Obtain Key Personnel or One or More of Their Key Personnel Decides to Compete With Us, Our Ability to Implement Our Strategic Plans Could be Impaired**

We depend on the diligence, experience and skills of certain executive officers and other key personnel of our managers and their affiliates, including Michael R. Burwell, Diana B. Mandarino and Lorene A. Randich, for the selection, acquisition, structuring and monitoring of our lending and investment activities. These individuals are not bound by employment agreements with the managers or with us. If any of our managers' key personnel were to cease their employment with them or their affiliates, our operating results could suffer. One of our managers has obtained life insurance policies on Michael Burwell, one of their key personnel. There is no assurance that such insurance will be sufficient to protect against events that may adversely affect our ability to implement our strategies. We also believe that our future success depends, in large part, upon the ability of our managers or their affiliates to hire and retain highly skilled managerial, operational and marketing personnel. We cannot assure you that they will be successful in attracting and retaining such personnel. The loss of key personnel and the inability of our managers to hire any key person could harm our business, financial condition, cash flow and results of operations.

**We Will Rely on Independent Broker-Dealers to Sell Units in the Offering**

We are offering the units through selected broker-dealers who are members of FINRA. None of the broker-dealers participating in the offering will be affiliated with our sponsors or our managers. Because we do not have a captive or affiliated broker-dealer that will be exclusively or primarily focused on selling our units, our ability to successfully complete the offering will depend, in large part, on our ability to develop and maintain relationships with a sufficient number of unaffiliated participating broker-dealers. These broker-dealers are engaged in the sale of various securities and investment products beyond those offered by us, including those of competing mortgage programs. In the event we are unable to enter into selling agreements with a sufficient number of qualified participating broker-dealers, or if those participating broker-dealers engaged by us fail to devote sufficient time and attention to the marketing of our units, we may be unable to raise a sufficient amount of funds in the offering as may be necessary to enable us to be successful.

## **TAX RISKS**

### **Your Ability to Offset Income With Our Losses May be Limited**

We are engaged in mortgage lending. We take the position that we are engaged in the active conduct of equity-financed lending. Under the applicable regulations, each member is required to report separately on its income tax return its distributive share of our income as nonpassive income. Each member's distributive share of our losses, if any, will be reported as passive losses. Passive losses may be used to offset passive income. To the extent that passive losses do not offset passive income, they may be carried forward to offset passive income in future years. It is possible, however, that the IRS could assert that our income is properly treated as portfolio income for purposes of those limitations. Such treatment is subject to the interpretation of complex Treasury regulations, and is dependent upon a number of factors, such as whether we are engaged in a trade or business, the extent to which we incur liabilities in connection with our activities, and the proper matching of the allocable expenses incurred in the production of income. There can be no assurance that an IRS challenge to our characterization of our income will not succeed. It also is possible that we might be unable to allocate expenses to the income produced, in which case members might find their ability to offset income with allocable expenses limited by the 2% floor on miscellaneous investment expenses.

### **Your Tax Liability May Exceed the Cash You Receive**

Your tax liabilities associated with an investment in the units for a given year may exceed the amount of cash we distribute to you during such year. As a member, you will be taxed on your allocable share of our taxable income whether or not you actually receive cash distributions from us. Your taxable income could exceed cash distributions you receive, for example, if you elect to reinvest into additional units the cash distributions you would otherwise have received. Taxable income in excess of cash distributions also could result if we were to generate so-called "phantom income" (taxable income without an associated receipt of cash). Phantom income could be recognized from a number of sources, including, without limitation, any established loan loss reserves or fluctuation thereof, repayment of principal on loans incurred by the company as well as imputed income due to original issue discount, market discount, imputed interest and significant modifications to existing loans. Under very limited circumstances, you could receive a special distribution to enable you to pay taxes on specified types of phantom income.

### **We Expect to Generate Unrelated Business Taxable Income**

Tax-exempt investors (such as an employee pension benefit plan or an IRA) may be subject to tax to the extent that income from the units is treated as unrelated business taxable income, or UBTI. We borrow funds on a limited basis, which can cause a portion of our income to be treated as UBTI. We may also receive income from services rendered in connection with making or securing loans, which is likely to constitute UBTI. In addition, although we do not currently intend to own and lease personal property, it is possible we may do so as a result of a foreclosure upon a default. Although we use reasonable efforts to prevent any borrowings and leases of personal property from causing any significant amount of income from the units to be treated as UBTI, we expect that some portion of our income will be UBTI. Prospective investors that are tax-exempt entities are urged to consult their own tax advisors regarding the suitability of an investment in units. In particular, an investment in units may not be suitable for charitable remainder trusts.

**Tax Audits Could Result in Adjustments to Your Tax Returns**

The IRS and state tax authorities could challenge certain federal and state income tax positions, respectively, taken by us if we are audited. Any adjustment to our return resulting from an audit by a tax authority would result in adjustments to your tax returns and might result in an examination of items in such returns unrelated to your investment in the units or an examination of tax returns for prior or later years. Moreover, we and our members could incur substantial legal and accounting costs in contesting any challenge by a tax authority, regardless of the outcome. Our managers generally will have the authority and power to act for, and bind the company in connection with, any such audit or adjustment for administrative or judicial proceedings in connection therewith.

**You May be Subject to State and Local Tax Laws**

The state in which you reside may impose an income tax upon your share of our taxable income. Furthermore, states such as California, in which we will own property generally impose income tax upon a member's share of the company's taxable income considered allocable to such states, whether or not a member resides in that state. As a result, a nonresident member may be required to file a tax return in California and any other such state. Differences may exist between federal income tax laws and state and local income tax laws. We may be required to withhold state taxes from distributions to members in certain instances. You are urged to consult with your own tax advisers with respect to state and local tax consequences of an investment in our units.

**The IRS may Argue that Our Allocations to You May Not Have Substantial Economic Effect**

For U.S. federal income tax purposes, allocations to you of our items of income, gain, loss, deduction and credit will be governed by our operating agreement if such allocations have "substantial economic effect." The rules for determining whether an allocation has substantial economic effect provide a safe harbor under which allocations generally will be respected. Our operating agreement does not satisfy the requirements for the substantial economic effect safe harbor. However, because our operating agreement generally allocates profits and losses in the same manner as cash distributions are made, we believe these allocations are in accordance with the members' interests in our units and thus should be respected. However, there can be no assurance that the IRS will not challenge the allocations and will not attempt to reallocate profits and losses among the members and/or the managers. Any successful challenge by the IRS to such allocations could have a material adverse effect on your investment in our units.

**Changes in Tax Laws Could Have an Adverse Effect on Your Investment**

In recent years, legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws applicable to investments similar to an investment in our units. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a member. Any such changes could have an adverse effect on an investment in our units or on the market value of our assets. You are urged to consult with your own tax advisor with respect to the impact of recent legislation on your investment in units and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our units. You should also note that our counsel's tax opinion assumes that no legislation will be enacted after the date of the prospectus that will be applicable to an investment in our units.

## **ERISA RISKS**

### **Risks of Investment by Benefit Plan Investors and Other Tax-Exempt Investors**

In considering an investment in the units, if you are an employee benefit plan subject to ERISA, you should consider, among other things, (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA; and (ii) whether the investment is prudent, since there may not be a market created in which you can sell or otherwise dispose of the units. In addition if you are a tax-qualified pension or 401(k) plan or an IRA, you should consider (i) whether a distribution of units from a tax-qualified plan or IRA would be accepted by an IRA custodian as a rollover, and if not, the automatic 20% income tax withholding which the beneficiary may need to satisfy out of other assets that they own; and (ii) whether a required distribution from a tax-qualified plan or IRA commencing on the April 1 following the calendar year in which the beneficiary attains age 70½ or, with respect to a tax-qualified plan distribution, retires, if later, could cause the beneficiary to become subject to income tax that the beneficiary would need to satisfy out of other assets if such beneficiary were not able to transfer the units for cash. Finally, all Benefit Plan Investors, including tax-qualified pension and 401(k) plans and IRAs should consider (i) whether the investment will impair the liquidity of your plan or other entity; and (ii) whether interests in us or the underlying assets owned by us constitute “plan assets” for purposes of Section 406 of ERISA or Section 4975 of the Code which could cause certain transactions with us to constitute non-exempt prohibited transactions. ERISA requires that the assets of a plan be valued at their fair market value as of the close of the plan year, and it may not be possible to adequately value the units from year to year, since there will not be a market for those units and the appreciation of any property may not be shown in the value of the units until we sell or otherwise dispose of our investments.

### **Item 1B – Unresolved Staff Comments**

Because the company is not an accelerated filer, a large accelerated filer or a well-known seasoned issuer, the information required by Item 1B is not applicable.

### **Item 2 – Properties**

As of December 31, 2013 and 2012, the company owned no properties.

### **Item 3 – Legal Proceedings**

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

### **Item 4 – Mine Safety Disclosures**

Not Applicable

## **Part II**

### **Item 5 – Market for the Registrant’s Units, Related Unitholder Matters and Issuer Purchases of Equity Securities**

#### **Market Information**

There is no established public trading market for the units, and we do not anticipate that one will develop. There are substantial restrictions on transferability of units and accordingly an investment in the company is non-liquid. Members have no right to withdraw from the company or to obtain the return of their capital account for at least one year from the date of purchase of units. In order to provide a certain degree of liquidity, we have adopted a unit redemption program, whereby after the one year period, a member may redeem all or part of their units, subject to certain limitations summarized under “Unit Redemption Program” below.

#### **Use of Public Offerings Proceeds**

On November 18, 2008 and June 7, 2012, the company filed Registration Statements on Form S-11 with the Securities and Exchange Commission (SEC File Nos. 333-155428 and 333-181953) to offer up to 150,000,000 units (\$150,000,000) of its membership interests to the public in its primary offering and 37,500,000 units (\$37,500,000) to its members pursuant to its distribution reinvestment plan. The 2012 filing was required under applicable SEC rules to enable us to continue to sell units in the offering. The offering is ongoing and it may continue as determined by the managers until June 1, 2016.

As of December 31, 2013, we had sold 18,068,868 units in the offering, for gross offering proceeds of \$18,068,868, (including units issued under our distribution reinvestment plan). The outstanding units are held by approximately 375 members.

From the subscription proceeds of \$17,209,819, we incurred approximately \$1,204,687 in selling commissions and from the subscriptions admitted of \$16,766,469 (excluding units issued under our distribution reinvestment plan), we incurred approximately \$754,491 in organization and offering costs.

#### **Distribution Policy**

We intend to distribute, on a monthly basis, cash available for distribution to our members, other than those participating in our distribution reinvestment plan. However, there is no assurance as to the timing or amount of any such distributions.

All cash available for distribution will be allocated 1% to our managers and 99% to the members. Amounts distributed to the members will be allocated among the members in proportion to their units.

To determine the amount of cash to be distributed in any specific month, the company relies in part on its annual forecast of profits, which takes into account the difference between the forecasted and actual results in the prior year and the requirement to maintain a cash reserve.

During 2013 and 2012 the company’s distributed annualized yield was 6.50%. The company’s cash distributions to members (excluding redemptions during 2013 and 2012) were \$1,076,395 and \$854,800, respectively.

In 2013 and 2012, we did not generate enough cash flow from operating activities to fully fund distributions. Therefore, some of those distributions were paid from sources other than cash flow from operating activities. Distributions in excess of our cash flow from operating activities have been funded from cash on hand, which can include proceeds from offerings, borrowing, if any, and loan repayments from borrowers.

