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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from ___________ to _____________

Commission File Number: 000-27816

REDWOOD MORTGAGE INVESTORS VIII, a California Limited Partnership

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

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

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

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

Part I –FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Balance Sheets
September 30, 2019 (unaudited) and December 31, 2018 (audited)
($ in thousands)

	September 30, 2019	December 31, 2018
ASSETS		
Cash, in banks	$ 9,073	$ 13,607
Loans		
Secured by deeds of trust		
Principal	86,190	97,438
Advances	143	52
Accrued interest	700	701
Prepaid interest	(4)	(341)
Loan balance, secured	87,029	97,850
Allowance for loan losses	—	—
Loans, net	87,029	97,850
Real estate owned (REO)	3,943	4,153
Other assets, net	89	113
Total assets	$ 100,134	$ 115,723
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable and accrued liabilities	$ 550	$ 388
Payable to affiliate	318	—
Total liabilities	868	388
Commitments and Contingencies (Note 7)		
Partners' capital		
Limited partners' capital	104,578	121,012
General partners' deficit	(692)	(734)
Total partners' capital	103,886	120,278
Receivable from manager (formation loan)	(4,620)	(4,943)
Partners' capital, net of formation loan	99,266	115,335
Total liabilities and partners' capital	$ 100,134	$ 115,723

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Income Statements
For the Three and Nine Months ended September 30, 2019 and 2018 ($ in thousands) (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenues				
Interest income	$ 1,815	$ 1,983	$ 6,124	$ 7,159
Late fees	11	10	29	74
Gain on sale, loans	38	—	38	7
Revenue, loans	1,864	1,993	6,191	7,240
Recovery of loan losses	(1,613)	—	(1,613)	(13)
Operations expense				
Mortgage servicing fees	330	360	1,086	1,231
Asset management fees	187	126	408	396
Costs from Redwood Mortgage Corp.	439	384	1,067	1,260
Professional services	347	180	748	696
REO, net (Note 5)	187	93	249	124
Other	(5)	(2)	13	(46)
Total operations expense	1,485	1,141	3,571	3,661
Net income	$ 1,992	$ 852	$ 4,233	$ 3,592
Net income				
Limited partners (99%)	1,972	843	4,191	3,556
General partners (1%)	20	9	42	36
	$ 1,992	$ 852	$ 4,233	$ 3,592

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

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

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

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance June 30, 2019	$ 108,998	$ (712)	$ 108,286
Net income	1,972	20	1,992
Distributions	(569)	—	(569)
Liquidations	(5,823)	—	(5,823)
Balance, September 30, 2019	$ 104,578	$ (692)	$ 103,886

For the Nine Months Ended September 30, 2019
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance, December 31, 2018	$ 121,012	$ (734)	$ 120,278
Net income	4,191	42	4,233
Distributions	(1,765)	—	(1,765)
Liquidations	(18,860)	—	(18,860)
Balance, September 30, 2019	$ 104,578	$ (692)	$ 103,886

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

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

For the Three Months Ended September 30, 2018
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance, June 30, 2018	$ 134,042	$ (758)	$ 133,284
Net income	843	9	852
Distributions	(584)	—	(584)
Liquidations	(7,191)	—	(7,191)
Balance, September 30, 2018	$ 127,110	$ (749)	$ 126,361

For the Nine Months Ended September 30, 2018
($ in thousands) (unaudited)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Partners' Capital
Balance, December 31, 2017	$ 146,791	$ (785)	$ 146,006
Net income	3,556	36	3,592
Distributions	(1,916)	—	(1,916)
Liquidations	(21,321)	—	(21,321)
Balance, September 30, 2018	$ 127,110	$ (749)	$ 126,361

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
($ in thousands) (unaudited)

	Nine Months Ended September 30	
	2019	2018
Cash from Operations		
Interest income received	$ 5,735	$ 7,554
Other loan revenue received	29	71
Operations expense	(2,819)	(3,319)
Rental operations, net	—	49
Holding costs	(39)	(189)
Total cash provided by operations	2,906	4,166
Cash from Investing Activities		
Loans		
Principal collected - secured	56,346	32,757
Loans transferred to affiliates	—	5,890
Loans sold to non-affiliate, net	7,832	7,247
Principal collected - unsecured	—	24
Loans originated	(52,838)	(23,125)
Recovery of loan losses	1,613	—
Prepaid interest	—	455
Advances received (made) on loans	(91)	428
Total - Loans	12,862	23,676
REO - sales, net	—	3,321
Total cash provided by (used in) investing activities	12,862	26,997
Cash from Financing Activities		
Partner liquidations	(18,860)	(21,321)
Partner distributions	(1,765)	(1,916)
Formation loan payment, net of early withdrawal fees	323	538
Cash Distributions to partners, net	(20,302)	(22,699)
Total cash used in financing activities	(20,302)	(22,699)
Net (decrease) increase in cash	(4,534)	8,464
Cash, beginning of period	13,607	1,723
Cash, end of period	$ 9,073	$ 10,187

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
($ in thousands) (unaudited)

Reconciliation of net income to net cash provided by operations:

	Nine Months Ended September 30	
	2019	2018
Cash flows from operations		
Net income	$ 4,233	$ 3,592
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) on sale, loans	(38)	(7)
Recovery of loan losses	(1,613)	—
REO – gain on disposal	—	(113)
REO – impairment	210	48
Change in operation assets and liabilities		
Prepaid interest	(337)	—
Accrued interest	(52)	395
Other assets	23	48
Accounts payable and other liabilities	162	207
Payable to affiliate	318	(4)
Net cash provided by operations	$ 2,906	$ 4,166

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

REDWOOD MORTGAGE INVESTORS VIII,
A California Limited Partnership
Notes to Consolidated Financial Statements
September 30, 2019 (unaudited)

NOTE 1 – ORGANIZATION AND GENERAL

In the opinion of the management of Redwood Mortgage Corp. (RMC or the manager), the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the consolidated financial information included therein. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the partnership's Form 10-K for the fiscal year ended December 31, 2018 filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three and nine month period ended September 30, 2019 are not necessarily indicative of the operations results to be expected for the full year.

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

The partnership is externally managed by RMC, a general partner. The general partners are Redwood Mortgage Corp. and Michael R. Burwell (Burwell), an individual. The manager is solely responsible for managing the business and affairs of RMI VIII, subject to the voting rights of the partners on specified matters. The manager acting alone has the power and authority to act for and bind the partnership. RMC provides the personnel and services necessary to conduct the business as RMI VIII has no employees of its own. The general partner is required to contribute to capital one tenth of one percent (0.1%) of the aggregate capital accounts of the partners. The mortgage loans the partnership funds and/or invests in, are arranged and generally are serviced by RMC.

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

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

The partnership's primary investment objectives are to:

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

The ongoing sources of funds for loans are the proceeds (net of withdrawals from partner capital accounts, subject to limitations) from:

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

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

Net income (losses) are allocated among the limited partners according to their respective capital accounts after one percent (1%) of the net income (losses) are allocated to the general partners. Beginning in 2010, and continuing until January 1, 2020, RMC assigned its right to two-thirds of one percent (0.66%) of income or losses to Burwell in exchange for Burwell assuming one hundred percent (100%) of the general partners' equity deficit. The monthly results are subject to subsequent adjustment as a result of quarterly and year-end accounting and reporting. Investors should not expect the partnership to provide tax benefits of the type commonly associated with limited partnership tax shelter investments. Federal and state income taxes are the obligation of the partners, other than the annual California franchise tax and the California LLC cash receipts taxes paid by the partnership's subsidiaries.

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

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

A majority in interest of partnership units is required to elect a new general partner to continue the partnership business after a general partner ceases to be a general partner due to its withdrawal.

