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

FORM 10-K

(Mark one)

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

For the Year Ended December 31, 2019

☐ **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: 000-55601

REDWOOD MORTGAGE INVESTORS IX, LLC
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**26-3541068** (I.R.S. Employer Identification Number)
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)

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		

Securities registered pursuant to Section 12(g) of the Act: **Units of Limited Liability Company Interests**

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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

The registrant's units of limited liability company interests are not publicly traded and therefore have no market value. The registrant is conducting an ongoing offering of its units pursuant to a Registration Statement on Form S-3 (File No. 333-208315), which are being sold at $1.00 per unit. The registrant had 81,893,976 limited liability company interests outstanding as of February 29, 2020.

REDWOOD MORTGAGE INVESTORS IX, LLC
(A Delaware Limited Liability Company)
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December 31, 2019

Forward-Looking Statements

Certain statements in this Report on Form 10-K which are not historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the company'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 company and its assets; estimates as to the allowance for loan losses; forecasts of future sales and redemptions of units, forecasts of future funding of loans; loan payoffs and the possibility of future loan sales (and the gain thereon, net of expenses) to third parties, if any; forecasts of future financial support by the manager including the eventual elimination of financial support; future fluctuations in the net distribution rate; and beliefs relating to how the company will be affected by current economic conditions and trends in the financial and credit markets. Actual results may be materially different from what is projected by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the following:

- changes in California real estate markets, economic conditions, and/or interest rates;
- the impact of competition on pricing for mortgage loans;
- the manager's capability to arrange loans that fit our investment criteria;
- the credit risks to which we are exposed;
- increases in payment delinquencies and/or defaults on our mortgage loans;
- changes in government regulation and legislative actions affecting our business; and
- the timing and dollar amount of the decreasing financial support from the manager and the corresponding impact on the net income, cash available for distributions and net distribution rate to members.

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

Part I

Item 1 – Business

Redwood Mortgage Investors IX, LLC (we, RMI IX or the company) is a Delaware limited liability company formed in October 2008 to engage in business as a mortgage lender and investor by making and holding-for-investment mortgage loans secured by California real estate, primarily through first and second deeds of trust.

The company is externally managed by Redwood Mortgage Corp (RMC or the manager). The manager is solely responsible for managing the business and affairs of the company, 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 company. RMC provides the personnel and services necessary for the company to conduct its business as the company has no employees of its own. The mortgage loans the company funds and/or invests in are arranged and generally are serviced by RMC.

The rights, duties and powers of the members and manager of the company are governed by the Ninth Amended and Restated Limited Liability Company Operating Agreement of RMI IX (the "Operating Agreement"), the Delaware Limited Liability Company Act and the California Revised Uniform Limited Liability Company Act.

Members representing a majority of the outstanding units may, without the concurrence of the managers, vote to: (i) dissolve the company, (ii) amend the Operating Agreement, subject to certain limitations, (iii) approve or disapprove the sale of all or substantially all of the assets of the company or (iv) remove or replace one or all of the managers. Where there is only one manager, a majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

The following is a summary of certain provisions of the Operating Agreement and is qualified in its entirety by the terms of the Operating Agreement. Members should refer to the company's Operating Agreement for complete disclosure of its provisions.

The company's primary investment objectives are to:

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

The ongoing sources of funds for loans are the proceeds (net of redemption of members' capital and operating expenses) from:

- loan payoffs;
- borrowers' monthly principal and interest payments, net of operating expenses;
- a line of credit;
- loan sales to unaffiliated 3rd parties and loan transfers by executed assignment to affiliated mortgage funds;
- payments from RMC on the outstanding balance of the formation loan; and,
- sale of units to members participating in the dividend reinvestment plan and – prior to May 2019 – sale of units net of reimbursement to RMC of organization and offering expenses ("O&O expenses") and net of amounts advanced for the formation loan to RMC.

The company intends to hold until maturity the loans in which it invests and does not presently intend to invest in mortgage loans primarily for the purpose of reselling such loans in the ordinary course of business; however, the company may sell mortgage loans (or fractional interests therein) when the manager determines that it appears to be advantageous for the company to do so, based upon then current interest rates, the length of time that the loan has been held by the company, the company's credit risk and concentration risk and the overall investment objectives of the company. 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. Company 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 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 company; however, selling loans will increase members' capital available for investing in new loans for which the manager will earn brokerage fees and other forms of compensation.