Net income recorded during 2013 and 2012 for members was \$875,777 and \$620,351, respectively. The difference between net income and cash distributions was due to the managers’ projections of net income using several variables which included but were not limited to, an average rate of return for the loan portfolio, turnover rate of the loan portfolio, the availability of quality loans for investment, the increase in member units, and the leverage obtained by holding costs steady while assets increase. Provided the company becomes and remains fully invested in quality mortgage loans, this difference should diminish until eliminated.

## **Recent Sales of Unregistered Securities**

There were no sales of securities by the company within the past three years which were not registered under the Securities Act of 1933.

## **Unit Redemption Program**

We have adopted a unit redemption program that may enable a member to redeem all or part of their units, subject to certain limitations. The price paid for redeemed units will be based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. Redemption value will be calculated as follows:

- For redemptions beginning after one year (but before two years) 92% of purchase price or 92% of the capital account balance, whichever is less;
- For redemptions beginning after two years (but before three years) 94% of purchase price or 94% of the capital account balance, whichever is less;
- For redemptions beginning after three years (but before four years) 96% of purchase price or 96% of the capital account balance, whichever is less;
- For redemptions beginning after four years (but before five years) 98% of purchase price or 98% of the capital account balance, whichever is less;
- For redemptions beginning after five years, 100% of purchase price or 100% of the capital account balance, whichever is less.

The company will attempt to redeem units quarterly, subject to certain limitations, and subject to the right of our managers, in their sole discretion, at any time, to reject any request for redemption, or to suspend or terminate the acceptance of new redemption requests without prior notice, or to terminate, suspend or amend the unit redemption program upon 30 days written notice.

Notwithstanding the foregoing, with respect to any redemption, the number of units that may be redeemed per quarter per individual member will be subject to a maximum of the greater of 100,000 units or 25% of the member's units outstanding. For redemption requests requiring more than one quarter to fully redeem, the percentage discount amount that applies when the redemption payments begin will continue to apply throughout the entire redemption period and will apply to all units covered by such redemption request regardless of when the final redemption payment is made.

The company will not establish a reserve from which to fund redemptions. The company's capacity to redeem member units upon request is restricted to the availability of company cash flow. The company will not, in any calendar year, redeem more than 5% of the weighted average number of units outstanding during the twelve month period immediately prior to the date of the redemption.

During the year ended December 31, 2013, requests to redeem 58,190 units were received, and 58,190 units (100%) of the units subject to redemption requests were redeemed.

## **Item 6 – Selected Financial Data (Not included as smaller reporting company)**

## **Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

Redwood Mortgage Investors IX, LLC (the "company") is a Delaware limited liability company, qualified to conduct business in California, formed in October 2008 to make loans secured primarily by first and second deeds of trust on California real estate. Redwood Mortgage Corp. ("RMC") and its wholly-owned subsidiary Gymno LLC ("Gymno") are the managers of the company. The address of the company and the managers is 1825 South Grant Street, Suite 250, San Mateo, CA 94402. The mortgage loans the company invests in are arranged and are generally serviced by RMC. Michael Burwell is the president and majority shareholder (through his holdings and beneficial interests in certain trusts) of RMC.

In December 2012, the first follow-on offering was declared effective by the Securities and Exchange Commission. The same number of units are being offered in the follow-on offering (150,000,000 primary units and 37,500,000 units under the distribution reinvestment plan) as were offered in the initial public offering that commenced in June 2009.

Offering proceeds are released to the company and applied to investments in mortgage loans and the payment or reimbursement of organization and offering expenses. The amount of loans the company funds or acquires will depend upon the number of units sold in the public offering and the resulting amount of the net proceeds available for investment in loans.

The company will experience a relative increase in liquidity if and when additional subscriptions for units are received and a relative decrease in liquidity as net offering proceeds are expended in connection with the funding and acquisition of loans and the payment or reimbursement of organization and offering expenses.

### Critical Accounting Policies

See Note 2 (Summary of Significant Accounting Policies) to the financial statements included in Part II, Item 8 of this report for a detailed presentation of critical accounting policies, which presentation is incorporated by this reference into this Item 7.

### Managers and Other Related Parties

See Notes 1 (Organization and General) and 3 (Managers and Other Related Parties) to the financial statements included in Part II, Item 8 of this Report for a detailed presentation of the various company activities for which related parties are compensated and other related transactions, including the formation loan to RMC, which presentation is incorporated by this reference into this Item 7.

### Results of Operations

The company's operating results are discussed below for the years ended December 31, 2013 and 2012.

	Changes for the years ended December 31,			
	2013		2012	
	Dollars	Percent	Dollars	Percent
Revenue, net				
Interest income				
Loans	\$ 318,842	43%	\$ 162,187	28%
Imputed interest on formation loan	5,253	26	12,286	153
Total interest income	<u>324,095</u>	<u>42</u>	<u>174,473</u>	<u>29</u>
Interest expense, amortization of discount				
on formation loan	5,253	26	12,286	153
Net interest income	<u>318,842</u>	<u>43</u>	<u>162,187</u>	<u>28</u>
Late fees	1,622	30	3,682	213
Other	(250)	(63)	100	33
Total revenues, net	<u>320,214</u>	<u>43</u>	<u>165,969</u>	<u>28</u>
Provision for loan losses	—	—	—	—
Operating expenses				
Mortgage servicing fees	10,233	48	4,601	27
Asset management fees	—	—	—	—
Costs through RMC	44,672	60	33,223	81
Professional services	7,093	47	10,118	201
Other	210	2	9,361	203
Total operating expenses	<u>62,208</u>	<u>50</u>	<u>57,303</u>	<u>85</u>
Net income	<u>\$ 258,006</u>	<u>41%</u>	<u>\$ 108,666</u>	<u>21%</u>



Please refer to the above table and the Statements of Income in the financial statements in Part II, Item 8 of this report, throughout the discussions of Results of Operations.

#### *Overview and General Economic Conditions*

The company's revenues (i.e. interest on loans), net income and earning assets (i.e. loan balances) continued to grow in 2013, and at an accelerated rate compared to 2012. Interest on loans grew at 48.5% (2012 at 29.5%), net income at 41.2% (2012 at 21.0%), and loan balances at 45.3% (2012 at 30.2%). Details of Selected Financial Data are presented for 2013, 2012 and 2011 in the following table.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Daily average secured loan balance	\$ 12,648,000	\$ 8,708,000	\$ 6,689,000
Net income	\$ 884,623	\$ 626,617	\$ 517,952
Percent	7.00%	7.20%	7.74%
Interest on loans, gross	\$ 1,208,186	\$ 813,461	\$ 628,181
Percent	9.55%	9.34%	9.39%
Interest on loans, net <sup>(1)</sup>	\$ 1,064,581	\$ 745,739	\$ 583,552
Percent	8.42%	8.56%	8.72%
Provision for loan losses	\$ —	\$ —	\$ —
Percent	—%	—%	—%
Total operating expenses	\$ 187,139	\$ 124,931	\$ 67,627
Percent	1.48%	1.43%	1.01%
(1) Amortization of loan administration fees	\$ 143,605	\$ 67,722	\$ 44,629

Since the inception of operations in the 4<sup>th</sup> quarter of 2009, the company has raised member capital at a moderate, steady pace. Members' capital at December 31, 2013, was approximately \$15,661,000, an increase of \$14,537,000 since December 31, 2009.

Our investment in mortgage loans is increasing steadily since commencement of operations. Mortgage loan balances grew to \$14,812,000 at December 31, 2013 from \$1,259,000 at December 31, 2009. The company continues to conservatively underwrite mortgage loan opportunities with the goal of building a well performing mortgage loan portfolio, with the expectation of consistent, on-time mortgage payments.

RMI IX was launched during the Great Recession and with that backdrop in mind we have sought to exercise strong discipline in underwriting loan applications and lending against collateral at amounts that will create a mortgage portfolio that has substantial protective equity (i.e. safety margins to outstanding debt) as indicated by the overall conservative loan to value ratio (LTV) which at December 2013 was 56%. Thus per the appraisal-based valuations at the time of loan inception, borrowers have in the aggregate, equity of 44% in the property, and we as lenders have lent in the aggregate, 56% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans. See Note 4 (Loans) to the financial statements included in Part II, Item 8 of this report for a presentation regarding our portfolio's percentage of total debt to appraised value (LTV) at loan closing.

To date, our lending underwriting has resulted in a low delinquency rate. The tight market for mortgage credit among traditional lenders such as banks and the improving economy and real estate markets in areas in which we concentrate our lending has increased the number of borrowers who meet our underwriting standards. These borrowers have been willing to accept our rates and fees. This is reflected in the favorable stated and effective yields on the portfolio discussed below in the section Revenue – Interest on loans.

As noted in the “California Economic Outlook: March 2014” published by Wells Fargo’s Economics Group: “ The Golden State’s Economy continues to grow at a pace slightly ahead of the nation’s, although gains have been heavily weighted toward the state’s larger metropolitan areas along the coast. Technology, tourism and retail trade have led the recovery in job growth in recent years, which has helped trim the unemployment rate and revive housing demand.” The report states in its Summary and Outlook Section: “California’s economy continues to gradually gain momentum. While the recovery has been slower than in the past, the state has methodically made progress working through a number of major impediments, most notably the overhang of foreclosures and distressed homes left over from the housing bust.” Further contained in that section: “The biggest headlines and strongest job gains continue to be in California’s tech sector, much of which is centered in the Bay Area.”

Other published reports indicate that real estate prices and rents are increasing in the California communities in which we lend. Median condominium resale prices increased 9.3% in San Francisco, 21.2% in the Silicon Valley and 18% in the Greater Los Angeles Area in 2013. During the year, rents in San Francisco increased 11.5% and 10.1% in the Silicon Valley.

Quoting again from the Wells publication: “We remain optimistic about California’s prospects in 2014 and look for job growth to pick up in construction and manufacturing. Overall nonfarm payrolls should rise 2.3% this year, producing a net gain of at least 330,000 new jobs. The Golden State’s unemployment rate is expected to fall by at least a percentage point and average 7.6% for the year.”

#### *Revenue – Interest on loans*

The increase in interest on loans is due to the growth of the secured loan portfolio, an increase in the average interest rate, and collection efforts resulting in all loans at December 31, 2013 except two, being current on their required monthly payments. Early payoffs are resulting in an acceleration of the amortization of the loan administration fees. The average secured loan balance, the stated portfolio average yield and the effective average yield rate for 2013 and 2012, are shown in the table below.

	2013	2012
Daily average secured loan balance <sup>(1)</sup>	\$ 12,648,000	\$ 8,708,000
Interest on loans, net	1,064,581	745,739
Amortization loan administration fees	143,605	67,722
Interest on loans, gross	1,208,186	813,461
Portfolio Average Yield Rate	9.5%	9.3%
Effective Average Yield Rate	9.5%	9.3%

(1) Portfolio Review – See Note 4 (Loans) to the financial statements included in Part II, Item 8 of this report for a detailed presentation on the secured loan portfolio.

#### *Imputed interest on formation loan/interest expense – amortization of discount*

RMC repaid \$93,141 and \$74,121 of the formation loan in 2013 and 2012, respectively, based upon each of the prior year end loan balances. Imputed interest income and the related amortization of discount were recorded based upon the repayment received and the increasing loan balance due to member units sold.

#### *Provision for loan losses/allowance for loan losses*

At December 31, 2013 and 2012, the company had not recorded an allowance for loan losses as no loans were designated as impaired, and all loans had protective equity such that at December 31, 2013 and 2012, collection was deemed probable for amounts owing.