Distribution to limited partners

At the time of their subscription to the partnership, limited partners elected either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound income in their capital account. If an investor initially elected to receive monthly, quarterly or annual distributions, such election, once made, is irrevocable. If the investor initially elected to compound income in their capital account, in lieu of cash distributions, the investor may, after three (3) years, change the election and receive monthly, quarterly or annual cash distributions. Income allocable to limited partners who elect to compound income in their capital account will be retained by the partnership for making further loans or for other proper partnership purposes and such amounts will be added to such limited partners' capital accounts. The percentage of limited partners electing distribution of allocated net income, by weighted average to total partners' capital was 61% and 62% at September 30, 2019 and 2018, respectively.

Liquidity, capital withdrawals and early withdrawals

There are substantial restrictions on transferability of units, and there is no established public trading and/or secondary market for the units. To provide liquidity to limited partners, the Partnership Agreement provides that limited partners, after the minimum five-year period, may withdraw all or a portion of their capital accounts in 20 quarterly installments or longer, as determined by the general partners in light of partnership cash flow, beginning the last day of the calendar quarter following the quarter in which the notice of withdrawal is given. A limited partner may liquidate all or a part of the limited partner's capital account in four quarterly installments beginning on the last day of the calendar quarter following the quarter in which the notice of withdrawal is given, subject to a 10% early withdrawal penalty applicable to any sums withdrawn prior to the time when such sums could have been withdrawn without penalty. There is a limited right of accelerated liquidation for an investor's heirs upon an investor's death.

The partnership has not established a cash reserve from which to fund redemptions and, accordingly, the partnership's capacity to return a limited partner's capital is subject to the availability of partnership cash. The general partner is under no obligation to sell loans from the portfolio in order to honor redemption requests, and the program can be restricted or suspended at any time. Cash flow is considered to be available only after all current partnership expenses have been paid (including compensation to the general partners and affiliates) and adequate provision has been made for the payment of all periodic cash distributions on a pro rata basis which must be paid to limited partners who elected to receive such distributions upon subscription for units. Per the Partnership Agreement, no more than 20% of the total limited partners' capital account balances at the beginning of any year may be liquidated during any calendar year. Notwithstanding this 20%, the general partners shall have the discretion to further limit the percentage of total limited partners' capital accounts that may be withdrawn in order to comply with the safe harbor provisions of the regulations under Section 7704 of the Internal Revenue Code of 1986, as amended, to avoid the partnership being taxed as a corporation. If notices of withdrawal in excess of these limitations are received by the general partners, the priority of distributions among limited partners shall be determined as follows: first to those limited partners withdrawing capital accounts according to the 20 quarter or longer installment liquidation period, then to Benefit Plan Investors withdrawing capital accounts after five years over four quarterly installments, then to executors, heirs, and other administrators withdrawing capital accounts upon the death of a limited partner and finally to all other limited partners withdrawing capital accounts. Except as provided above, withdrawal requests will be considered by the general partners in the order received.

Lending guidelines

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

The partnership's loans are funded at fixed interest rates. Generally, the interest rates on the partnership's mortgage loans have not been affected by market movements in interest rates, however, there can be no assurance that future interest rate fluctuations will not have an adverse effect on the partnership's mortgage loans. If, as expected, the partnership continues to make and invest primarily in fixed rate loans, a rise in interest rates could result in fewer prepayments of the partnership's loans. This increase in the duration of the time loans remain outstanding may reduce overall liquidity of the partnership's loan portfolio, which itself could reduce the partnership's ability to invest in new loans at higher interest rates. Conversely, if interest rates decrease, the partnership could see a significant increase in loan prepayments by borrowers. If the partnership then invests in new loans at lower rates of interest, it could result in a lower yield to partners.

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

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

Term of the partnership

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

Reclassifications

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

Management estimates

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

Fair value estimates

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

- independent;
- knowledgeable;
- able to transact; and,
- willing to transact.

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

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

The fair value of the collateral is determined by exercise of judgment based on management’s experience informed by appraisals (by licensed appraisers), brokers’ opinion of values, and publicly available information on in-market transactions. Appraisals of commercial real property generally present three approaches to estimating value:

- market comparables or sales approach;
- cost to replace; and,
- capitalized cash flows or investment approach.

These approaches may or may not result in a common, single value. The market-comparables approach may yield several different values depending on certain basic assumptions, such as, determining highest and best use (which may or may not be the current use); determining the condition (e.g., as-is, when-completed, or for land when-entitled); and determining the unit of value (e.g., as a series of individual unit sales or as a bulk disposition).

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

Cash and cash equivalents

The partnership considers all highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents. At September 30, 2019, substantially all of the partnership's cash balances in banks exceed the federal depository insurance limit of $250,000.The bank or banks in which funds are deposited are reviewed periodically for their general credit worthiness/investment grade credit rating.

Loans and interest income

Performing loans are carried at amortized cost which is generally equal to the unpaid principal balance (principal). Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the partnership's interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums, and attorney fees. Advances generally are stated at the unpaid principal balance and accrue interest until repaid by the borrower. For performing loans, interest is accrued daily on the principal plus advances, if any.

Non-performing loans (i.e., loans with a payment in arears) less than 180 days delinquent continue to recognize interest income as long as the loan is in the process of collection and is considered to be well-secured. Non-performing loans are placed on non-accrual status if 180 days delinquent or earlier if management determines that the primary source of repayment will come from the foreclosure and subsequent sale of the collateral securing the loan (which usually occurs when a notice of sale is filed) or when the loan is no longer considered well-secured. When a loan is placed on non-accrual status, the accrual of interest is discontinued; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement. Late fees are recognized in the period received.

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

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

In the normal course of the partnership's operations, loans that mature may be renewed at then current market rates and terms for new loans. Such renewals are not designated as impaired, unless the matured loan was previously designated as impaired.

The partnership originates loans with the intent to hold the loans until maturity. From time to time the partnership may sell certain loans. Loans are classified as held-for-sale once a decision has been made to sell loans and the loans held-for-sale have been identified. In 2019 and 2018 certain performing loans were sold at an immaterial gain (net of expenses). As a result, the recorded amount of the performing loans (i.e., the loan balance), and the loan balance of loans designated impaired for which a specific reserve has not been recorded because the loan is well collateralized and management has determined that collection of the amount owed is assured, are deemed to approximate fair value.

Allowance for loan losses

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

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

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

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

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

Real estate owned (REO)

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

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

The Financial Account Standards Board (FASB) issued an Accounting Standards Update (ASU) that significantly changes how entities will account for credit losses for most financial assets that are not measured at fair value through net income. The new standard will supersede currently in effect guidance and applies to all entities. Entities will be required to use a current expected credit loss (CECL) model to estimate credit impairment. This estimate will be forward-looking, meaning management will be required to use forecasts about future economic conditions to determine the expected credit loss over the remaining life of an instrument. This will be a significant change from the current incurred credit loss model and generally may result in allowances being recognized in earlier periods than under the current credit loss model. The ASU is effective for smaller reporting companies and for interim and annual reporting periods in 2023.

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

NOTE 3 – GENERAL PARTNERS AND OTHER RELATED PARTIES

Payable to affiliate

At September 30, 2019, the partnership held a payable to RMC of approximately $318,000. This payable consisted of certain asset management fees and cost reimbursements owed to the manager for certain specific costs associated with a recovery of loan losses, as well as computer and data processing expenses related to recordkeeping and reporting for the accounts of individual investors.

The Partnership Agreement provides for compensation of the manager, as detailed below, and for the general partners. The general partners are entitled to 1% of the profits and losses of the partnership.

Mortgage servicing fees

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

Asset management fees

The general partners are entitled to monthly fees for managing the partnership's loan portfolio and operations of up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually).

Costs from Redwood Mortgage Corp.

The manager is entitled to reimbursement by the partnership for operating expenses incurred on behalf of the partnership, including without limitation, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners, and out-of-pocket general and administration expenses. Other costs are allocated pro-rata based on the percentage of total capital of all mortgage funds managed by RMC. Payroll and consulting fees are broken out first based on activity, and then allocated to the partnership on a pro-rata basis based on percentage of capital to the total capital of all mortgage funds. The decision to request reimbursement of any qualifying charges is made by RMC at its sole discretion.