Distribution policy

Cash available for distribution at the end of each calendar month is allocated ninety-nine percent (99%) to the members and one percent (1%) to the manager. Cash available for distribution means cash flow from operations (excluding repayments for loan principal and other capital transaction proceeds) less amounts set aside for creation or restoration of reserves. The manager may withhold from cash available for distribution otherwise distributable to the members with respect to any period the respective amounts of O&O expenses allocated to the members' accounts for the applicable period pursuant to the company's reimbursement to RMC and allocation to members' accounts of O&O expenses. The amount otherwise distributable, less the respective amounts of O&O expenses allocated to members, is the net distribution. Per the terms of the company's Operating Agreement, cash available for distribution to the members is allocated among the members in proportion to their percentage interests (except with respect to differences in the amounts of O&O expenses allocated to the respective members during the applicable period) and in proportion to the number of days during the applicable month that they owned such percentage interests.

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a detailed discussion on the allocation of O&O expenses to members' accounts, which presentation is incorporated by this reference into this Item 1.

Cash available for distributions allocable to members, other than those participating in the distribution reinvestment plan (DRIP) and the manager, is distributed at the end of each calendar month. Cash available for distribution allocable to members who participate in the DRIP is used to purchase additional units at the end of each calendar month. The manager's allocable share of cash available for distribution is also distributed not more frequently than with cash distributions to members.

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

The company's net income, cash available for distribution, and net-distribution rate fluctuates depending on:

- loan origination volume and the balance of capital available to lend;
- the current and future interest rates negotiated with borrowers;
- the timing and amount of gains received from loan sales, if any;
- payment of fees and cost reimbursements to RMC;
- the amount and timing of other operating expenses, including expenses for professional services;
- financial support, if any, from RMC;
- payments from RMC on the outstanding balance of the formation loan; and,
- a line of credit.

Financial Support from RMC

Since commencement of operations in 2009, RMC, at its sole discretion, provided significant financial support to the company which increased the net income, cash available for distribution, and the net-distribution rate, by:

- charging less than the maximum allowable fees;
- not requesting reimbursement of qualifying costs attributable to the company ("Costs from RMC" on the Statements of Income); and/or,
- absorbing some, and in certain periods, all of the company's direct expenses, such as professional fees.

Such fee and cost-reimbursement waivers and the absorption of the company's expenses by RMC were not made for the purpose of providing the company with sufficient funds to satisfy any required minimum level of distributions, as the Operating Agreement has no such required minimum level of distributions, nor to meet withdrawal requests. Decisions to waive fees or cost-reimbursements and/or to absorb direct expenses, such as professional fees, and the amount (if any) to be waived or absorbed, is made by RMC in its sole discretion. This support increased the company's net income and cash available for distributions and resulted in an annual 6.5% net distribution rate to members (6.95% before O&O expenses allocation of 0.45% when applicable) for periods prior to February 28, 2018.

In March 2018, RMC communicated to the members its planned and ongoing reductions in financial support and that net income, cash available for distribution and the net distribution rate were expected to decrease correspondingly.

In April 2018, RMI IX began paying its direct expenses for professional-service fees (legal and audit/tax compliance) and other operating expenses (postage, printing etc.).

In June 2019, RMC began collecting from RMI IX the asset management fee of three quarters of one percent annually (0.75%), and plans to commence collection from RMI IX in 2020 of cost reimbursements to which RMC is entitled.

In 2019, the company began being invoiced directly and paying fees to an independent service bureau for information technology relating to the recordkeeping and reporting for the accounts of individual investors and their corresponding member accounts. In 2018 and prior years these fees were invoiced to RMC and then billed to the company.

Distribution reinvestment plan

On May 9, 2019, the company filed a Registration Statement on Form S-3 with the SEC (SEC File No. 333-231333) to offer up to 15,000,000 units ($15,000,000) to members of record as of April 30, 2019 that had previously elected to participate in the DRIP or that elect to participate in the DRIP. The Registration Statement on Form S-3 became effective on May 9, 2019.