### *Operating Expenses*

Operating expenses as a percent of “Total revenues, net” for the years 2013 and 2012 were 17%:

#### *– Mortgage servicing fees*

The increase in mortgage servicing fees for 2013 and 2012 of \$10,233 and \$4,601, respectively, is consistent with the increases in the average daily secured loan portfolio of \$3,940,000 and \$2,019,000 for 2013 and 2012, respectively, noted above in Revenue – Interest on loans, at the annual rate of 0.25%.

#### *– Asset management fees*

RMC at its sole discretion, waived asset management fees during 2013 and 2012, of \$124,100 and \$98,398, respectively. There is no assurance RMC will waive its right to receive such fees in future periods.

#### *– Costs through RMC*

The increase in costs from RMC was due to reimbursement of qualifying charges (includes but is not limited to, salaries, compensation, travel expenses, fringe benefits, rent, insurance, depreciation and outside services), permitted in the company’s operating agreement, some of which RMC chose not to request reimbursement for in 2012 and 2011, which it may do from time to time in its sole discretion.

#### *– Professional services*

The increase in professional services for 2013 was primarily due to legal fees related to SEC filings which prior to April 2013 had been paid by RMC at its sole discretion, and for which reimbursement could have been requested. The increase in professional services for 2012 was primarily due to additional costs related to enhanced SEC filing requirements starting in 2012 (XBRL services and attorney fees).

### *Net Income/Member Distributions*

During 2013 and 2012 the company’s distributed annualized yield was 6.50%. The company’s cash distributions for members (excluding redemptions) during 2013 and 2012 were \$1,076,395 and \$854,800, respectively. To determine the amount of cash to be distributed in any specific month, the company relies in part on its annual forecast of profits, which takes into account the difference between the forecasted and actual results in the prior year and the requirement to maintain a cash reserve.

In 2013 and 2012, we did not generate enough cash flow from operating activities to fully fund distributions. Therefore, some of those distributions were paid from sources other than cash flow from operating activities. Distributions in excess of our cash flow from operating activities have been funded from cash on hand, which can include proceeds from offerings, borrowing, if any, and loan repayments from borrowers.

Net income recorded during 2013 and 2012 for members was \$875,777 and \$620,351, respectively. The difference between net income and cash distributions was due to the managers’ projections of net income using several variables which included but were not limited to, an average rate of return for the loan portfolio, turnover rate of the loan portfolio, and the availability of quality loans for investment. Provided the company becomes and remains fully invested in quality mortgage loans, this difference should diminish until eliminated.

Net cash provided by (used in) operating activities, net income, and distributions to members, from inception to December 31, 2013, are summarized in the following table:

Quarters ending by Year	Net Cash Provided by (Used In) Operating Activities	Net Income	Distributions To Members	Distributions To Managers	Percent of Distributions Paid From Net Cash Provided by (Used In) Operating Activities	Percent of Net Income Covering Total Distributions
2009						
Sep. 30	\$ —	\$ —	\$ —	\$ —	—%	—%
Dec. 31	(68,128)	14,055	13,914	141	(490)	100
	<u>(68,128)</u>	<u>14,055</u>	<u>13,914</u>	<u>141</u>	<u>(490)</u>	<u>100</u>
2010						
Mar. 31	(27,333)	27,335	28,048	179	(97)	97
Jun. 30	137,616	23,534	38,713	—	355	61
Sep. 30	45,968	56,474	58,414	—	79	97
Dec. 31	54,852	58,341	78,800	1,477	70	73
	<u>211,103</u>	<u>165,684</u>	<u>203,975</u>	<u>1,656</u>	<u>103</u>	<u>81</u>
2011						
Mar. 31	64,741	96,883	112,962	—	57	86
Jun. 30	125,021	116,177	147,873	2,131	85	77
Sep. 30	117,179	151,211	162,965	(2,131)	72	94
Dec. 31	153,654	153,681	176,990	—	87	87
	<u>460,595</u>	<u>517,952</u>	<u>600,790</u>	<u>—</u>	<u>77</u>	<u>86</u>
2012						
Mar. 31	170,559	159,935	191,236	—	89	84
Jun. 30	114,514	103,257	205,097	5,180	56	49
Sep. 30	92,938	139,090	219,263	—	42	63
Dec. 31	190,706	224,335	239,204	—	80	94
	<u>568,717</u>	<u>626,617</u>	<u>854,800</u>	<u>5,180</u>	<u>67</u>	<u>73</u>
2013						
Mar. 31	198,925	223,791	257,733	—	77	87
Jun. 30	224,856	189,221	265,554	—	85	71
Sep. 30	182,068	186,731	270,505	6,266	67	67
Dec. 31	201,779	284,880	282,603	—	71	101
	<u>807,628</u>	<u>884,623</u>	<u>1,076,395</u>	<u>6,266</u>	<u>75</u>	<u>82</u>
Program to date	<u>\$ 1,979,915</u>	<u>\$2,208,931</u>	<u>\$ 2,749,874</u>	<u>\$ 13,243</u>	<u>72%</u>	<u>80%</u>
Cumulative						
Thru 2009	(68,128)	14,055	13,914	141	(490)	100
Thru 2010	142,975	179,739	217,889	1,797	66	82
Thru 2011	603,570	697,691	818,679	1,797	74	85
Thru 2012	1,172,287	1,324,308	1,673,479	6,977	70	79
Thru 2013	1,979,915	2,208,931	2,749,874	13,243	72	80

Fluctuations in net income during certain quarters are due to the following reasons.

- The decline in net income from January-March 2012 to April-June 2012 was due to a decrease in interest on loans, net of approximately \$51,000 related to a decrease of approximately \$1,300,000 in the daily average secured loan balance, and a decrease in the effective yield of 0.24%, plus an increase of approximately \$5,600 in the amortization of loan administrative fees due to greater loan pay offs in the second quarter compared to the first quarter. There were also increases in printing and mailing costs related to the production and mailing of the 2011 10-K of approximately \$3,400, and an increase in California taxes of \$3,300.

- The increase in net income from April-June 2012 to July-September 2012 was due to an increase in interest on loans, net of approximately \$35,000 related to an increase of approximately \$1,300,000 in the daily average secured loan balance, and a decrease of approximately \$5,100 in the amortization of loan administrative fees due to fewer loan pay offs in the third quarter compared to the second quarter.
- The decline in net income from January-March 2013 to April-June 2013 was due to approximately \$15,500 of increased amortization of loan administrative fees caused by early pay off of loans, and an increase in attorney fees of approximately \$19,000 related to SEC filing expenses related to 2012 10-K.
- The increase in net income from July-September 2013 to October-December 2013 was due to an increase in interest on loans, net of approximately \$64,000 related to an increase of approximately \$2,200,000 in the daily average secured loan balance, and a reduction in the amortization of loan administrative fees due to fewer loan pay offs in the fourth quarter compared to the third quarter, and RMC at its sole discretion, reimbursing the company approximately \$25,000 of auditor fees the company had expensed during the third quarter.

### **Loans/Allowance for Loan Losses**

See Note 4 (Loans) to the financial statements included in Part II, Item 8 of this report for detailed presentations on the secured loan portfolio and on the allowance for loan losses, which presentations are incorporated by this reference into this Item 7.

### **Liquidity and Capital Resources**

The company relies upon sales of units, loan payoffs, borrowers' mortgage payments, and, to a lesser degree and, if obtained, a line of credit, or proceeds from real estate owned financing or sales, should the company acquire the collateral securing our loans, for the source of funds for loans. We expect cash will be generated from borrower payments of interest, principal and loan payoffs and the resulting cash flow will exceed company expenses, earnings and unit redemptions. Excess cash flow, if any, will be invested in new loan opportunities, when available, and will be used to reduce a credit line (should the company obtain a credit line) or in other company business. Over the last three to four years, interest rates generally, and mortgage interest rates specifically, have been at historically low levels. If interest rates were to increase substantially, the yield of the company's loans may provide lower yields than other comparable debt-related investments. In such event, unit purchases by prospective members could decline, which would reduce our overall liquidity. Additionally, if, as expected, we make primarily fixed rate loans, if interest rates were to rise, the likely result would be a slower prepayment rate for the company. This could cause a lower degree of liquidity as well as a slowdown in the ability of the company to invest in loans at the then current interest rates. Conversely, in the event interest rates were to decline, we could see both or either of a surge of unit purchases by prospective members, and significant borrower prepayments, which, if we can only obtain the then existing lower rates of interest may cause a dilution of our yield on loans, thereby lowering our overall yield to members. We, to a lesser degree, expect to rely upon a line of credit to fund loans. To date we have not obtained a line of credit. Generally, our loans are anticipated to be fixed rate, whereas a credit line will likely be a variable rate loan. In the event of a significant increase in overall interest rates, a credit line rate of interest could increase to a rate above the average portfolio rate of interest. Should such an event occur, the managers would desire to pay off the line of credit. Retirement of a line of credit would reduce our overall liquidity.

The financial and credit markets faced significant disruptions beginning with the onset of the financial crisis, continuing with the Great Recession, and then with the Euro crisis; and now ongoing with the United States federal deficit; and the modest, grinding economic recovery. Owners and acquirers of performing multi-family properties have benefited from availability of government sponsored lending chiefly through Fannie Mae, Freddie Mac and FHA and some homeowners are restructuring their mortgages through new financing programs aimed at assisting delinquent and underwater borrowers. As the real estate market ended its steep valuation declines and appears to be stabilizing, other real estate lenders have cautiously entered back into real estate lending, albeit to only the most credit worthy borrowers and properties that meet or exceed stringent financial and performance requirements.

The company's loans generally have shorter maturity terms than typical mortgages. As a result, constraints on the ability of our borrowers to refinance their loans on or prior to maturity would have a negative impact on their ability to repay their loans. In the event a borrower is unable to repay a loan at maturity due to their inability to refinance the loan or otherwise, the company may consider extending the maturing loan through workouts or modifications, or foreclosing on the property as the managers deem appropriate based on their evaluation of each individual loan. A slow down or reduction in loan repayments would likely reduce the company's cash flows and restrict the company's ability to invest in new loans or provide earnings and capital distributions.

### *Distribution reinvestment plan*

We have adopted a distribution reinvestment plan pursuant to which members may elect to have a portion or all of the full amount of their distributions from us reinvested in additional units. Earnings allocable to members who participate in the distribution reinvestment plan will be retained by the company for making further loans or for other proper company purposes.

We allow members to redeem their units subject to certain limitations and penalties. Once a member's initial five-year holding period has passed, the managers expect to see an increase in redemptions due to the ability of members to redeem units without penalty.

During 2013 and 2012, the company, after allocation of syndication costs, made the following allocation of profits and distributions of cash both to the members who elected to participate in the distribution reinvestment plan and those that chose not to participate in the distribution reinvestment plan.