Commissions and fees are paid by the borrowers to RMC

- *Brokerage commissions, loan originations* - For fees in connection with the review, selection, evaluation, negotiation and extension of loans, the general partners may collect loan brokerage commissions (points) limited to an amount not to exceed 4% of the total partnership assets per year. The loan brokerage commissions are paid by the borrowers and thus, are not an expense of the partnership.

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

During the nine months ended September 30, 2018, the partnership transferred two performing loans in-full to Redwood Mortgage Investors IX, LLC, an affiliated mortgage fund, at par value, which approximates fair value, of approximately $5,890,000. The partnership received cash for the transfer and has no continuing obligation or involvement with the assigned loans. No loans were transferred during the nine months ended September 30, 2019.

Formation loan/Commissions paid to broker-dealers

Commissions for sales of limited partnership units paid to broker-dealers (B/D sales commissions) were paid by RMC and were not paid directly by the partnership out of offering proceeds. Instead, the partnership advanced to RMC amounts sufficient to pay the B/D sales commissions and premiums paid to partners in connection with unsolicited orders up to 7% of offering proceeds. The receivable arising from the advances is unsecured, and non-interest bearing and is referred to as the "formation loan."

The primary source of the repayments made by RMC on the formation loan is expected to be loan brokerage commissions. As of September 30, 2019, the partnership had made such advances of approximately $22,567,000, of which approximately $4,620,000 remain outstanding on the formation loan. If the general partners are removed and RMC is no longer receiving payments for services rendered, the formation loan is forgiven, per the terms of the partnership agreement.

The formation loan activity is summarized in the following table for the nine months ended September 30, 2019 ($ in thousands).

	2019
Balance, January 1	$ 4,943
Early withdrawal penalties	(323)
Repayments	—
Balance, September 30	$ 4,620

The future minimum payments on the formation loan, net of early withdrawal penalties, as of September 30, 2019 are presented in the following table ($ in thousands).

2019	$	327
2020		650
2021		650
2022		650
2023		650
Thereafter		1,693
Total	$	4,620

RMC is required to make annual payments on the formation loan, net of early withdrawal penalties.

Limited partner capital liquidations

The table below sets forth withdrawals of limited partner capital for the three and nine months ended September 30, 2019 and 2018 ($ in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Capital liquidations-without penalty	$ 4,863	$ 5,109	$ 15,624	$ 14,897
Capital liquidations-subject to penalty	960	2,082	3,236	6,424
Total	$ 5,823	$ 7,191	$ 18,860	$ 21,321
Scheduled liquidations, at September 30	$ 43,769	$ 50,545	$ 43,769	$ 50,545

Scheduled limited partners' capital liquidation requests are presented in the following table ($ in thousands).

2019	$	5,462
2020		15,354
2021		10,156
2022		7,102
2023		4,186
Thereafter		1,509
Total	$	43,769

NOTE 4 – LOANS

Loans generally are funded at a fixed interest rate with a loan term of up to five years. Loans acquired are generally done so within the first six months of origination, and purchased at the current par value, which approximates fair value.

As of September 30, 2019, 37 (79%) of the partnership's 47 loans (representing 96% of the aggregate principal of the partnership's loan portfolio) have a term of five years or less. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment penalty clause.

As of September 30, 2019, 15 (32%) of the loans outstanding (representing 63% of the aggregate principal balance of the partnership's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30-year amortization, with the remaining principal due at maturity.

Loans unpaid principal balance (principal)

Secured loan transactions are summarized in the following table for the three and nine months ended September 30, 2019 ($ in thousands).

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Principal, beginning of period	$ 96,132	$ 97,438
Loans originated	26,444	52,838
Loans sold to non-affiliate	(7,740)	(7,740)
Principal collected	(28,646)	(56,346)
Principal, September 30, 2019(1)	$ 86,190	$ 86,190

1) Borrower payments are deposited into an independent bank trust account established and administered by RMC, pursuant to California regulations, and are disbursed to the partnership after an appropriate holding period to ensure the funds are collected. Borrower payments deposited into the trust account are not included in the consolidated financial statements until disbursed to the partnership. At September 30, 2019, there was $69,325 in borrower payments held in the RMC trust account, all of which was disbursed to the partnership by October 22, 2019.

In July 2019, the partnership sold to an unaffiliated third party, three loans with aggregate principal balance of approximately $7,740,000 at a price that netted an immaterial gain.

One loan with a principal balance of approximately $650,000 was renewed during the three months ended September 30, 2019. Five loans with an aggregate principal balance of approximately $5,658,000 were renewed during the nine months ended September 30, 2019. See Note 3 (General Partners and Other Related Parties) for a description of loan transfers by executed assignments to affiliates. The partnership originates loans with the intent to hold the loans until maturity. From time to time the partnership may sell certain loans.

Loan characteristics

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

	September 30, 2019	December 31, 2018
Number of secured loans	47	56
Secured loans – principal	$ 86,190	$ 97,438
Secured loans – lowest interest rate (fixed)	5.0%	5.0%
Secured loans – highest interest rate (fixed)	10.5%	10.5%
Average secured loan – principal	$ 1,834	$ 1,740
Average principal as percent of total principal	2.1%	1.8%
Average principal as percent of partners' capital, net of formation loan	1.9%	1.5%
Average principal as percent of total assets	1.8%	1.5%
Largest secured loan – principal	$ 10,200	$ 10,900
Largest principal as percent of total principal	11.8%	11.2%
Largest principal as percent of partners' capital, net of formation loan	10.3%	9.5%
Largest principal as percent of total assets	10.2%	9.4%
Smallest secured loan – principal	$ 68	$ 56
Smallest principal as percent of total principal	0.1%	0.1%
Smallest principal as percent of partners' capital, net of formation loan	0.1%	0.1%
Smallest principal as percent of total assets	0.1%	0.1%
Number of California counties where security is located	16	18
Largest percentage of principal in one California county	43.1%	26.7%
Number of secured loans with a filed notice of default	—	—
Secured loans in foreclosure – principal	$ —	$ —
Number of secured loans with prepaid interest	1	1
Prepaid interest	$ 4	$ 341

As of September 30, 2019, the partnership's largest loan, with an unpaid principal balance of approximately $10,200,000, had an interest rate of 9.50%, was secured by an industrial building in San Francisco County, and had a maturity of September 1, 2020. As of September 30, 2019, the partnership had no outstanding construction or rehabilitation loans and no commitments to fund construction, rehabilitation or other loans.

Lien position

At funding, secured loans had the following lien positions and are presented in the following table as of September 30, 2019 and December 31, 2018 ($ in thousands).

	September 30, 2019			December 31, 2018		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	27	$ 71,205	83%	34	$ 80,348	82%
Second trust deeds	20	14,985	17	22	17,090	18
Total principal, secured loans	47	$ 86,190	100%	56	$ 97,438	100%
Liens due other lenders at loan closing		30,869			37,632	
Total debt		$ 117,059			$ 135,070	
Appraised property value at loan closing		$ 218,140			$ 258,134	
Percent of total debt to appraised values (LTV) at loan closing(2)		56.2%			55.0%	

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

Property type

Secured loans summarized by property type are presented in the following table as of September 30, 2019 and December 31, 2018 ($ in thousands).

	September 30, 2019			December 31, 2018		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family(3)	33	$ 31,601	37%	32	$ 35,956	36%
Multi-family	2	7,073	8	3	1,713	2
Commercial	11	47,131	54	20	59,319	61
Land	1	385	1	1	450	1
Total principal, secured loans	47	$ 86,190	100%	56	$ 97,438	100%

3) Single family properties include owner-occupied and non-owner occupied 1-4 unit residential buildings, condominium units, townhouses, and condominium complexes. The single family property type as of September 30, 2019 consists of 14 loans with principal of approximately $8,571,000 that are owner occupied and 19 loans with principal of approximately $23,030,000 that are non-owner occupied. Single family property type at December 31, 2018 consisted of 16 loans with principal of approximately $12,839,000 that are owner occupied and 16 loans with principal of approximately $23,054,000 that are non-owner occupied.