Members of record as of April 30, 2019, that previously elected to participate in the DRIP, or that provide written notice to the manager, may elect to participate in the DRIP, in those states in which approval has been obtained. As of December 31, 2019, the gross proceeds from sales of units to our members under our DRIP pursuant to the May 9, 2019 Form S-3 Registration Statement (after May 9, 2019) was approximately $1,614,000, and approximately $802,000 (for the four month period ended April 30, 2019) pursuant to our Form S-11 Registration Statement.

On June 11, 2019, the company filed a Post-Effective Amendment No. 5 with the SEC (SEC File No. 333-208315) to deregister all of the units which were registered under its Form S-11 Registration Statement that remained unsold as of April 30, 2019.

Liquidity and unit redemption program

There are substantial restrictions on transferability of units, and there is no established public trading and/or secondary market for the units and none is expected to develop. In order to provide liquidity to members, the company's Operating Agreement includes a unit redemption program, whereby beginning one year from the date of purchase of the units, a member may redeem all or part of their units, subject to certain limitations.

The price paid for redeemed units is based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. Redemption value is calculated based on the period from date of purchase as follows:

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

The company redeems units quarterly, subject to certain limitations as provided in the Operating Agreement. The maximum number of units which may be redeemed per quarter per individual member shall not exceed the greater of (i) 100,000 units, or (ii) 25% of the member's total outstanding units. For redemption requests requiring more than one quarter to fully redeem, the percentage discount amount that, if any, applies when the redemption payments begin continues to apply throughout the redemption period and applies to all units covered by such redemption request regardless of when the final redemption payment is made.

The company has not established a cash reserve from which to fund redemptions. The company's capacity to redeem units upon request is limited by the availability of cash and the company's cash flow. As provided in the Operating Agreement, the company will not, in any calendar year, redeem more than five percent (5%) of the weighted average number of units outstanding during the twelve-month period immediately prior to the date of the redemption. In the event unit withdrawal requests exceed 5% in any calendar year, units will be redeemed in the priority provided in the Operating Agreement.

Lending and investment guidelines, objectives and criteria

Our loans generally have shorter maturities than typical mortgages. In the event that a loan is performing, and collection is deemed probable at maturity, we may elect to extend the loan's maturity. In the event a loan is not performing and the borrower is unable to repay in full the principal on the loan by the maturity date, we may elect to modify the loan payment terms and designate the loan as impaired or may foreclose on the loan.

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

Our primary investment objectives are to:

- yield a favorable rate of return from our business of making and/or investing in loans;
- preserve and protect our capital by making and/or investing in loans secured by California real estate, preferably income-producing properties geographically situated in the San Francisco Bay Area and the coastal metropolitan regions of Southern California; and
- generate and distribute cash flow from these mortgage lending and investing activities.

Loans are arranged and generally are serviced by RMC. We generally fund loans at fixed interest rates that provide for:

- monthly payments of either (i) interest only with a balloon payment at maturity or (ii) principal and interest based on a 30-year amortization schedule with a balloon payment at maturity; and
- having maturities of 5 years or less.

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

We believe our LTV policy gives us more potential protective equity than competing lenders who fund loans with a higher LTV. However, we may be viewed as an "asset" lender based on our emphasis on LTV in our underwriting process. Being an "asset" lender may increase the likelihood of payment defaults by borrowers. Accordingly, the company may have a higher level of 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.

See Results of Operations, Secured Loans included in Part II, Item 7 and Note 4 (Loans) to the financial statements included in Part II, Item 8 of this report for a detailed presentation on the secured loan portfolio, which presentation is incorporated by this reference into this Item 1.

Competition

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

The mortgage-lending business is highly competitive, and we compete with numerous established entities, some of which have more financial resources and experience in the mortgage lending business than our manager. We will encounter significant competition from banks, insurance companies, savings and loan associations, mortgage bankers, real estate investment trusts ("REITs") and other lenders with objectives similar in whole or in part to ours.