	<u>2013</u>	<u>2012</u>
Reinvesting	\$ 533,960	\$ 381,811
Distributing	<u>542,435</u>	<u>472,989</u>
Total	<u>\$ 1,076,395</u>	<u>\$ 854,800</u>
Percent of members' capital, electing distribution	50%	55%

### *Unit redemption program*

Members have no right to withdraw from the company or to obtain the return of their capital account for at least one year from the date of purchase of units, with the limited exception in the event of a death of a member. In order to provide our members with a certain degree of liquidity, we have adopted a unit redemption program. Generally, one year after purchasing your units, a member may redeem all or part of its units, subject to certain significant restrictions and limitations. At that time, we may, subject to the significant restrictions and limitations described below, redeem the units presented for redemption to the extent that we have sufficient cash flow available to us to fund such redemption. The price paid for redeemed units will be based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. For redemptions beginning after one year (but before two years), the redemptions will be calculated as 92% of purchase price or 92% of the capital account balance, whichever is less. Beginning after each of the subsequent years, the redemption percentages will increase to 94%, 96%, 98%, and 100%, respectively, of the purchase or capital account balance, whichever is less. Notwithstanding the foregoing, with respect to any redemption, the number of units that may be redeemed per quarter per individual member will be subject to a maximum of the greater of 100,000 units or 25% of the member's units outstanding. For redemption requests requiring more than one quarter to fully redeem, the percentage discount amount that applies when the redemption payments begin will continue to apply throughout the entire redemption period and will apply to all units covered by such redemption request regardless of when the final redemption payment is made. Under our unit redemption program, in the event of an investor's death, his or her heirs are provided with an option to redeem all or a portion of the investor's units without penalty.

The table below sets forth actual redemptions for the past two years.

	<u>Year ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Capital redemptions-without penalty	\$ 42,140	\$ —
Capital redemptions-subject to penalty	<u>16,050</u>	<u>—</u>
Total	<u>\$ 58,190</u>	<u>\$ —</u>

While the managers have set an estimated value for the units, such determination may not be representative of the ultimate price realized by a member for such units upon sale. No public trading market exists for the units and none is likely to develop. Thus, there is no certainty the units can be sold at a price equal to the stated value of the capital account.

### *Contractual Obligations*

At December 31, 2013 the company had no contractual obligations, except to reimburse RMC for syndication costs. As of December 31, 2013, approximately \$1,966,000 was to be reimbursed to RMC contingent upon future sales of member units. See Note 3 (Managers and Other Related Parties-Syndication Costs) and Note 6 (Commitments and Contingencies, Except Loans) to the financial statements included in Part II, Item 8 of this report for a detailed presentation on commitments and contingencies, which presentation is incorporated by this reference into this Item 7.

### **Item 7A – Quantitative and Qualitative Disclosures About Market Risk (Not included as smaller reporting company)**

### **Item 8 – Financial Statements and Supplementary Data**

#### **A – Financial Statements**

The following financial statements of Redwood Mortgage Investors IX, LLC are included in Item 8:

Report of Independent Registered Public Accounting Firm

Balance Sheets – December 31, 2013 and 2012

Statements of Income for the years ended December 31, 2013 and 2012

Statements of Changes in Members' Capital for the years ended December 31, 2013 and 2012

Statements of Cash Flows for the years ended December 31, 2013 and 2012

Notes to Financial Statements

#### **B – Financial Statement Schedules**

No financial statement schedules are required to be filed because Redwood Mortgage Investors IX, LLC is a smaller reporting company.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members  
Redwood Mortgage Investors IX, LLC  
Redwood City, California

We have audited the accompanying balance sheets of Redwood Mortgage Investors IX, LLC (a Delaware limited liability company) as of December 31, 2013 and 2012 and the related statements of income, changes in members' capital and cash flows for each of the years in the two-year period ended December 31, 2013. These financial statements are the responsibility of Redwood Mortgage Investors IX's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Redwood Mortgage Investors IX, LLC is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Redwood Mortgage Investors IX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Redwood Mortgage Investors IX, LLC as of December 31, 2013 and 2012 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Armanino<sup>LLP</sup>

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**Armanino**<sup>LLP</sup>  
San Ramon, California  
March 31, 2014



**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Balance Sheets**  
**December 31, 2013 and 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,176,630	\$ 1,964,536
Loans, secured by deeds of trust		
Principal	14,698,430	11,891,017
Advances	1,039	1,979
Accrued interest	112,521	82,536
Total loans	<u>14,811,990</u>	<u>11,975,532</u>
Receivable from affiliate	15,037	—
Prepaid expenses	25,000	—
Loan administration fees, net	<u>91,344</u>	<u>76,952</u>
Total assets	<u>\$ 16,120,001</u>	<u>\$ 14,017,020</u>

LIABILITIES, INVESTORS IN APPLICANT STATUS, AND MEMBERS' CAPITAL

Liabilities		
Accounts payable	\$ 275	\$ 9,446
Payable to affiliate	<u>15,650</u>	<u>—</u>
Total liabilities	<u>15,925</u>	<u>9,446</u>
Investors in applicant status	<u>443,350</u>	<u>355,750</u>
Members' capital		
Members' capital, subject to redemption, net of unallocated syndication costs of \$746,946 and \$664,520 for 2013 and 2012, respectively; and net of formation loan of \$972,603 and \$931,406 for 2013 and 2012, respectively	15,642,516	13,637,215
Managers' capital, net of unallocated syndication costs of \$7,545 and \$6,712 for 2013 and 2012, respectively	<u>18,210</u>	<u>14,609</u>
Total members' capital	<u>15,660,726</u>	<u>13,651,824</u>
Total liabilities, investors in applicant status and members' capital	<u>\$ 16,120,001</u>	<u>\$ 14,017,020</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Statements of Income**  
**For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Revenues		
Interest income		
Loans	\$ 1,064,581	\$ 745,739
Imputed interest on formation loan	25,572	20,319
Total interest income	<u>1,090,153</u>	<u>766,058</u>
Interest expense – amortization of discount on formation loan	<u>25,572</u>	<u>20,319</u>
Net interest income	1,064,581	745,739
Late fees	7,031	5,409
Other	150	400
Total revenues, net	<u>1,071,762</u>	<u>751,548</u>
Provision for loan losses	—	—
Operating expenses		
Mortgage servicing fees	31,590	21,357
Asset management fees	—	—
Costs through RMC	119,136	74,464
Professional services	22,237	15,144
Other	14,176	13,966
Total operating expenses	<u>187,139</u>	<u>124,931</u>
Net income	<u>\$ 884,623</u>	<u>\$ 626,617</u>
Net income		
Managers (1%)	\$ 8,846	\$ 6,266
Members (99%)	<u>875,777</u>	<u>620,351</u>
	<u>\$ 884,623</u>	<u>\$ 626,617</u>
Net income per \$1,000 invested by members for entire period	<u>\$ 53</u>	<u>\$ 47</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Statements of Changes in Members' Capital**  
**For the Years Ended December 31, 2013 and 2012**

	Investors In Applicant Status	Members			
		Capital	Unallocated Syndication Costs	Formation Loan	Capital, net
Balances at December 31, 2011	\$ 320,545	\$11,354,642	\$ (498,661)	\$ (741,215)	\$ 10,114,766
Contributions on application	3,766,342	—	—	—	—
Contributions admitted to members' capital	(3,722,968)	3,722,968	—	—	3,722,968
Premiums paid on application by RMC	—	—	—	—	—
Premiums admitted to members' capital	(8,169)	8,169	—	—	8,169
Net income	—	620,351	—	—	620,351
Earnings distributed to members	—	(854,800)	—	—	(854,800)
Earnings distributed used in DRIP	—	381,811	—	—	381,811
Member's redemptions	—	—	—	—	—
Formation loan funding	—	—	—	(264,312)	(264,312)
Formation loan payments received	—	—	—	74,121	74,121
Syndication costs incurred	—	—	(165,859)	—	(165,859)
Early withdrawal penalties	—	—	—	—	—
Balances at December 31, 2012	\$ 355,750	\$15,233,141	\$ (664,520)	\$ (931,406)	\$ 13,637,215
Contributions on application	1,937,802	—	—	—	—
Contributions admitted to members' capital	(1,850,202)	1,850,202	—	—	1,850,202
Premiums paid on application by RMC	3,570	—	—	—	—
Premiums admitted to members' capital	(3,570)	3,570	—	—	3,570
Net income	—	875,777	—	—	875,777
Earnings distributed to members	—	(1,076,395)	—	—	(1,076,395)
Earnings distributed used in DRIP	—	533,960	—	—	533,960
Member's redemptions	—	(58,190)	—	—	(58,190)
Formation loan funding	—	—	—	(134,896)	(134,896)
Formation loan payments received	—	—	—	93,141	93,141
Syndication costs incurred	—	—	(82,827)	—	(82,827)
Early withdrawal penalties	—	—	401	558	959
Balances at December 31, 2013	\$ 443,350	\$17,362,065	\$ (746,946)	\$ (972,603)	\$ 15,642,516

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Statements of Changes in Managers' Capital**  
**For the Years Ended December 31, 2013 and 2012**

	Managers			Total Members' Capital
	Capital	Unallocated Syndication Costs	Capital, net	
Balances at December 31, 2011	\$ 16,503	\$ (5,037)	\$ 11,466	\$10,126,232
Contributions on application	—	—	—	—
Contributions admitted to members' capital	3,732	—	3,732	3,726,700
Premiums paid on application by RMC	—	—	—	—
Premiums admitted to members' capital	—	—	—	8,169
Net income	6,266	—	6,266	626,617
Earnings distributed to members	(5,180)	—	(5,180)	(859,980)
Earnings distributed used in DRIP	—	—	—	381,811
Members' redemptions	—	—	—	—
Formation loan funding	—	—	—	(264,312)
Formation loan payments received	—	—	—	74,121
Syndication costs incurred	—	(1,675)	(1,675)	(167,534)
Early withdrawal penalties	—	—	—	—
	\$ 21,321	\$ (6,712)	\$ 14,609	\$13,651,824
Balances at December 31, 2012	\$ 21,321	\$ (6,712)	\$ 14,609	\$13,651,824
Contributions on application	—	—	—	—
Contributions admitted to members' capital	1,854	—	1,854	1,852,056
Premiums paid on application by RMC	—	—	—	—
Premiums admitted to members' capital	—	—	—	3,570
Net income	8,846	—	8,846	884,623
Earnings distributed to members	(6,266)	—	(6,266)	(1,082,661)
Earnings distributed used in DRIP	—	—	—	533,960
Members' redemptions	—	—	—	(58,190)
Formation loan funding	—	—	—	(134,896)
Formation loan payments received	—	—	—	93,141
Syndication costs incurred	—	(837)	(837)	(83,664)
Early withdrawal penalties	—	4	4	963
	\$ 25,755	\$ (7,545)	\$ 18,210	\$15,660,726
Balances at December 31, 2013	\$ 25,755	\$ (7,545)	\$ 18,210	\$15,660,726

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income	\$ 884,623	\$ 626,617
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Amortization of loan origination fees	143,605	67,722
Interest income, imputed on formation loan	(25,572)	(20,319)
Amortization of discount on formation loan	25,572	20,319
Change in operating assets and liabilities		
Accrued interest	(29,985)	(28,317)
Advances	940	(1,909)
Receivable from affiliate	(15,037)	—
Prepaid expenses	(25,000)	—
Loan administration fees	(157,997)	(104,630)
Accounts payable	(9,171)	9,234
Payable to affiliate	15,650	—
Net cash provided by (used in) operating activities	<u>807,628</u>	<u>568,717</u>
Cash flows from investing activities		
Loans funded	(7,358,376)	(4,266,763)
Loans acquired from affiliates	(8,184,100)	(6,444,700)
Principal collected on loans	<u>12,735,063</u>	<u>7,073,774</u>
Net cash provided by (used in) investing activities	<u>(2,807,413)</u>	<u>(3,637,689)</u>
Cash flows from financing activities		
Contributions by member applicants	1,943,226	3,770,074
Members' withdrawals	(606,891)	(478,169)
Syndication costs paid, net	(83,259)	(167,534)
Formation loan, funding	(134,896)	(264,312)
Formation loan, collections	93,699	74,121
Net cash provided by (used in) financing activities	<u>1,211,879</u>	<u>2,934,180</u>
Net increase (decrease) in cash and cash equivalents	<u>(787,906)</u>	<u>(134,792)</u>
Cash and cash equivalents at beginning of year	<u>1,964,536</u>	<u>2,099,328</u>
Cash and cash equivalents at end of year	<u>\$ 1,176,630</u>	<u>\$ 1,964,536</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**NOTE 1 – ORGANIZATION AND GENERAL**

Redwood Mortgage Investors IX, LLC (the “company”) is a Delaware limited liability company formed in October 2008 to make loans secured primarily by first and second deeds of trust on California real estate. Redwood Mortgage Corp. (“RMC”) and its wholly-owned subsidiary Gymno LLC (“Gymno”) are the managers of the company. The address of the company and the managers is 1825 South Grant Street, Suite 250, San Mateo, CA 94402. The mortgage loans the company invests in are arranged and are generally serviced by RMC. Michael Burwell is the president and majority shareholder (through his holdings and beneficial interests in certain trusts) of RMC.