Distribution by California counties

The distribution of secured loans outstanding by the California county in which the primary collateral is located is presented in the following table as of September 30, 2019 and December 31, 2018 ($ in thousands).

	September 30, 2019		December 31, 2018	
	Principal	Percent	Principal	Percent
San Francisco Bay Area[4]				
San Francisco	$ 37,128	43.1%	$ 26,026	26.7%
San Mateo	21,214	24.6	23,122	23.7
Alameda	3,011	3.5	4,212	4.2
Santa Clara	780	0.9	3,789	3.9
Napa	551	0.6	559	0.6
Marin	514	0.6	849	0.9
Contra Costa	295	0.3	314	0.2
Solano	—	—	3,560	3.7
	63,493	73.6	62,431	63.9
Other Northern California				
Amador	724	1.0	737	0.8
Santa Cruz	611	0.7	2,121	2.1
Monterey	372	0.4	489	0.5
Mariposa	68	0.1	56	0.1
Sacramento	—	—	3,300	3.4
	1,775	2.2	6,703	6.9
Total Northern California	65,268	75.8	69,134	70.8
Los Angeles & Coastal				
Los Angeles	11,388	13.2	18,236	18.7
Santa Barbara	2,089	2.4	2,099	2.2
Orange	650	0.8	654	0.7
	14,127	16.4	20,989	21.6
Other Southern California				
San Bernardino	5,380	6.2	5,900	6.1
Riverside	1,415	1.6	1,415	1.5
	6,795	7.8	7,315	7.6
Total Southern California	20,922	24.2	28,304	29.2
Total principal, secured loans	$ 86,190	100.0%	$ 97,438	100.0%

4) Includes the Silicon Valley

Scheduled maturities

Secured loans are scheduled to mature as presented in the following table as of September 30, 2019 ($ in thousands).

Scheduled maturities, as of September 30, 2019	Loans	Principal	Percent
2019(5)	3	$ 9,490	11%
2020	22	43,266	50
2021	11	14,853	17
2022	3	2,703	4
2023	2	3,817	4
Thereafter	2	1,210	1
Total future maturities	43	75,339	87
Matured as of September 30, 2019	4	10,851	13
Total principal, secured loans	47	$ 86,190	100%

5) Loans scheduled to mature in 2019 from October 1 to December 31.

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

Matured Loans

Secured loans past maturity are summarized in the following table as of September 30, 2019 ($ in thousands).

	September 30, 2019
Number of loans	4
Principal	$ 10,851
Advances	1
Accrued interest	424
Total secured loan balance past maturity	$ 11,276
Principal past maturity as percent of total principal	13%

All of the loans which were past maturity at September 30, 2019 were designated as impaired. At September 30, 2019, all loans past maturity were designated as in non-accrual status, except one loan, with principal of approximately $3,896,000 and was 92 days delinquent at September 30, 2019, where the borrower continued making interest payments while it negotiated an extension agreement with management.

Delinquency

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

	September 30, 2019		December 31, 2018	
	Loans	Principal	Loans	Principal
Past Due				
30-89 days	—	$ —	1	$ 450
90-179 days	3	7,430	1	3,300
180 or more days	2	4,016	—	—
Total past due	5	11,446	2	3,750
Current	42	74,744	54	93,688
Total principal, secured loans	47	$ 86,190	56	$ 97,438

Interest income of approximately $273,000 and $88,000 was accrued on loans contractually past due 90 days or more as to principal and/or interest payments as of September 30, 2019 and December 31, 2018, respectively. Four of the loans 90 or more days delinquent, with aggregate principal of approximately $10,851,000, were past maturity at September 30, 2019. One loan, with principal of approximately $594,900 was 153 days delinquent, and was designated as impaired and in non-accrual status, was not past maturity at September 30, 2019.

Loans in non-accrual status

Secured loans in non-accrual status are summarized in the following table as of September 30, 2019 and December 31, 2018 ($ in thousands)

	September 30, 2019	December 31, 2018
Number of loans	4	—
Principal	$ 7,550	$ —
Advances	1	—
Accrued interest	376	—
Total recorded investment	$ 7,927	$ —
Foregone interest	$ 18	$ —

Four loans, with aggregate principal of approximately $7,550,000 were in non-accrual status at September 30, 2019, three of which, with an aggregate principal balance of approximately $6,955,000 were past maturity. No loans were in non-accrual status at December 31, 2018.

At September 30, 2019, one loan with a principal balance of approximately $3,896,000 was contractually 90 or more days past due as to principal or interest and not in non-accrual status. At December 31, 2018, one loan with a principal balance of approximately $3,300,000 was contractually 90 or more days past due as to principal or interest and not in non-accrual status.

Loans designated impaired

Impaired loans had the balances shown and the associated allowance for loan losses presented in the following table as of September 30, 2019 and December 31, 2018 ($ in thousands).

	September 30, 2019	December 31, 2018
Principal	$ 11,446	$ 3,300
Recorded investment(6)	11,872	3,388
Impaired loans without allowance	11,872	3,388
Impaired loans with allowance	—	—
Allowance for loan losses, impaired loans(7)	—	—
Number of Loans	5	1
LTV	65.6%	36.1%

6) Recorded investment is the sum of principal, advances, and interest accrued for financial reporting purposes.
7) The loans designated impaired for accounting purposes are well collateralized (i.e., their protective equity was such that collection was deemed probable for amounts owing) and there was no allowance for loan losses at September 30, 2019 and December 31, 2018.

Impaired loans had the average balances and interest income recognized and received in cash as presented in the following table as of, and for, the nine months ended September 30, 2019 and the year ended December 31, 2018 ($ in thousands).

	September 30, 2019	December 31, 2018
Average recorded investment	$ 7,630	$ 5,987
Interest income recognized	273	257
Interest income received in cash	242	210

Modifications, workout agreements and troubled debt restructurings

At September 30, 2019 and December 31, 2018, the partnership had no modifications or workout agreements (or troubled debt restructurings) in effect.

Allowance for loan losses

At September 30, 2019, and December 31, 2018, the partnership had no allowance for loan losses because all loans had protective equity such that at September 30, 2019, and December 31, 2018, collection was deemed probable for amounts owing.

Recovery from agreement with a borrower

On September 30, 2019, RMI VIII received $1,612,500 pursuant to the terms of a workout agreement dated October 21, 2011, between RMI VIII and a borrower in default on certain loans secured by various California properties. As part of a workout, RMI VIII received an assignment of a non-voting economic membership interest in the developer's joint venture, in an amount equal to 25% of all distributions of profit and return of invested capital attributable to the developer's interest, but excluding management and development fees, payable to the developer from certain joint ventures from which the developer receives a share of the proceeds of the properties. In the third quarter of 2018 one of the two properties held by the joint venture was transferred to an affiliate of the joint venture. The joint venture operating agreement prohibits distributions prior to the sale of the last asset. Accordingly, RMI VIII disclosed a contingent gain based on that transfer beginning in its third quarter 2018 financial statements. The second and last asset held by the joint venture was sold in the second quarter of 2019. After that sale, the second, and likely last, joint venture in which RMI VIII will have a non-voting economic membership interest commenced to wind down and is being dissolved. The amount of RMI VIII's share of the profit under the workout agreement was determined by the joint venture to be $1,612,500, which amount was received by RMI VIII on September 30, 2019 and was recorded as a loan loss recovery. As of the date of the financial statements, the determination of the amount of any future profit, to which RMI VIII would have a claim of 25%, is uncertain and unlikely.

NOTE 5 – REAL ESTATE OWNED (REO)

The REO end of period balances were approximately $3,943,000 and $4,153,000 at September 30, 2019 and December 31, 2018, respectively.

There were no REO transactions during the three and nine months ended September 30, 2019. The valuation reserve on a property in Marin County (approximately 13 acres zoned for residential development) was increased by $210,000 as the sale of the property closed on October 11, 2019, the net proceeds for which approximated $270,300.