Regulations

We are engaged 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. We and RMC, which arranges and generally services our loans, are heavily regulated by laws governing lending practices at the federal, state and local levels. In addition, proposals for further regulation of the financial services industry continually are being introduced. The laws and regulations to which we and RMC are subject include rules and restrictions pertaining to:

- the conduct of a mortgage lending business by a licensed California real estate broker or lender under state and federal law;
- real estate settlement procedures;
- fair lending;
- truth in lending;
- federal and state loan disclosure requirements;
- the establishment of maximum interest rates, finance charges and other charges;
- loan-servicing procedures;
- secured transactions and foreclosure proceedings;
- privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers; and
- with respect to the company and the offering of member units, required filings with the Securities and Exchange Commission ("SEC") pursuant to federal securities laws, including periodic reports such as Form 10-K and Form 10-Q, and with the States' securities agencies.

Key federal and state laws, regulations, and rules relating to the conduct of our business include the following:

- *California Real Estate Law.*

  The California Real Estate Law, codified in California Business and Professions Code Sections 10000 *et seq*., together with the Real Estate Commissioner's rules thereunder, govern the licensing, administration and activities of licensed real estate brokers (including mortgage loans brokers) in the State of California, including rules relating to, among other things, licensing, borrower and investor disclosures, compensation and fees, disciplinary action, and transactions involving trust deeds and real property sale contracts generally. We are not a licensed real estate broker but our manager, RMC, is so licensed and will be subject to those laws and regulations.

  RMC's loan files and other books and records are subject to examination by the California Department of Real Estate. Such examinations, as well as new regulations that may be issued in the future, could ultimately increase RMC's and our administrative burdens and costs.

- *Dodd-Frank Wall Street Reform and Consumer Protection Act.*

  This federal law passed in 2010 imposes significant regulatory restrictions on the origination of residential mortgage loans, under sections concerning “Mortgage Reform and Anti-Predatory Lending.” For example, when a consumer loan is made, the lender is required to make a reasonable and good faith determination, based on verified and documented information concerning the consumer’s financial situation, as to whether the consumer has a reasonable ability to repay a residential mortgage loan before extending the loan. The act established regulations prohibiting a creditor from extending credit to a consumer secured by a high-cost mortgage without first receiving certification from an independent counselor approved by a government agency. The act also added new provisions prohibiting balloon payments for defined high-cost mortgages. The act established the Consumer Financial Protection Bureau (CFPB), giving it regulatory authority over most federal consumer-lending laws, including those relating to residential mortgage lending, and oversight over companies that provide consumer financial products or services, including us. Many of the federal regulations governing mortgage lending have been significantly amended and expanded through the passage of the Dodd Frank Act.

- *Real Estate Settlement Procedures Act (“RESPA”).*

  RESPA is a federal law passed in 1974 with the purpose of establishing settlement procedures for consumer real estate purchase and refinance transactions on residential (1-4 unit) properties. It establishes rules relating to affiliated business relationships, escrow accounts for property taxes and hazard insurance and loan servicing, among other things. It prohibits unearned referral fees from being charged in a covered transaction. RESPA also governs the format of the Loan Estimate and the Closing Disclosure forms provided to consumers in real estate transactions.

- *Truth in Lending Act (“TILA”).*

  TILA is a federal law passed in 1968 for the purpose of regulating consumer financing. For real estate lenders, TILA requires, among other things, advance disclosure of certain loan terms, calculation of the costs of the loan as demonstrated through an annual percentage rate, and the right of a consumer in a refinance transaction on their primary residence to rescind their loan within three days following signing of the loan document.

- *Home Ownership and Equity Protection Act (“HOEPA”) and California Covered Loan Law.*

  HOEPA is a federal law passed in 1994 to provide additional disclosures for certain closed-end home mortgages. These “high-cost” closed-end home mortgages are loans with interest rates and fees in excess of certain percentage or amount thresholds. These regulations primarily focus on additional disclosure with respect to the terms of the loan to the borrower, the timing of such disclosures, and the prohibition of certain loan terms, including balloon payments and negative amortization. Failure to comply with the regulations will render the loan rescindable for up to three years. Lenders can be held liable for attorneys’ fees, finance charges and fees paid by the borrower and certain other money damages. Similarly, in California, Financial Code Section 4970, et. seq., became effective in 2002. It provides for state regulation of “high-cost” consumer residential mortgage loans (also called “covered loans”) secured by liens on real property. Section 4970 defines covered loans as consumer loans on primary residences in which the original principal balance of the loan does not exceed the most current conforming loan limit for a single-family first mortgage loan established by the Federal National Mortgage Association, with interest rates and/or fees exceeding one of the statutorily defined percentage or amount thresholds. The law prohibits certain lending practices with respect to high-cost loans, including the making of a loan without regard to the borrower’s income or obligations. When making such loans, lenders must provide borrowers with a consumer disclosure and provide for an additional rescission period prior to closing the loan.