In June 2012, the company filed with the SEC a second registration statement on Form S-11, which was declared effective in December 2012 that in substance extends the offering of member units past the sunset date of the registration of the initial public offering, which was filed in November 2008. The 2012 registration offers up to 150,000,000 units of its membership interests to the public and 37,500,000 units to its members pursuant to its distribution reinvestment plan.

Offering proceeds are released to the company and applied to investments in mortgage loans and the payment or reimbursement of organization and offering expenses. The amount of loans the company funds or acquires will depend upon the number of units sold in the public offering and the resulting amount of the net proceeds available for investment in loans.

The rights, duties and powers of the managers and members of the company are governed by the company’s operating agreement and the Delaware Limited Liability Company Act.

The managers are solely responsible for managing the business and affairs of the company, subject to the voting rights of the members on specified matters. Any one of the managers acting alone has the power and authority to act for and bind the company.

Members representing a majority of the outstanding units may, without the concurrence of the managers, vote to: (i) dissolve the company, (ii) amend the operating agreement, subject to certain limitations, (iii) approve or disapprove the sale of all or substantially all of the assets of the company or (iv) remove or replace one or all of the managers. The description of the company's operating agreement contained in these financial statements provides only general information.

A majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

Profits and losses are allocated among the members according to their respective capital accounts monthly after 1% of the profits and losses are allocated to the managers. The allocation to the managers (combined) may not exceed 1%. The monthly results are subject to subsequent adjustment as a result of quarterly and year-end accounting and reporting. Members may elect to have all or a portion of their monthly distributions reinvested in additional units, subject to the availability of units under the distribution reinvestment plan. Members may withdraw from the distribution reinvestment plan with written notice. No provision for federal and state income taxes (other than an \$800 state minimum tax) is made in the financial statements since income taxes are the obligation of the members if and when income taxes apply. Investors should not expect the company to provide tax benefits of the type commonly associated with limited liability company tax shelter investments.

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**NOTE 1 – ORGANIZATION AND GENERAL** (continued)

There are substantial restrictions on transferability of units and accordingly an investment in the company is non-liquid. Members have no right to withdraw from the company or to obtain the return of their capital account for at least one year from the date of purchase of units. In order to provide a certain degree of liquidity, we have adopted a unit redemption program, whereby after the one year period, a member may redeem all or part of their units, subject to certain limitations.

Members should refer to the company's operating agreement for a more complete description of the provisions.

*Distribution reinvestment plan*

Members may elect to have all or a portion of their monthly distributions reinvested in additional units, subject to the availability of units under the distribution reinvestment plan. Members may withdraw from the distribution reinvestment plan with written notice.

*Liquidity and unit redemption program*

There are substantial restrictions on transferability of company units and accordingly an investment in the company is non-liquid. There is no public or secondary market for the units and none is expected to develop. Members have no right to withdraw from the company or to obtain the return of their capital account for at least one year from the date of purchase of units.

In order to provide a certain degree of liquidity, after the one year period, a member may redeem all or part of their units, subject to certain limitations. The price paid for redeemed units will be based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. Redemption value will be calculated as follows:

- For redemptions beginning after one year (but before two years) 92% of purchase price or 92% of the capital account balance, whichever is less;
- For redemptions beginning after two years (but before three years) 94% of purchase price or 94% of the capital account balance, whichever is less;
- For redemptions beginning after three years (but before four years) 96% of purchase price or 96% of the capital account balance, whichever is less;
- For redemptions beginning after four years (but before five years) 98% of purchase price or 98% of the capital account balance, whichever is less;
- For redemptions beginning after five years, 100% of purchase price or 100% of the capital account balance, whichever is less.

The company will attempt to redeem units quarterly, subject to certain limitations.

Notwithstanding the foregoing, with respect to any redemption, the number of units that may be redeemed per quarter per individual member will be subject to a maximum of the greater of 100,000 units or 25% of the member's units outstanding. For redemption requests requiring more than one quarter to fully redeem, the percentage discount amount that applies when the redemption payments begin will continue to apply throughout the entire redemption period and will apply to all units covered by such redemption request regardless of when the final redemption payment is made.

The company will not establish a reserve from which to fund redemptions. The company's capacity to redeem member units upon request is restricted to the availability of company cash flow. The company will not, in any calendar year, redeem more than 5% of the weighted average number of units outstanding during the twelve month period immediately prior to the date of the redemption.

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**NOTE 1 – ORGANIZATION AND GENERAL** (continued)

*Contributed capital*

The managers – between them - are required to contribute to capital 1/10 of 1% of the aggregate capital accounts of the members.

*Managers' interest*

If a manager is removed, withdrawn or is terminated, the company will pay to the manager all amounts then accrued and owing to the manager. Additionally, the company will terminate the manager's interest in the company's profits, losses, distributions and capital by payment of an amount in cash equal to the then present fair value of such interest.

*Syndication costs*

The company bears its own syndication costs, other than certain sales commissions, including legal and accounting expenses, printing costs, selling expenses and filing fees. Syndication costs are charged against members' capital and will be allocated to individual members consistent with the company's operating agreement.

*Formation loans*

Sales commissions are not paid directly by the company out of the offering proceeds. Instead, the company loans to RMC, one of the managers, amounts to pay all sales commissions and amounts payable in connection with unsolicited orders. This loan is unsecured and non-interest bearing and is referred to as the "formation loan." During the offering period, RMC will repay annually, one tenth of the principal balance of the formation loan as of December 31 of the prior year. Upon completion of the offering, the formation loan will be amortized over 10 years and repaid in 10 equal annual installments. The formation loan has been deducted from members' capital in the balance sheets. As amounts are received from RMC as payments on the loan, the deduction from capital will be reduced. Interest has been imputed at the market rate of interest in effect at the end of each quarter for the new additions to the loan. If the managers are removed and RMC is no longer receiving payments for services rendered, the formation loan is forgiven.

*Income taxes and Members' capital – tax basis*

Income taxes – federal and state – are the obligation of the members, if and when taxes apply, other than for the minimum annual California franchise tax paid by the company.

*Members' capital reconciliation*

A reconciliation of members' capital in the financial statements to the tax basis of company capital is presented in the following table at December 31.

	<u>2013</u>	<u>2012</u>
Members' capital per financial statements	\$ 15,660,726	\$ 13,651,824
Unallocated syndication costs	754,491	671,232
Allowance for loan losses	—	—
Formation loans receivable	<u>972,603</u>	<u>931,406</u>
Members' capital tax basis	<u>\$ 17,387,820</u>	<u>\$ 15,254,462</u>

*Term of the Company*

The company is scheduled to terminate in 2028, unless sooner terminated as provided in the operating agreement.



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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Management estimates*

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 held for sale and held as investment, at acquisition and subsequently. Actual results could differ significantly from these estimates.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the company 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.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the company’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 company’s own data.

Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, “protective equity” is the arithmetic difference between the fair value of the collateral, net of any senior liens, and the loan balance, where “loan balance” is the sum of the unpaid principal, advances and the recorded interest thereon. This computation is done for each loan (whether impaired or performing), and while loans secured by collateral of similar property type are grouped, there is enough distinction and variation in the collateral that a loan-by-loan, collateral-by-collateral analysis is appropriate.

The fair value of the collateral is determined by exercise of judgment based on management’s experience informed by appraisals (by licensed appraisers), brokers’ opinion of values, and publicly available information on in-market transactions.

Appraisals of commercial real property generally present three approaches to estimating value: 1) market comparables or sales approach; 2) cost to replace and 3) capitalized cash flows or investment approach. These approaches may or may not result in a common, single value. The market-comparables approach may yield several different values depending on certain basic assumptions, such as, determining highest and best use (which may or may not be the current use); determining the condition (e.g. as-is, when-completed, or for land when-entitled); and determining the unit of value (e.g. as a series of individual unit sales or as a bulk disposition). In some prior years, as has been previously noted, the appraisal process, was further complicated by the low transaction volumes of which a very high percentage were considered to distressed sales, and other poor market conditions.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Management estimates (continued)*

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.

Since inception through December 31, 2013, the company has distributed cash of \$2,749,874 (which includes \$1,170,365 reinvested in DRIP units) to the members, based upon the managers' projections of net income using several variables which included but were not limited to, an average rate of return for the loan portfolio, turnover rate of the loan portfolio, and the availability of quality loans for investment. The company's net income, applicable to members, during this period has been \$2,182,994. In 2014, provided the company becomes and remains fully invested in quality mortgage loans, this difference of \$566,880 should diminish. In 2013, cash distributed to members was \$1,076,395 and net income attributed to members was \$875,777.

*Cash and cash equivalents*

The company considers all highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents. Periodically, company cash balances in banks exceed federally insured limits.

*Loans and interest income*

Loans generally are stated at the unpaid principal balance (principal). Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the company'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.

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

If events and or changes in circumstances cause management to have serious doubts about the collectability of the payments of interest and principal in accordance with the loan agreement, a loan may be designated as impaired. Impaired loans are included in management's periodic analysis of recoverability. Any subsequent payments on impaired loans are applied to late fees, then to the accrued interest, then to advances, and lastly to principal.

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

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Loans and interest income (continued)*

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

Loan administration fees are capitalized and amortized over the life of the loan on a straight-line method which approximates the effective interest method.

*Allowance for loan losses*

Loans and the related accrued interest and advances are analyzed on a periodic basis for ultimate recoverability. Delinquencies are identified and followed as part of the loan system. Delinquencies are determined based upon contractual terms. For impaired loans, a provision is made for loan losses to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral values, such that the net carrying amount (principal, plus advances, plus accrued interest less the specific allowance) is reduced to the present value of future cash flows discounted at the loan's effective interest rate, or, if a loan is collateral dependent, to 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 if planned disposition of the asset securing a loan is by way of sale.

The fair value estimates are derived from information available in the real estate markets including similar property, and may require the experience and judgment of third parties such as real estate appraisers and brokers.

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

Based on its knowledge of the borrowers and their historical (and expected) performance, and the exposure to loss, management estimates an appropriate reserve by property type for probable credit losses in the portfolio. Because the company is an asset-based lender, except as to owner-occupied residences, and because specific regions, neighborhoods and even properties within the same neighborhoods, vary significantly as to real estate values and transaction activity, general market trends, which may be indicative of a change in the risk of a loss, and a borrower's credit worthiness are secondary to the condition of the property, the property type and the neighborhood/region in which the property is located, and do not enter substantially into the determination of the amount of the non-specific (*i.e.* general) reserves.