The partnership held the remaining three unsold properties, with a carrying value of approximately $3,673,000 which approximated the net realizable value, at September 30, 2019:

- In San Francisco County, 3 residential units in a condominium complex, which are being marketed to low-income buyers pursuant to listing approved by the City of San Francisco.
- In Fresno County, a partially completed home subdivision, which is currently in escrow to sell, which has been extended to December 31, 2019.
- In Stanislaus County, approximately 14 acres zoned commercial which is currently being marketed by a broker.

The following transactions closed during the nine months ended September 30, 2018:

- Six units in a condominium complex in Los Angeles County were sold with a gain of approximately $113,000, which resulted in a decrease in REO by approximately $1,928,000.
- A commercial office property in Contra Cost County was sold at approximately its carrying value after taking into account a previously recorded valuation reserve.

REO, net is comprised of the following components for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Holding costs, net of other income	$ 23	$ (45)	$ (39)	$ (189)
Gains/(losses) on sales	—	—	—	113
Valuation adjustment	(210)	(48)	(210)	(48)
REO, net	$ (187)	$ (93)	$ (249)	$ (124)

Rental operations were substantially wound down, and all residential rental units had been made vacant in preparation for sale in all periods presented. As such, there were no rental operations during the three and nine months ended September 30, 2018 and 2019.

REO is recorded at fair value at acquisition, and subsequently adjusted to the lower of the recorded cost or fair value.

NOTE 6 – FAIR VALUE

Secured loans

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

Secured loans, performing (i.e., not designated as impaired) (Level 3) - Each loan is reviewed quarterly for its delinquency, LTV adjusted for the most recent valuation of the underlying collateral, remaining term to maturity, borrower's payment history and other factors. The fair value of loan balances secured by deeds of trust is deemed to approximate the recorded amount (per the financial statements) as our loans:

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

Secured loans, designated impaired (Level 3) - 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 3 inputs).

Loans designated impaired that are deemed collateral dependent are measured at fair value on a non-recurring basis when the net realizable value of the real property collateral is determined to be less than the loan balance.

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

Single family – Management's preferred method for determining the fair market value of its single-family residential assets is the sale comparison method. Management primarily obtains sales comparables (comps) via its subscription to the RealQuest service, but also uses free online services such as Zillow.com and other available resources to supplement this data. Sale comps are reviewed 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. (Note: proceeds for loans secured by owner-occupied single-family residences are required to have been designated by the borrower as being used for business and/or investment purposes).

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

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

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

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

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

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

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

Commitments

The partnership's only commitment is for scheduled limited partners' capital withdrawal requests at September 30, 2019. See Note 3 (General Partners and Other Related Parties) for a detailed review of scheduled limited partners' capital withdrawal requests.

Legal proceedings

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

NOTE 8 – SUBSEQUENT EVENTS

On October 11, 2019, RMI VIII sold approximately 13 acres zoned for residential development for $300,000 which approximated its carrying value, after taking into account a previously recorded valuation reserve.

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

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto, which are included in Item 1 of this report on Form 10-Q, as well as the audited financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the partnership's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission. The results of operations for the three and nine month period ended September 30, 2019 are not necessarily indicative of the results to be expected for the full year.

Forward-Looking Statements

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

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

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

Overview

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

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

Critical Accounting Policies

See Part II, Item 7 of the Form 10-K for the year ended December 31. 2018 for a detailed presentation of critical accounting policies, which presentation is incorporated by this reference into this Item 2.

Results of Operations

General economic conditions- California

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

In the publication "California Payrolls Jump in August" dated September 20, 2019:

"Total nonfarm employers added 34,500 new jobs during August, more than any other state. Statewide, hiring has picked up a bit with payrolls up 1.8% over the year. The unemployment rate held steady at 4.1%"

"Hiring in California appears to be getting back on track. Total nonfarm employment rose by 34,500 net new jobs during August, the largest gain of any state. After somewhat of a slow start to the year, payroll growth appears to be gaining a bit of momentum and is now up 1.8% over the year. Employers have added an average 27,200 jobs per month so far this year through August, slightly higher than the 22,700 averaged during the same period last year. Furthermore, the unemployment rate held steady at 4.1%, and civilian employment, which is derived from the separate household survey, posted a small gain, rising for the first time since January."

"Payroll gains were widespread during the month, however it was the public sector which saw the largest increase. Total government payrolls rose by 14,500 jobs during August, mostly owed to a 12,900 job gain at the state & local level. The private sector also performed well, especially service industries. Professional & business, education & healthcare and leisure & hospitality each added over 7,000 new jobs during August."

"There were a few blemishes amid an otherwise solid employment report. The construction industry shed 1,700 jobs, while hiring in the arts, entertainment & recreation industry cut 400 jobs, the fourth consecutive monthly drop."

"Not surprisingly, the trade, transportation & utilities also declined by 4,000 jobs. California has been disproportionately impacted by the escalating trade war with China, which has become increasingly apparent in a broad slowdown across the state's massive transportation and logistics industry. The combined forces of newly imposed tariffs, general trade uncertainty and weakening global growth have led to diminishing traffic at the Ports of Los Angeles and Long Beach, two of the largest and busiest container ports in the country. California's ports are also losing market share to East Coast rivals, which continue to see container traffic increase."

"The slowdown in international trade has rippled throughout the state and employment growth in the transportation sector has cooled off substantially. Transportation & warehousing payrolls are still up 2.1% over the year, but that marks the slowest pace of expansions since May 2012 when the state was still emerging from the recession."

"The slowdown in transportation-related activity is clearly evident in the Inland Empire. Given the robust freight network and easy access to the Los Angeles ports, the Riverside-San Bernardino metro area has seen employment in the transportation & warehousing industry double since 2012. Hiring has slowed more recently, moderating to just a 3.6% pace over the past year."

"Even with the slowing in the logistics sector, Southern California accounted for the bulk of California's job growth in August. Los Angeles County added 9,900 jobs and another 2,200 were added in Orange County. The Inland Empire lost 800 jobs in August and payrolls also fell slightly in Ventura County."

In the publication "California Job Growth Appears to Be Back on Track" dated July 19, 2019:

"After a slow start earlier this year, California's economy appears to have shifted back into high gear. Nonfarm employment surged during the second quarter, with employers adding 46,200 jobs in June, following gains of 21,600 jobs in May and 48,600 jobs in April. The 116,400 jobs added during the second quarter is two and half times what was added during the first quarter of the year."

"Construction employment jumped 1.3% in June, as builders and contractors added 11,900 new jobs. Employment is up 4.4% over the past year, with gains evident in residential, commercial and infrastructure projects."

"Worries that a handful of disappointing initial public offerings might be a precursor of a broader slowdown in California's tech sector now look incredibly premature. Hiring in the tech sector remains exceptionally strong, particularly anything related to cloud computing, data storage, digital content and internet search. Production of tech hardware also appears to be ramping up, with strong job growth reported at producers of computers and electronic equipment and semiconductor manufacturers."

"Measuring tech employment from the monthly employment data is somewhat difficult. We often use the sum of professional & technical services and information services as a real-time proxy for California tech employment because these broad industry categories are the closest that we can get to isolating the tech sector in the seasonally adjusted data. Unfortunately, these broad categories include many of the industries being disrupted by new rapidly growing technologies. Employment in the information sector has risen 2.7% over the past year, resulting in a gain of 14,400 jobs."

"All of the gain in the information sector has come from the tech-driven industries, mostly in the catch-all category labeled other information services. Employment in this sector, which includes many of the jobs in cloud computing, data storage and digital streaming, has surged 13.1% over the past year, resulting in 15,000 net new jobs (600 more than the broader information category). Moreover, hiring continues to rise solidly in other key industry subcategories, including software publishing (+4.3%) and data processing, data hosting and related services (+8.0%), which includes much of social media and internet search."