- *Mortgage Disclosure Improvement Act.*

  This federal law enacted in 2008, regulates the timing and delivery of loan disclosures for all mortgage loan transactions governed under the Real Estate Settlement Procedures Act.

- *Home Mortgage Disclosure Act ("HMDA").*

  This federal law enacted in 1975 provides for public access to information on a lender's loan activity. It requires lenders to report to their federal regulator certain information about mortgage loan applications it receives, such as the race and gender of its customers, the disposition of the mortgage application, income of the borrowers and interest rate (i.e., APR) information. Amendments to HMDA became effective on January 1, 2018. Under the amended regulation lenders are required to report 40 additional data points on their loan applications, including borrower age and credit data, lender fees, debt-to-income ratios and loan-to-value ratios.

- *Red Flags Rule.*

  This federal rule was issued in 2007 under Section 114 of the Fair and Accurate Credit Transactions Act of 2003 and amended by the Red Flag Program Clarification Act of 2010. It requires lenders and creditors to implement an identity theft prevention program to identify and respond to account activity in which the misuse of a consumer's personal identification may be suspected.

- *Gramm-Leach-Bliley Act (aka Financial Services Modernization Act of 1999).*

  This federal act passed in 1999 requires all businesses that have access to consumers' personal identification information to implement a plan providing for security measures to protect that information. As part of this program, we provide applicants and borrowers with a copy of our privacy policy.

- *The California Homeowner Bill of Rights ("HOBR").*

  This series of state laws, which initially became effective January 1, 2013, and was reinstated by Senate Bill No. 818 on September 14, 2018, is intended to ensure fair lending and borrowing practices for California homeowners by guaranteeing basic fairness and transparency during the foreclosure process. Key provisions include restrictions on dual-track foreclosures, a guaranteed single point of contact, civil penalties for lenders filing unverified documents, and protections for tenants of foreclosed properties. HOBR also provides borrowers with the authority to seek redress of material violations of its rules, such as by an injunction (prior to foreclosure sale) or recovery of damages (after foreclosure sale).

- *California Consumer Privacy Act of 2018 ("CCPA")*

  Effective January 1, 2020, the CCPA provides California consumers with broad rights regarding the use and sale of personal information collected by businesses covered by the CCPA. The CCPA generally applies to businesses that both collect personal information from California consumers and either (i) have $25 million or more in annual gross revenues; or (ii) derive more than 50% of their annual revenue from selling consumers' personal information. Covered businesses are required to disclose the categories of personal information collected about consumers and to adopt privacy policies and procedures that, among other things, specifically allow consumers to request the deletion of their information and to exclude their information from sale. Neither the company nor RMC has or will sell information collected from consumers in connection with their lending businesses. RMC does, however, collect personal information from potential borrowers, investors and other parties that constitutes personal information governed by the CCPA. Some of this personal information is also shared with the company and other loan programs it manages for the purposes of conducting their business operations. RMC and its loan programs currently do not have $25 million in gross revenues and are not directly subject to the CCPA. However, RMC, the company and RMC's other loan programs may, in the aggregate, exceed this $25 million threshold in the future in which case one or more of them may become subject to the CCPA requirements. RMC may also elect to incorporate all or some of the CCPA requirements into the current privacy policy of RMC and the company at any time.

Key federal and state laws, regulations, and rules relating to the offering of our units include the following.

- *Federal Securities Laws: The Securities Act of 1933 and The Exchange Act of 1944*

  Because our offering of units has been registered under the Securities Act and we have registered the units pursuant to Section 12(g) of the Exchange Act, we are a public reporting company. As a public reporting company, we are required to file annual, quarterly and other periodic reports with the SEC and comply with applicable provisions of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and the related rules and regulations promulgated by the SEC. However, as discussed in Item 9A of this report, the company is externally managed by RMC and many of the requirements of Sarbanes-Oxley are not directly applicable to us since we do not have a board of directors, including an independent board member. The registration of our units pursuant to Section 12(g) of the Exchange Act, along with the satisfaction of certain other requirements under the Employee Retirement Income Security Act of 1974 (“ERISA”), enables the units to qualify as “publicly-offered securities” for purposes of ERISA and regulations issued thereunder. See Section 9A of this report.