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

*Net income per \$1,000 invested*

Amounts reflected in the statements of income as net income per \$1,000 invested by members for the entire period are amounts allocated to members who had their investment throughout the period. Individual income is allocated each month based on the members' pro rata share of members' capital. Because the net income (loss) percentage may vary from month to month, amounts per \$1,000 will vary for those individuals who made or withdrew investments during the period, or select other options.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Recently issued accounting pronouncements*

There are no recently effective or issued but not yet effective accounting pronouncements which would have a material effect on the company's reported financial position or results of operations.

**NOTE 3 – MANAGERS AND OTHER RELATED PARTIES**

The managers are entitled to one percent of the profits and losses, which amounted to \$8,846 and \$6,266 for the years ended December 31, 2013 and 2012, respectively.

*Formation loan*

Formation loan transactions are presented in the following table for the years ended December 31.

	<u>2013</u>	<u>2012</u>
Member contributions to date	\$ 17,209,819	\$ 15,272,017
Balance, January 1	\$ 931,406	\$ 741,215
Formation Loan made	134,896	264,312
Unamortized discount on imputed interest	4,724	(21,261)
Formation Loan made, net	1,071,026	984,266
Repayments received from RMC	(93,141)	(74,121)
Early withdrawal penalties applied	(558)	—
Formation loan, net	977,327	910,145
Unamortized discount on imputed interest	(4,724)	21,261
Balance, December 31	\$ 972,603	\$ 931,406
Percent loaned to date	7.00%	7.00%

The formation loan has been deducted from members' capital in the balance sheets. As amounts are collected from RMC, the deduction from capital will be reduced. Interest has been imputed at the market rate of interest in effect at the end of each quarter for the new additions to the loan. If the managers are removed and RMC is no longer receiving payments for services rendered, the formation loan is forgiven.

The future minimum payments on the formation loan are presented in the following table (\$ in thousands).

2014	\$ 97,260
2015	97,260
2016	97,260
2017	97,260
2018	97,260
Thereafter	486,303
Total	<u>\$ 972,603</u>

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**NOTE 3 – MANAGERS AND OTHER RELATED PARTIES** (continued)

*Formation loan (continued)*

RMC is required to repay the formation loan. During the offering period, RMC will repay annually, one tenth of the principal balance of the formation loan as of December 31 of the prior year. Upon completion of the offering, the formation loan will be amortized over 10 years and repaid in 10 equal annual installments.

The following commissions and fees are paid by the borrowers.

*Brokerage commissions, loan originations*

For fees in connection with the review, selection, evaluation, negotiation and extension of loans, RMC may collect a loan brokerage commission that is expected to range from approximately 2% to 5% of the principal amount of each loan made during the year. Total loan brokerage commissions are limited to an amount not to exceed 4% of the total company assets per year. The loan brokerage commissions are paid by the borrowers, and thus, are not an expense of the company. In 2013 and 2012, loan brokerage commissions paid by the borrowers were \$151,397 and \$168,435, respectively.

*Other fees*

RMC or Gymno will receive fees for processing, notary, document preparation, credit investigation, reconveyance, and other mortgage related fees. The amounts received are customary for comparable services in the geographical area where the property securing the loan is located, payable solely by the borrower and not by the company. In 2013 and 2012, these fees totaled \$28,224 and \$12,177, respectively.

The following fees are paid by the company.

*Loan administrative fees*

RMC will receive a loan administrative fee in an amount up to 1% of the principal amount of each new loan originated or acquired on the company's behalf by RMC for services rendered in connection with the selection and underwriting of potential loans. Such fees are payable by the company upon the closing of each loan. In 2013 and 2012, the loan administration fees paid by the company to RMC were \$157,997 and \$104,630, respectively.

*Mortgage servicing fees*

RMC earns mortgage servicing fees of up to one-quarter of one percent (0.25%) annually of the unpaid principal of the loan portfolio or such lesser amount as is reasonable and customary in the geographic area where the property securing the mortgage is located from the company. RMC is entitled to receive these fees regardless of whether specific mortgage payments are collected. 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 company. RMC, in its sole discretion, may elect to accept less than the maximum amount of the mortgage servicing fee to enhance the earnings of the company. An increase or decrease in this fee within the limits set by the operating agreement directly impacts the yield to the members. Mortgage servicing fees incurred and paid were \$31,590 and \$21,357 for the years ended December 31, 2013 and 2012, respectively. RMC did not waive any mortgage servicing fees during 2013 and 2012.

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**NOTE 3 – MANAGERS AND OTHER RELATED PARTIES** (continued)

*Asset management fees*

The managers are entitled to receive a monthly asset management fee for managing the company's portfolio and operations in an amount up to three-quarters of one percent (0.75%) annually of the portion of the capital originally committed to investment in mortgages, not including leverage, and including up to two percent of working capital reserves. This amount will be recomputed annually after the second full year of operations by subtracting from the then fair value of the company's loans plus working capital reserves, an amount equal to the outstanding debt.

The managers, in their sole discretion, may elect to accept less than the maximum amount of the asset management fee to enhance the earnings of the company. For years ended December 31, 2013 and 2012, the managers have waived the entire asset management fee due them. An increase or decrease in this fee within the limits set by the operating agreement directly impacts the yield to the members. There is no assurance the managers will decrease or waive these fees in the future. The decision to waive fees and the amount, if any, to be waived, is made by the managers in their sole discretion.

Asset management fees paid to the managers are presented in the following table for the years ended December 31.

	2013	2012
Maximum chargeable by the managers	\$ 124,100	\$ 98,398
Waived by the managers	(124,100)	(98,398)
Charged	<u>\$ —</u>	<u>\$ —</u>

*Costs through RMC*

RMC, a manager, is reimbursed by the company for operating expenses incurred on behalf of the company, including without limitation, accounting and audit fees, legal fees and expenses, postage and preparation of reports to members, and out-of-pocket general and administration expenses. The decision to request reimbursement of any qualifying charges is made by RMC in its sole discretion. Operating expenses charged to the company were \$119,136 and \$74,464, for the years ended December 31, 2013 and 2012, respectively. RMC did not waive its right to request reimbursement of any qualifying charges during 2013 and 2012.

*Syndication costs*

Syndications costs (all expenses incurred in connection with the start-up of the company or ongoing offering of the units, including legal and accounting fees, printing, mailing, distribution costs, filing fees, reimbursements to participating broker-dealers for due diligence expenses, reimbursements for training and education meetings for associated persons of a FINRA member, marketing reallowances of up to 1% of gross offering proceeds (sale of units, excluding DRIP and premium units)) up to 4.5% of the gross proceeds, are reimbursed to RMC until RMC is repaid in full, and then the company will pay any additional costs directly. The syndication costs are substantially front-ended, and RMC is reimbursed for these expenses quarterly up to 4.5% of the cumulative-to-date gross offering proceeds.

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**NOTE 3 – MANAGERS AND OTHER RELATED PARTIES** (continued)

*Syndication costs (continued)*

Syndication costs are summarized in the following table for the years ended December 31.

	<u>2013</u>	<u>2012</u>
Balance, January 1	\$ 671,232	\$ 503,698
Costs reimbursed to RMC <sup>(1)</sup>	83,664	167,534
Costs paid by the company	—	—
Early withdrawal penalties applied <sup>(3)</sup>	(405)	(—)
Allocated to date <sup>(2)</sup>	<u>—</u>	<u>—</u>
Balance, December 31	<u>\$ 754,491</u>	<u>\$ 671,232</u>
Gross offering proceeds	\$ 16,766,469	\$ 14,916,267
Percent reimbursed to RMC	4.50%	4.50%

- (1) As of December 31, 2013, RMC had incurred approximately \$2,721,000 of syndication costs for the company and approximately \$1,966,000 remains to be reimbursed by the company to RMC. As of December 31, 2012, RMC had incurred approximately \$2,318,000 of syndication costs for the company and approximately \$1,675,000 remained to be reimbursed to RMC.
- (2) Allocation of the syndication costs to the individual investors' capital accounts begins after the company's fifth full fiscal year, in accordance with the terms of the company's operating agreement and IRS Code Section 709. See also the Accounting Policy footnote - Syndication costs.
- (3) Redemption penalties collected are applied to the next installment of principal due under the formation loan and to reduce the amount owed RMC for syndication costs. The amounts credited will be determined by the ratio between the initial amount of the formation loan and the total amount of offering costs incurred by the company.

**NOTE 4 – LOANS**

The company generally funds loans with a fixed interest rate and a five-year term. As of December 31, 2013, 94% of the company's loans (representing 95% of the aggregate principal of the company's loan portfolio) have a five year term or less from loan inception. The remaining loans have terms longer than five years. As of December 31, 2013, 23 loans outstanding (representing 57% of the aggregate principal balance of the company's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30 year amortization, with the remaining principal balance due at maturity.

*Secured loans unpaid principal balance (principal)*

Secured loan transactions are summarized in the following table for the years ended December 31.

	<u>2013</u>	<u>2012</u>
Principal, January 1	\$ 11,891,017	\$ 8,253,328
Loans funded	7,358,376	4,266,763
Loans acquired from affiliates	8,184,100	6,444,700
Payments received	<u>(12,735,063)</u>	<u>(7,073,774)</u>
Principal, December 31	<u>\$ 14,698,430</u>	<u>\$ 11,891,017</u>

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**NOTE 4 – LOANS** (continued)

*Loan characteristics*

Secured loans had the characteristics presented in the following table.

	<u>2013</u>	<u>2012</u>
Number of secured loans	51	41
Secured loans – principal	\$ 14,698,430	\$ 11,891,017
Secured loans – lowest interest rate (fixed)	7.25%	7.75%
Secured loans – highest interest rate (fixed)	11.00%	11.00%
Average secured loan – principal	\$ 288,205	\$ 290,025
Average principal as percent of total principal	1.96%	2.44%
Average principal as percent of members' capital	1.84%	2.12%
Average principal as percent of total assets	1.79%	2.07%
Largest secured loan – principal	\$ 1,200,000	\$ 1,200,000
Largest principal as percent of total principal	8.16%	10.09%
Largest principal as percent of members' capital	7.66%	8.79%
Largest principal as percent of total assets	7.44%	8.56%
Smallest secured loan – principal	\$ 68,276	\$ 74,857
Smallest principal as percent of total principal	0.46%	0.63%
Smallest principal as percent of members' capital	0.44%	0.55%
Smallest principal as percent of total assets	0.42%	0.53%
Number of counties where security is located (all California)	13	13
Largest percentage of principal in one county	33.18%	34.66%
Number of secured loans in foreclosure	—	—
Secured loans in foreclosure – principal	—	—
Number of secured loans with an interest reserve	—	—
Interest reserves	\$ —	\$ —

As of December 31, 2013, the company's largest loan in the principal of \$1,200,000 represents 8.16% of outstanding secured loans and 7.44% of company assets. The loan is secured by a residential property located in Santa Cruz, California, bears an interest rate of 8.75% and matures on August 1, 2015.

Larger loans sometimes increase above 10% of the secured loan portfolio or company assets as these amounts decrease due to member withdrawals and loan payoffs and due to restructuring of existing loans.



**REDWOOD MORTGAGE INVESTORS IX, LLC**  
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**NOTE 4 – LOANS (continued)**

*Distribution by California counties*

The distribution of secured loans outstanding by California counties is presented in the following table at December 31.