"The rapid growth in the tech sector helps explain why so much of California's job growth continues to be concentrated in the San Francisco Bay area and Los Angeles, particularly West L.A., which is home to a substantial portion of the digital media industry. Southern California led the state in job growth this past month, with the greater Los Angeles area adding 17,900 jobs. Most of that was in Los Angeles, which added 7,300 jobs. The Inland Empire added 6,200 jobs, and employers added 3,000 jobs in Orange County. The San Francisco Bay area saw a net gain of 12,900 jobs in June and has added 67,500 jobs so far this year, accounting for 40% of the jobs added in California so far this year".

In the publication "FOMC Cuts Rates 25 bps, but Two Members Dissent" dated July 31, 2019:

"As widely expected, the Federal Open Market Committee (FOMC) decided at its meeting today to reduce the range for the federal funds rate 25 bps. That range now spans 2.00% to 2.25%. The committee also decided to end the reduction in its balance sheet in August, which has been underway since October 2017. Previously, the FOMC said that it would end its balance sheet run-off in October."

"But those two actions were essentially the only nods toward a dovish policy action. For starters, the statement that accompanied today's announcement was very similar to that which was released after the last FOMC meeting on June 19. The committee characterized the labor market as "strong" and said that "economic activity has been rising at a moderate rate." The FOMC went on to say that "growth of household spending has picked up from earlier in the year"—an acknowledgement of the 4.3% annualized growth rate in real personal consumption expenditures in Q2—but that "business fixed investment has been soft." The committee views a sustained expansion in economic activity as the most likely outcome, but acknowledged that there are uncertainties associated with this view."

"Regarding inflation, the FOMC said that it is "running below 2 percent," which is the Fed's target, and it stated that "market-based measures of inflation compensation remain low." This undershoot of inflation relative to target and the low level of inflation expectations give the committee room to cut rates further in coming months."

"But lower rates in the future are not necessarily preordained. Kansas City Fed President George and Boston Fed President Rosengren dissented from today's rate-cut decision. Both voting members of the FOMC would have preferred to have kept rates on hold, and there may have been additional non-voting members who would have preferred no action as well. (We will get more color on what members thought when the minutes of the meeting are released in a few weeks.) The FOMC is a consensus-driven body, and it will become harder to convince a "critical mass" of committee members to continue easing policy the lower rates go. That said, the FOMC stated that it will be observing a whole range of incoming information as it "contemplates the future path of the fed funds rate."

"We continue to look for one additional 25 bps rate cut, probably at the October 30 policy meeting. Today's policy action should be viewed as an "insurance" rate cut. In the context of uncertainties about the economic outlook and below-target inflation, easier policy seems to be warranted. In our view, another 25 bps rate cut would constitute additional "insurance" against a more pronounced slowdown."

Key performance indicators

Key performance indicators are presented in the following table for the nine months ended September 30, 2019 and 2018 ($ in thousands).

	2019	2018
Secured loans principal – average daily balance	$ 94,781	$ 108,932
Secured loans principal – end-of-period	$ 86,190	$ 107,241
Interest on loans	$ 6,124	$ 7,159
Portfolio interest rate(1)	8.6%	8.1%
Effective yield rate(2)	8.6%	8.8%
Provision for (recovery of) loan losses	$ (1,613)	$ (13)
Operations expense	$ 3,571	$ 3,661
Net Income	$ 4,233	$ 3,592
Percent(3)(4)	5.0%	3.5%
Limited Partners' capital – average balance	$ 112,409	$ 137,028
Limited Partners' capital – end-of-period(5)	$ 104,578	$ 127,110

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

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

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

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

(5) Scheduled liquidations as of September 30, 2019 were approximately $43,769,000 (approximately $50,545,000 at September 30, 2018). Additional detail regarding limited partner capital withdrawals is available under the caption "Cash flows and Liquidity" in this Management Discussion and Analysis.

Key performance indicators are presented in the following table for the three months ended September 30, 2019 and 2018 ($ in thousands).

	2019	2018
Secured loans principal – average daily balance	$ 84,446	$ 97,114
Secured loans principal – end-of-period	$ 86,190	$ 107,241
Interest on loans	$ 1,815	$ 1,983
Portfolio interest rate(1)	8.7%	8.1%
Effective yield rate(2)	8.6%	8.2%
Provision for (recovery of) loan losses	$ (1,613)	$ —
Operations expense	$ 1,485	$ 1,141
Net Income	$ 1,992	$ 852
Percent(3)(4)	7.4%	2.6%
Limited Partners' capital – average balance	$ 106,788	$ 130,576
Limited Partners' capital – end-of-period(5)	$ 104,578	$ 127,110

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

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

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

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

(5) Scheduled liquidations as of September 30, 2019 were approximately $43,769,000 (approximately $50,545,000 at September 30, 2018). Additional detail regarding limited partner capital withdrawals is available under the caption "Cash flows and Liquidity" in this Management Discussion and Analysis.

Secured loans

The September 30, 2019 secured loan principal – end of period of approximately $86.2 million, was a reduction of 19.6% ($21.1 million) compared to the September 30, 2018 secured loan principal- end of period of approximately $107.2 million. The overall reduction in the balance of the secured loan portfolio is due to the reduction in overall capital under management. Specifically, limited partners' capital – end of period declined $22.5 million to approximately $104.6 million from approximately $127.1 million in the same period in 2018.

We have sought to exercise strong discipline in underwriting loan applications and lending against collateral at amounts that create a mortgage portfolio that has substantial protective equity (i.e., safety margins to outstanding debt) as indicated by our overall conservative weighted-average loan-to-value ratio (LTV) which at September 30, 2019 was 56.2%. Per the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 43.8% in the property, and we as lenders have loaned in the aggregate 56.2% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans.

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

Performance overview

Net income available to limited partners as a percent of Limited Partners' capital – average daily balance was 7.4% and 5.0% for the three and nine months ended September 30, 2019.

For the nine months ended September 30, 2019, the decrease in interest income on loans ($6.1 million in 2019, $7.2 million in 2018) is reflective of the decrease in the secured loan – average daily balance, due primarily to the overall reduction in total capital under management. Net income for the nine months ended September 30, 2019 was approximately $4,233,000, an increase of approximately $641,000 (17.8%) compared to the same period in 2018 due primarily to the collection of a profit interest under a workout agreement dated October 21, 2011, which was partially offset by a decrease in the secured loan principal – average daily balance, and the overall reduction in capital under management. Total limited partners' capital was approximately $104.6 million and $127.1 million at September 30, 2019 and 2018, respectively. Total operations expense as a percent of interest income on loans was 58.3% and 51.1% for the nine months ended September 30, 2019 and 2018, respectively.

Analysis and discussion of income from operations 2019 v. 2018 (nine months ended)

Significant changes to revenue and expense for the nine month period ended September 30, 2019 compared to the same period in 2018 are summarized in the following table ($ in thousands).

	Interest on Loans	Provision for (Recovery of) Loan Losses	Operations Expense	Net Income
For the nine months ended				
September 30, 2019	$ 6,124	$ (1,613)	$ 3,571	4,233
September 30, 2018	7,159	(13)	3,661	3,592
Change	$ (1,035)	$ (1,600)	$ (90)	$ 641
Change				
Average daily loan balance decrease	(1,020)	—	(145)	(875)
Effective yield rate	(15)	—	—	(15)
REO valuation adjustments	—	—	162	(162)
REO sales	—	—	(81)	81
Capital balance decrease	—	—	(211)	211
Professional services rendered	—	—	(55)	55
Cost reimbursements - recovery	—	—	144	(144)
Asset management fees - recovery	—	—	85	(85)
Manager expense allocations	—	—	(48)	48
Recovery from workout agreement	—	(1,613)	—	1,613
Other	—	13	59	(86)
Change	$ (1,035)	$ (1,600)	$ (90)	$ 641

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

Interest on loans

The decrease in interest income for the nine months ended September 30, 2019 as compared to the same period in 2018, was due to the decrease of the secured loan principal – average daily balance, and default interest collected on a previously impaired loan during the nine months ended September 30, 2018. The secured loans principal- average daily balance decreased approximately $14.2 million, or approximately 13.0% as compared to the same period in 2018.