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Unpaid Principal Balance</u>	<u>Percent</u>	<u>Unpaid Principal Balance</u>	<u>Percent</u>
San Francisco	\$ 2,081,417	14.16%	\$ 2,104,019	17.69%
San Francisco Bay Area				
Sonoma	68,276	0.46	174,689	1.47
Alameda	1,328,638	9.04	1,199,567	10.09
Santa Clara	1,298,471	8.83	1,070,463	9.00
Contra Costa	735,324	5.00	428,693	3.61
Marin	—	—	244,302	2.06
San Mateo	1,288,689	8.77	418,371	3.52
	<u>4,719,398</u>	<u>32.10</u>	<u>3,536,085</u>	<u>29.75</u>
Other Northern California				
El Dorado	433,650	2.95	—	—
Nevada	—	—	340,000	2.86
Monterey	182,405	1.24	183,784	1.55
Santa Cruz	1,200,000	8.16	1,200,000	10.09
	<u>1,816,055</u>	<u>12.35</u>	<u>1,723,784</u>	<u>14.50</u>
Northern California Total	<u>8,616,870</u>	<u>58.61</u>	<u>7,363,888</u>	<u>61.94</u>
Southern California				
Los Angeles	4,875,928	33.18	4,121,933	34.66
San Diego	196,663	1.34	207,338	1.74
San Bernardino	137,800	0.94	—	—
Orange	871,169	5.93	197,858	1.66
	<u>6,081,560</u>	<u>41.39</u>	<u>4,527,129</u>	<u>38.06</u>
Total Secured Loans	<u>\$ 14,698,430</u>	<u>100.00%</u>	<u>\$ 11,891,017</u>	<u>100.00%</u>

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**NOTE 4 – LOANS (continued)**

*Commitments/loan disbursements/construction and rehabilitation loans*

The company may make construction loans that are not fully disbursed at loan inception. Construction loans are determined by the managers to be those loans made to borrowers for the construction of entirely new structures or dwellings, whether residential, commercial or multi-family properties. The company will have approved the borrowers up to a maximum loan balance; however, disbursements will be made periodically as phases of the construction are completed or at such other times as the loan documents may require, and will be funded from available cash balances and future cash receipts. The company does not maintain a separate cash reserve to fund undisbursed construction loan obligations. Upon project completion, construction loans are reclassified as permanent loans. Funding of construction loans is limited to 10% of the loan portfolio. As of December 31, 2013, the company had no construction loans outstanding.

The company may also make rehabilitation loans. A rehabilitation loan will be approved up to a maximum principal balance and, at loan inception, will be either fully or partially disbursed. If fully disbursed, a rehabilitation escrow account is established and advanced periodically as phases of the rehabilitation are completed or at such other times as the loan documents may require. If not fully disbursed, the rehabilitation loan will be funded from available cash balances and future cash receipts. The company does not maintain a separate cash reserve to fund undisbursed rehabilitation loan obligations. At December 31, 2013, the company had one rehabilitation loan which was acquired with an outstanding principal balance of \$260,000 and which had been arranged for acquisition by RMC. Rehabilitation loan proceeds are generally used to acquire and remodel single family homes for future sale or rental. As of December 31, 2013, the company had no obligation to fund any additional amounts on the rehabilitation loan. Upon project completion, rehabilitation loans are reclassified as permanent loans. Funding of rehabilitation loans is limited to 15% of the loan portfolio.

RMC arranged for the company to purchase loans from an unaffiliated lender who is the servicer of the loans. The unpaid balance of these loans at December 31, 2013 was \$3,099,510. The loans generally have the following characteristics:

- Secured by first deeds of trust on single-family, real property located in California;
- Monthly payments of interest only at fixed rates;
- Terms of 5 to 11 months, interest rate, LTV and collateral are comparable to loans arranged by RMC.

*Lien position*

Secured loans had the lien positions presented in the following table.

	2013			2012		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	35	\$ 10,695,440	73%	30	\$ 8,241,074	69%
Second trust deeds	16	4,002,990	27	11	3,649,943	31
Total secured loans	51	14,698,430	100%	41	11,891,017	100%
Liens due other lenders at loan closing		9,783,711			7,182,065	
Total debt		<u>\$ 24,482,141</u>			<u>\$ 19,073,082</u>	
Appraised property value at loan closing		<u>\$ 43,596,000</u>			<u>\$ 37,369,615</u>	
Percent of total debt to appraised values (LTV) at loan closing <sup>(1)</sup>		<u>56.16%</u>			<u>51.04%</u>	

(1) Based on appraised values and liens due other lenders at loan closing. The loan to value computation does not take into account subsequent increases or decreases in security property values following the loan closing nor does it include decreases or increases of the amount owing on senior liens to other lenders by payments or interest accruals, if any.

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
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**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**NOTE 4 – LOANS** (continued)

*Property type*

Secured loans summarized by property type are presented in the following table.

	2013			2012		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family	46	\$ 13,300,082	91%	39	\$ 10,820,554	91%
Multi-family	2	349,877	2	1	670,463	6
Commercial	3	1,048,471	7	1	400,000	3
Total secured loans	<u>51</u>	<u>\$ 14,698,430</u>	<u>100%</u>	<u>41</u>	<u>\$ 11,891,017</u>	<u>100%</u>

*Scheduled maturities*

Secured loans are scheduled to mature as presented in the following table.

Scheduled maturities at December 31, 2013	Loans	Principal	Percent
2014	17	\$ 5,396,060	37%
2015	5	2,363,375	16
2016	7	1,731,495	12
2017	6	1,612,797	11
2018	13	2,768,903	19
Thereafter	3	825,800	5
Total secured loans	<u>51</u>	<u>\$ 14,698,430</u>	<u>100%</u>

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

The company renewed three and one loan during 2013 and 2012, respectively, with aggregate principal balances of \$1,515,723 and \$690,672, respectively.

*Delinquency*

Secured loans summarized by payment delinquency are presented in the following table.

	2013	2012
Past Due		
30-89 days	\$ 596,967	\$ 327,702
90-179 days	—	199,910
180 or more days	—	—
Total past due	596,967	527,612
Current	14,101,463	11,363,405
Total secured loans	<u>\$ 14,698,430</u>	<u>\$ 11,891,017</u>

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(A Delaware Limited Liability Company)**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**NOTE 4 – LOANS (continued)**

*Modifications and troubled debt restructurings*

There were no loan modifications made during 2013. At December 31, 2012, one performing interest-only loan was modified to extend its maturity date from July 1, 2012 to July 1, 2013 at substantially the same terms except the borrower repaid \$300,000 of the original principal balance and principal and interest payments will be made on a 25 year amortization until the new maturity date. The company has not modified a loan that qualified for treatment as a troubled debt restructuring.

*Loans in non-accrual status*

At December 31, 2013 and 2012, there were no loans designated in non-accrual status.

*Impaired loans/allowance for loan losses*

At December 31, 2013 and 2012, the company had not designated any loans as impaired and had not recorded an allowance for loan losses as all loans were deemed to have protective equity (i.e., low loan-to-value ratio) such that collection is reasonably assured for amounts owing.

**NOTE 5 – FAIR VALUE**

The company does not record its loans at fair value on a recurring basis.

Loans designated impaired (i.e. that are collateral dependent) are measured at fair value on a non-recurring basis. The company did not have any loans designated impaired at December 31, 2013 or 2012.

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

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
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**Notes to Financial Statements**  
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**NOTE 5 – FAIR VALUE** (continued)

The following methods are used depending upon the property type of the collateral.

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

Where sufficient, applicable sale comps are not available or deemed unreliable, management will seek additional information in the form of broker’s 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 units, composition of units by the number of bedrooms and bathrooms, square footage,, condition, amenities, and year built.

Where adequate sale comps are not available, management will seek additional information in the form of broker’s opinions of value or appraisals.

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, 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 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.

*Commercial buildings* – Where commercial rental income information is available, management’s preferred method for determining the fair value of its commercial real estate assets is the direct capitalization method. In order to determine market cap rates for properties of the same class and location as the subject, management refers to reputable third-party sources such as the CBRE Cap Rate Survey. Management then applies the appropriate cap rate to the subject’s most recent available annual net operating income to determine the property’s value as an income-producing commercial rental project. When 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

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

*Commercial land* – Commercial land has many variations/uses, thus requiring management to employ a variety of methods depending upon the unique characteristics of the subject land. Market in the form of a sale comparison analysis (where adequate sale comps are available), broker’s opinion of value, or appraisal are used.

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
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**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**NOTE 6 – COMMITMENTS AND CONTINGENCIES, OTHER THAN LOAN COMMITMENTS AND SYNDICATION COSTS**

*Legal proceedings*

In the normal course of business, the company may become involved in various legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc., to enforce the provisions of the deeds of trust, collect the debt owed under the promissory notes, or to protect, or recoup its investment from the real property secured by the deeds of trust and to resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions typically would be of any material importance. As of December 31, 2013, the company is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

*Commitments*

There were no commitments other than those disclosed in Note 4.

**NOTE 7 – SUBSEQUENT EVENTS**

None

## **Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in or disagreements with the company's independent registered public accounting firm during the years ended December 31, 2013 and 2012.

### **Item 9A – Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

The company carried out an evaluation, under the supervision and with the participation of the managers of the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the managers concluded the company's disclosure controls and procedures were effective.

#### **Manager's Report on Internal Control over Financial Reporting**

The managers are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f). The internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The managers and their respective managements conducted an evaluation of the effectiveness of the company's internal control over financial reporting based on the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, the managers concluded the manager's internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of the manager's independent registered public accounting firm regarding internal control over financial reporting because current law and SEC rules require such attestation reports only for large accelerated filers and accelerated filers (and the company, as a smaller reporting company, is not subject to that requirement).

#### **Changes to Internal Control Over Financial Reporting**

There have not been any changes in the manager's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the manager's internal control over financial reporting.

### **Item 9B – Other Information**

None

## Part III

### Item 10 – Directors, Executive Officers and Corporate Governance

The company has no directors or executive officers. The managers of the company are RMC and its wholly-owned subsidiary, Gymno LLC. The managers are solely responsible for managing the business and affairs of the company, subject to the rights of the members to vote on specified matters. Any one of the managers acting alone has the power and authority to act for and bind the company. A majority of the outstanding member interests may, without the consent of the managers, vote to: (i) terminate the company, (ii) amend the operating agreement, (iii) approve or disapprove the sale of all or substantially all of the assets of the company and (iv) remove or replace one or all of the managers. The approval of a majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

#### **The Managers**

**Redwood Mortgage Corp.** Redwood Mortgage Corp. is a licensed real estate broker incorporated in 1978 under the laws of the State of California, and is engaged primarily in the business of arranging and servicing mortgage loans. Redwood Mortgage Corp. will act as the loan broker and servicing agent in connection with loans, as it has done on behalf of several other limited partnerships formed by the managers.

**Gymno LLC.** Gymno LLC is a California limited liability company formed in 1986 for the purpose of acting as a Manager of this company and general partner of other limited partnerships formed by the individual managers.

#### **Affiliates of Our Managers**

**Michael R. Burwell.** Michael R. Burwell, age 57, President, Director, Chief Financial Officer, Redwood Mortgage Corp. (1979-present); Director, Secretary and Treasurer A & B Financial Services, Inc. (1980-present); President, Director, Chief Financial Officer and Secretary of Gymno Corporation (1986-September 2011) and now, the manager of Gymno LLC, the entity into which Gymno Corporation was converted (September 2011-present); President, Director, Secretary and Treasurer of The Redwood Group, Ltd. (1979-September 2011); past member of Board of Trustees and Treasurer, Mortgage Brokers Institute (1984-1986). Mr. Burwell is licensed as a real estate sales person. Mr. Burwell was a general partner of each of the RMI, RMI II and RMI III. Mr. Burwell is a general partner of each of RMI IV, RMI V, RMI VI, RMI VII and RMI VIII. Mr. Burwell attended the University of California, at Davis from 1975-1979.