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

At September 30, 2019, the partnership had no allowance for loan losses as all loans had protective equity such that at September 30, 2019, collection was deemed probable for amounts owing. On September 30, 2019, RMI VIII received $1.6 million pursuant to the terms of a workout agreement dated October 21, 2011, between RMI VIII and a borrower in default on certain loans secured by various California properties. See Note 4 (Loans) to the financial statements included in Part I, Item 1 of this report for detailed discussion on the recovery of loan losses, which presentations are incorporated by this reference into this Item 2.

Operations expense 2019 v. 2018 (nine months ended)

Significant changes to operations expense for the nine month period ended September 30, 2019 compared to the same period in 2018 are summarized in the following table ($ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	REO, net	Other	Total
For the nine months ended							
September 30, 2019	$ 1,086	$ 408	$ 1,067	$ 748	$ 249	$ 13	$ 3,571
September 30, 2018	1,231	396	1,260	696	124	(46)	3,661
Change	$ (145)	$ 12	$ (193)	$ 52	$ 125	$ 59	$ (90)
Change							
Average daily loan balance decrease	(145)	—	—	—	—	—	(145)
REO valuation adjustments	—	—	—	—	162	—	162
REO sales	—	—	(26)	(18)	(37)	—	(81)
Capital balance decrease	—	(73)	(138)	—	—	—	(211)
Professional services rendered	—	—	—	(55)	—	—	(55)
Cost reimbursements - recovery	—	—	144	—	—	—	144
Asset management fees - recovery	—	85	—	—	—	—	85
Manager expense allocations	—	—	(173)	125	—	—	(48)
Other	—	—	—	—	—	59	59
Change	$ (145)	$ 12	$ (193)	$ 52	$ 125	$ 59	$ (90)

As a result of the receipt of proceeds of approximately $1.6 million pursuant to a recovery from a workout agreement with a borrower, the manager was entitled to certain asset management fees and cost reimbursements of certain specific costs associated with the workout agreement.

- *Mortgage servicing fees*

The decrease in mortgage servicing fees for the nine month period ended September 30, 2019 as compared to the same period in 2018, was due to the decrease in the secured loans principal – average daily balance to $94.8 million from $108.9 million. Fees are charged at the annual rate of 1.5%.

- *Asset management fees*

The increase in asset management fees for the nine month period ended September 30, 2019 as compared to the same period in 2018, was due to the payment of asset management fees relating to the recovery from a workout agreement, which was partially offset by the overall reduction in the total capital under management. Total limited partners' capital at September 30, 2019 and 2018, was approximately $104.6 million and $127.1 million, respectively. Asset management fees are charged up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually).

- *Costs from RMC*

RMC is reimbursed by the partnership for operating expenses incurred on behalf of the partnership, including without limitation, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners, and out-of-pocket general and administration expenses. The decrease in costs from RMC was due to the reduction in total capital under management, a decrease in the cost of REO management, and a decrease in allocable payroll and consulting expenses incurred by RMC. The costs were partially offset by the cost reimbursements to the manager relating to the recovery of loan losses from a workout agreement. Other costs are allocated pro-rata based on the percentage of total capital of all mortgage funds managed by RMC. Payroll and consulting fees are broken out first based on activity, and then allocated to the partnership pro-rata based on percentage of capital to the total capital of all mortgage funds. The decision to request reimbursement of any qualifying charges is made by RMC at its sole discretion.

- *Professional services*

Professional services consist primarily of legal, data and computer processing expenses related to recordkeeping and reporting for the accounts of individual investors, audit and tax compliance expenses. The increase in professional services expenses was due primarily to an increase in computer and data processing fees as the service provider was able to specifically identify its cost by entity to the manager, when previously the partnership had relied on estimates by RMC, and an increase in audit and legal fees relating to real estate transactions and related financial reporting.

REO, net

The September 30, 2019, REO balance, end of period, was approximately $3.9 million, an increase of 4.9% ($184,000) compared to the September 30, 2018 balance of approximately $3.8 million. The increase in the REO balance, end of period from September 30, 2018 to September 30, 2019 was due primarily to adjustments to the REO valuation reserves resulting from updated appraisals and market data, offset by the sale of certain REO properties. See Note 5 (Real Estate Owned (REO)) to the financial statements included in Part I, Item 1 of this report for detailed presentations of REO sales transactions, and additional information regarding REO activity during the period, which presentation is incorporated by reference into this Item 2.

Analysis and discussion of income from operations 2019 v. 2018 (three months ended)

Significant changes to revenue and expense for the three month period ended September 30, 2019 compared to the same period in 2018 are summarized in the following table ($ in thousands).

	Interest on Loans	Provision for (Recovery of) Loan Losses	Operations Expense	Net Income
For the three months ended				
September 30, 2019	$ 1,815	$ (1,613)	$ 1,485	$ 1,992
September 30, 2018	1,983	—	1,141	852
Change	$ (168)	$ (1,613)	$ 344	$ 1,140
Change				
Average daily loan balance decrease	(282)	—	(30)	(252)
Effective yield rate	114	—	—	114
REO valuation adjustments	—	—	162	(162)
REO sales	—	—	(79)	79
Capital balance decrease	—	—	(102)	102
Professional services rendered	—	—	42	(42)
Cost reimbursements - recovery	—	—	144	(144)
Asset management fees - recovery	—	—	85	(85)
Manager expense allocations	—	—	125	(125)
Recovery from workout agreement	—	(1,613)	—	1,613
Other	—	—	(3)	42
Change	$ (168)	$ (1,613)	$ 344	$ 1,140

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

Interest on loans

The decrease in interest income for the three month period ended September 30, 2019 as compared to the same period in 2018, was due primarily to the decrease of the secured loans principal- average daily balance of approximately $12.7 million, or approximately 13.0%.

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

At September 30, 2019, the partnership had no allowance for loan losses as all loans had protective equity such that at September 30, 2019, collection was deemed probable for amounts owing. On September 30, 2019, RMI VIII received $1.6 million pursuant to the terms of a workout agreement dated October 21, 2011, between RMI VIII and a borrower in default on certain loans secured by various California properties. See Note 4 (Loans) to the financial statements included in Part I, Item 1 of this report for detailed discussion on the recovery of loan losses, which presentations are incorporated by this reference into this Item 2.

Operations expense 2019 v. 2018 (three months ended)

Significant changes to operations expense for the three month period ended September 30, 2019 compared to the same period in 2018 are summarized in the following table ($ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	REO, net	Other	Total
For the three months ended							
September 30, 2019	$ 330	$ 187	$ 439	$ 347	$ 187	$ (5)	$ 1,485
September 30, 2018	360	126	384	180	$ 93	(2)	1,141
Change	$ (30)	$ 61	$ 55	$ 167	$ 94	$ (3)	$ 344
Change							
Average daily loan balance decrease	(30)	—	—	—	—	—	(30)
REO valuation adjustments	—	—	—	—	162	—	162
REO sales	—	—	(11)	—	(68)	—	(79)
Capital balance decrease	—	(24)	(78)	—	—	—	(102)
Professional services rendered	—	—	—	42	—	—	42
Cost reimbursements - recovery	—	—	144	—	—	—	144
Asset management fees - recovery	—	85	—	—	—	—	85
Manager expense allocations	—	—	—	125	—	—	125
Other	—	—	—	—	—	(3)	(3)
Change	$ (30)	$ 61	$ 55	$ 167	$ 94	$ (3)	$ 344

As a result of the receipt of proceeds of approximately $1.6 million pursuant to a recovery from a workout agreement with a borrower, the manager was entitled to certain asset management fees and cost reimbursements of certain specific costs associated with the workout agreement.

- *Mortgage servicing fees*

The decrease in mortgage servicing fees for the three month period ended September 30, 2019 compared to the same period in 2018, was due primarily to the decrease in the secured loans principal – average daily balance. Fees are charged at the annual rate of 1.5%.