**Diana B. Mandarino.** Diana B. Mandarino, age 68, Director and Executive Vice President of Redwood Mortgage Corp. (2001-present); Director of Sales and Marketing, Redwood Mortgage Investors (1995-present); Sr. Vice President, Rancon Securities Corp. (1982-1995); Marketing and Sales Assistant, Belmont Reid & Co. Investment Group, (1977-1982); Member and past President of Financial Planning Association, Silicon Valley Chapter. Ms. Mandarino attended Foothill Community College from 1965-1967.

**Lorene A. Randich.** Lorene A. Randich, age 57, joined Redwood Mortgage Corp. in 1991, and has served as a Director since November 2011. Ms. Randich has held the real estate broker's license of record for Redwood Mortgage Corp. since November 2011. Since 2001, she has been Vice President of Loan Production and Underwriting. Ms. Randich has been a licensed real estate broker since 1996. She is a member of the National Association of Realtors, the California Mortgage Bankers Association, the California Association of Mortgage Professionals (Board Member–San Francisco/Peninsula Chapter) and the California Mortgage Association (Member, Education Committee). Ms. Randich received a BA from UC Berkeley in 1980.

#### **Financial Oversight by Managers**

The company does not have a board of directors or an audit committee. Accordingly, the managers serve the equivalent function of an audit committee for, among other things, the following purposes: appointment, compensation, review and oversight of the work of our independent public accountants, and establishing the enforcing of the Code of Ethics. However, since the company does not have an audit committee and the managers are not independent of the company, the company does not have an “audit committee financial expert.”



**Code of Ethics**

The managers have adopted a Code of Ethics applicable to the managers and to any agents, employees or independent contractors engaged by the managers to perform the functions of a principal financial officer, principal accounting officer or controller of the company, if any. You may obtain a copy of this Code of Ethics, without charge, upon request by calling our Investor Services Department at (650) 365-5341.

**Item 11 – Executive Compensation**

**COMPENSATION OF THE MANAGERS AND AFFILIATES BY COMPANY**

As indicated above in Item 10, the company has no officers or directors. The company is managed by the managers. There are certain fees and other items paid to management and related parties.

A more complete description of management compensation is found in the company’s prospectus, dated December 4, 2012, under the section “Compensation of our Managers and Their Affiliates” at pages 44 and following, which is incorporated herein by reference. Such compensation is summarized below.

**I. THE FOLLOWING COMPENSATION HAS BEEN PAID TO THE MANAGERS AND/OR THEIR AFFILIATES FOR SERVICES RENDERED DURING THE YEAR ENDED DECEMBER 31, 2013. ALL SUCH COMPENSATION IS IN COMPLIANCE WITH THE GUIDELINES AND LIMITATIONS SET FORTH IN THE OPERATING AGREEMENT.**

Entity Receiving Compensation	Description of Compensation and Services Rendered	Amount
Redwood Mortgage Corp. (Manager)	Mortgage Servicing Fee for servicing loans.....	\$31,590
Managers &/or Affiliates	Asset Management Fee for managing assets.....	\$0
Managers	1% interest in profits (loss).....	\$8,846
	Less allocation of syndication costs.....	\$0
		\$8,846
Managers &/or Affiliates	Portion of early withdrawal penalties applied to reduce Formation Loan.....	\$558

**II. FEES PAID BY BORROWERS ON MORTGAGE LOANS PLACED WITH THE COMPANY BY COMPANIES RELATED TO THE MANAGERS DURING THE YEAR ENDED DECEMBER 31, 2012 (EXPENSES OF BORROWERS NOT OF THE COMPANY)**

Redwood Mortgage Corp.	Mortgage Brokerage Commissions for services in connection with the review, selection, evaluation, negotiation, and extension of the loans paid by the borrowers and not by the company.....	\$151,397
Redwood Mortgage Corp.	Processing and Escrow Fees for services in connection with notary, document preparation, credit investigation, and escrow fees payable by the borrowers and not by the company.....	\$27,144
Gymno LLC	Reconveyance Fee.....	\$1,080

**III. IN ADDITION, THE MANAGERS AND/OR RELATED COMPANIES PAY CERTAIN EXPENSES ON BEHALF OF THE COMPANY FOR WHICH IT IS REIMBURSED AS NOTED IN THE STATEMENTS OF OPERATION DURING THE YEAR ENDED DECEMBER 31, 2013 ..... \$119,136**

### **Item 12 – Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters**

No person or entity owns beneficially more than five percent (5%) of the units. The managers do not own any units, but the managers receive collectively 1% of the net income and losses of the company and the members receive collectively the remaining 99% of such items.

### **Item 13 – Certain Relationships and Related Transactions, and Director Independence**

Refer to footnote 3 of the Notes to Financial Statements in Part II item 8, which describes related party fees and data.

Also refer to the company's prospectus, dated December 4, 2012, under the section "Compensation of Our Managers and Their Affiliates" (pages 44 and following), which is incorporated herein by reference.

For a description of the company's policies and procedures for the review, approval or ratification of related party transactions, refer also to the company's prospectus dated December 4, 2012, for the discussion under the caption "Compensation of Our Managers and Their Affiliates" (pages 44 and following), the discussion under the caption "Conflicts of Interest" (pages 52 and following) and the discussion under the caption "Investment Objectives and Criteria" (pages 63 and following), each of which is incorporated herein by reference.

Since the company does not have a board of directors and since the managers are not considered independent of the company, the company does not have the equivalent of independent directors.

### **Item 14 – Principal Accountant Fees and Services**

Fees for services performed for the company by the principal accountant for 2013 and 2012 are as follows:

*Audit Fees* The aggregate fees billed during the years ended December 31, 2013 and 2012 for professional services rendered for the audit of the company's annual financial statements included in the company's Annual Report on Form 10-K, review of financial statements included in the company's Quarterly Reports on Form 10-Q and for services provided in connection with regulatory filings were \$73,965 and \$116,837, respectively. As sponsor of the company, Redwood Mortgage Corp. paid to the company \$34,542 in 2013 and the entire amount of these fees in 2012.

*Audit Related Fees* There were no fees billed during the years ended December 31, 2013 and 2012 for audit-related services.

*Tax fees* The aggregate fees billed for tax services for the years ended December 31, 2013 and 2012 were \$5,000 and \$12,382, respectively. These fees relate to professional services rendered primarily for tax compliance.

*All Other Fees* There were no other fees billed during the years ended December 31, 2013 and 2012.

All audit and non-audit services are approved by the managers prior to the accountant being engaged by the company.

## Part IV

### Item 15 – Exhibits and Financial Statement Schedules

- A. Documents filed as part of this report are incorporated:
1. In Part II, Item 8 under A –Financial Statements.
  2. No financial statement schedules are required to be filed because Redwood Mortgage Investors IX, LLC is a smaller reporting company.
  3. Exhibits.

Exhibit No.	Description of Exhibits
3.1*	Sixth Amended and Restated Limited Liability Company Operating Agreement
3.2**	Certificate of Formation
4.1*	Subscription Agreement and Power of Attorney, including Special Notice for California Residents
10.1*	Distribution Reinvestment Plan
10.2***	Loan Servicing Agreement
10.3***	Form of Note secured by Deed of Trust for Construction Loans which provides for interest only payments
10.4***	Form of Note secured by Deed of Trust for Commercial Loans which provides for interest only payments
10.5***	Form of Note secured by Deed of Trust for Commercial Loans which provides for principal and interest payments
10.6***	Form of Note secured by Deed of Trust for Residential Loans which provides for interest only payments
10.7***	Form of Note secured by Deed of Trust for Residential Loans which provides for interest and principal prepayments
10.8***	Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing to accompany Exhibit 10.3
10.9***	Deed of Trust, Assignment of Leases and Rents, and Security Agreement and Fixture Filing to accompany Exhibits 10.4 and 10.5
10.10***	Deed of Trust, Assignment of Leases and Rents, and Security Agreement and Fixture Filing to accompany Exhibits 10.6 and 10.7
10.11***	Agreement to Seek a Lender
10.12***	Formation Loan Promissory Note
31.1†	Certification of Manager pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Manager pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Manager pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Manager pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1†	Selected Portions of the Company’s Prospectus, dated December 4, 2012
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

\* Previously filed and incorporated by reference to the same numbered Exhibit to Post-Effective Amendment No. 3 to the Company’s Registration Statement on Form S-11 (Commission File No. 333-181953), filed on January 23, 2014.

- \*\* Previously filed and incorporated by reference to Exhibit 3.2 to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11 (Commission File No. 333-155428), filed on March 17, 2009.
- \*\*\* Previously filed and incorporated by reference to the same numbered Exhibit to Pre-Effective Amendment No. 1 to the Company's Registration Statement on Form S-11 (Commission File No. 333-181953), filed on November 27, 2012.
- † Filed herewith.

**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 IX, LLC  
(Registrant)**

Date: March 31, 2014

By: **Redwood Mortgage Corp., Manager**

By: /s/ Michael R. Burwell  
Name: Michael R. Burwell  
Title: President, Secretary and Treasurer

Date: March 31, 2014

By: **Gymno LLC, Manager**

By: /s/ Michael R. Burwell  
Name: Michael R. Burwell  
Title: Manager

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity indicated on the 31st day of March, 2014.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Michael R. Burwell</u> Michael R. Burwell	President, Secretary/Treasurer of Redwood Mortgage Corp. (Principal Financial and Accounting Officer); Director of Redwood Mortgage Corp.	March 31, 2014
<u>/S/ Michael R. Burwell</u> Michael R. Burwell	Manager of Gymno LLC	March 31, 2014

## PRESIDENT'S CERTIFICATION

I, Michael R. Burwell, certify that:

1. I have reviewed this annual report on Form 10-K of Redwood Mortgage Investors IX, LLC, a Delaware Limited Liability Company (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Michael R. Burwell

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Michael R. Burwell, President,  
(principal executive officer and principal financial officer)  
Redwood Mortgage Corp,  
Manager  
March 31, 2014

## PRESIDENT AND CHIEF FINANCIAL OFFICER CERTIFICATION

I, Michael R. Burwell, certify that:

1. I have reviewed this annual report on Form 10-K of Redwood Mortgage Investors IX, LLC, a Delaware Limited Liability Company (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

/s/ Michael R. Burwell

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Michael R. Burwell,  
Manager of Gymno LLC,  
Manager  
March 31, 2014



CERTIFICATION PURSUANT TO  
18 U.S.C SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Redwood Mortgage Investors IX, LLC (the “company”) on Form 10-K for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, I, Michael R. Burwell, certify that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906 has been provided to Redwood Mortgage Investors IX, LLC and will be retained by Redwood Mortgage Investors IX, LLC and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Michael R. Burwell

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Michael R. Burwell, President,  
(principal executive officer and principal financial officer)  
Redwood Mortgage Corp,  
Manager  
March 31, 2014

CERTIFICATION PURSUANT TO  
18 U.S.C SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Redwood Mortgage Investors IX, LLC (the “company”) on Form 10-K for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, I, Michael R. Burwell, certify that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906 has been provided to Redwood Mortgage Investors IX, LLC and will be retained by Redwood Mortgage Investors IX, LLC and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Michael R. Burwell

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Michael R. Burwell,  
Manager of Gymno LLC,  
Manager  
March 31, 2014