- *Asset management fees*

The increase in asset management fees for the three month period ended September 30, 2019 as compared to the same period in 2018, was due to the payment of asset management fees relating to the recovery from a workout agreement, which was partially offset by the reduction in the total capital under management. Total limited partners’ capital at September 30, 2019 and 2018, was approximately $104.6 million and $127.1 million, respectively. Asset management fees are charged up to 1/32 of 1% of the “net asset value” (3/8 of 1% annually).

- *Costs from RMC*

RMC is reimbursed by the partnership for operating expenses incurred on behalf of the partnership, including without limitation, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners, and out-of-pocket general and administration expenses. The increase in costs from RMC was due to the payment of cost reimbursements to the manager relating to the recovery from a workout agreement. The increase in costs were partially offset by a reduction in total capital under management, a decrease in the cost of REO management, and a decrease in allocable payroll and consulting expenses incurred by RMC. Other costs are allocated pro-rata based on the percentage of total capital of all mortgage funds managed by RMC. Payroll and consulting fees are broken out first based on activity, and then allocated to the partnership on a pro-rata basis based on percentage of capital to the total capital of all mortgage funds. The decision to request reimbursement of any qualifying charges is made by RMC at its sole discretion.

- *Professional services*

Professional services consist primarily of legal, data and computer processing expenses related to recordkeeping and reporting for the accounts of individual investors, audit and tax compliance expenses. The increase in professional services expenses was due primarily to an increase in computer and data processing fees as the service provider was able to specifically identify its cost by entity to the manager, when previously the partnership had relied on estimates by RMC and an increase in audit and legal fees relating to real estate transactions, and related financial reporting.

REO, net

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

Cash flows and liquidity

Cash flows by business activity are presented in the following table for the three and nine months ended September 30, 2019 and 2018 ($ in thousands).

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Partners' capital				
Partner liquidations	$ (5,823)	$ (7,191)	$ (18,860)	$ (21,321)
Partner distributions	(569)	(584)	(1,765)	(1,916)
Formation loan, net of early withdrawal fees	96	180	323	538
Cash used in partners' capital	(6,296)	(7,595)	(20,302)	(22,699)
Loan earnings and payments				
Interest income	1,638	1,919	5,735	7,554
Other loan revenue	11	12	29	71
Recovery of loan losses	1,613	—	1,613	—
Operations expense, net of REO	(939)	(927)	(2,819)	(3,319)
Prepaid interest	—	455	—	455
Principal collected	28,646	2,845	56,346	32,781
Loans transferred to affiliates	—	—	—	5,890
Loans sold to non-affiliate, net	7,832	—	7,832	7,247
Cash from loan earnings and payments	38,801	4,304	68,736	50,679
Loans originated, net	(26,444)	(17,725)	(52,838)	(23,125)
Advances received on loans	—	—	(91)	428
Total cash from loan production	(26,444)	(17,725)	(52,929)	(22,697)
Cash from (used in) loan earnings and production	12,357	(13,421)	15,807	27,982
REO operations, sales and development				
Proceeds from real estate sales	—	1,279	—	3,321
Holding costs	23	(45)	(39)	(189)
Rental operations, net	—	27	—	49
Cash from (used in) REO operations, sales and development	23	1,261	(39)	3,181
Net cash increase (decrease) before distributions to limited partners	12,380	(12,160)	15,768	31,163
Net increase/(decrease) in cash	$ 6,084	$ (19,755)	$ (4,534)	$ 8,464
Cash, end of period	$ 9,073	$ 10,187	$ 9,073	$ 10,187

Withdrawals of limited partner capital

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Capital liquidations-without penalty	$ 4,863	$ 5,109	$ 15,624	$ 14,897
Capital liquidations-subject to penalty	960	2,082	3,236	6,424
Total	$ 5,823	$ 7,191	$ 18,860	$ 21,321
Scheduled liquidations, at September 30	$ 43,769	$ 50,545	$ 43,769	$ 50,545

See Note 3 (General Partners and Other Related Parties) for a discussion on scheduled limited partner capital withdrawals at September 30, 2019.

The ongoing sources of funds for loans are the proceeds (net of withdrawals from partner capital accounts, subject to limitations) from:

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

The partnership's loans generally have shorter maturity terms than typical mortgages. As a result, constraints on the ability of our borrowers to refinance their loans at maturity could have a negative impact on their ability to repay their loans. In the event a borrower is unable to repay its loan at maturity, the partnership may consider extending the term through a loan modification or foreclosing on the property. A reduction in loan repayments would reduce the partnership's cash flows and restrict the partnership's ability to invest in new loans and/or, if ongoing for an extended period, provide earnings distributions and withdrawals of partners' capital.

The partnership's loans are funded at fixed interest rates. Generally, the interest rates on the partnership's mortgage loans have not been affected by market movements in interest rates, however, there can be no assurance that future interest rate fluctuations will not have an adverse effect on the partnership's mortgage loans. If, as expected, the partnership continues to make and invest primarily in fixed rate loans, a rise in interest rates could result in fewer prepayments of the partnership's loans. This increase in the duration of the time loans remain outstanding may reduce overall liquidity of the partnership's loan portfolio, which itself could reduce the partnership's ability to invest in new loans at higher interest rates. Conversely, if interest rates decrease, the partnership could see a significant increase in loan prepayments by borrowers. If the partnership then invests in new loans at lower rates of interest, it could result in a lower yield to partners.

Contractual Obligations

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

At September 30, 2019, the partnership had no construction or rehabilitation loans outstanding.

At September 30, 2019, the partnership had no off-balance sheet arrangements as such arrangements are not permitted by the partnership agreement.

Distributions to limited partners

At the time of their subscription to the partnership, limited partners elected either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound profits in their capital account. If a partner initially elected to receive monthly, quarterly or annual distributions, such election, once made, is irrevocable. If the partner initially elected to compound profits in their capital account, in lieu of cash distributions, the partner may, after three (3) years, change the election and receive monthly, quarterly or annual cash distributions. Profits allocable to limited partners who elect to compound profits in their capital account will be retained by the partnership for making further loans or for other proper partnership purposes and such amounts will be added to such limited partners' capital accounts. The percentage of limited partners electing distribution of allocated net income, by weighted average to total partners' capital was 61% and 62% at September 30, 2019, and 2018, respectively.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

California limited partnerships generally do not have a board of directors, nor, therefore, do we have an audit committee of the board of directors. Thus, there is not conventional independent oversight of the partnership's financial reporting process. The manager, however, provides the equivalent functions of a board of directors and of an audit committee for, among other things, the following purposes:

- appointment, compensation, review and oversight of the work of the independent public accountants; and
- establishing and maintaining internal controls over financial reporting.

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

Changes to Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. **Legal Proceedings**

In the normal course of business, the partnership may become involved in various types of legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc. to enforce provisions of the deeds of trust, collect the debt owed under promissory notes or protect or recoup its investment from real property secured by the deeds of trust and resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions would typically be of any material importance. As of September 30, 2019, the partnership was not involved in any legal proceedings other than those that would be considered part of the normal course of business.

ITEM 1A. **Risk Factors**

Not included as the partnership is a smaller reporting company.

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

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

Liquidations are made once a quarter, on the last business day of the quarter. Liquidations for the three months ended September 30, 2019 were approximately $5,823,000. The unit liquidation program is ongoing and available to partners beginning one year after the purchase of the units. The maximum number of units that may be liquidated in any year and the maximum amount of liquidation available in any period to partners are subject to certain limitations described in the Partnership Agreement.

ITEM 3. **Defaults Upon Senior Securities**

Not Applicable.

ITEM 4. **Mine Safety Disclosures**

Not Applicable.

ITEM 5. **Other Information**

None.

ITEM 6. **Exhibits**

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

SIGNATURES

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

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

Date: November 13, 2019

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

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

Date: November 13, 2019

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

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