- *Sarbanes-Oxley Act of 2002*

  RMC, as our manager, is responsible for establishing and maintaining adequate internal control over financial reporting with respect to us as required by Section 404 of Sarbanes-Oxley and rules and regulations of the SEC thereunder. RMC is required to review and evaluate on an annual basis our internal control over financial reporting, and on a quarterly basis, to evaluate changes in our internal control over financial reporting.

- *Financial Industry Regulatory Authority Regulatory Notice 15-02*

  In 2015 the SEC approved amendments to rules of the Financial Industry Regulatory Authority (“FINRA”) applicable to securities of direct participation programs, such as our units and to non-listed real estate investment trusts. The amendments, which became effective on April 11, 2016, provide, among other things, that (i) FINRA members distributing our units must include in customer account statements our per unit estimated value that must be developed using a methodology reasonably designed to ensure our per unit estimated value’s reliability; and (ii) our per unit estimated value disclosed from and after 150 days following the second anniversary of the admission of investors in our public offering must be based on an appraised valuation methodology developed by, or with the material assistance of, a third-party expert and updated on at least an annual basis. The rule changes also provide that the account statements must include additional disclosure regarding the sources of our distributions to unit holders.

- *Blue Sky Laws*

  We are subject to the state securities laws (“blue sky laws”) of the states in which we offer and sell our units. Under some state’s blue sky laws, we have to maintain the registration of our offering of units in the state through annual filings and payment of annual fees.

Term of the company

The term of the company will continue until October 2028, unless sooner terminated as provided in the Operating Agreement.

Item 1A – Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered, in addition to the other information presented elsewhere in this report, in evaluating us and our business. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business operations. If any of the following risks or additional risks and uncertainties actually occur, our business, operating results, and financial condition could be adversely affected.

INVESTMENT RISKS

Our units are not listed on an exchange or quoted through a quotation system, and will not be for the foreseeable future, if ever and there are substantial restrictions on the transferability of units.

Investors will have limited ability to sell their units. Our units are not listed on an exchange or quoted through a quotation system, and there is no secondary market nor do we expect that any will develop in the foreseeable future. Units are not freely transferable, and they may not be acceptable by a lender as security for borrowing. Our operating agreement also imposes substantial restrictions upon your ability to transfer units. Therefore, an investment in our units is not suitable for investors who expect to require short-term liquidity from their investments.

You are limited in your ability to have your units redeemed under our unit redemption program.

Our unit redemption program contains significant restrictions and limitations that limit your ability to redeem your units. Our operating agreement makes no provision for members to withdraw from the company or to obtain the return on their capital accounts for a one-year period from the date of the purchase of units. In addition, the number of units you may redeem per quarter is subject to a maximum of the greater of 100,000 units or 25% of your units outstanding. Also, we will not, in any calendar year, redeem from all of our members a total of more than 5% (or in any calendar quarter, redeem more than 1.25%) of the weighted average number of all units outstanding during the 12-month period immediately prior to the date of the redemption.

Moreover, our manager reserves the right, in its sole discretion, at any time, to reject any request for redemption, or to suspend or terminate the acceptance of new redemption requests without prior notice, or to terminate, suspend or amend the unit redemption program upon 30-day notice.

We fund redemptions solely from available company cash flow and do not have a working capital reserve from which to fund redemptions. For this purpose, cash flow is considered to be available only after all current company expenses have been paid (including compensation to our manager), adequate provision has been made for payment of our current and future debt, and adequate provision has been made for the payment of all monthly cash distributions to members who do not reinvest distributions pursuant to our distribution reinvestment plan. Accordingly, we cannot guarantee that we will have sufficient funds to accommodate all redemption requests made in any given year.

There is no assurance you will receive cash distributions.

Although our manager has provided significant financial support, our manager is entitled to be paid for certain services performed for us and to be reimbursed by us for expenses paid on our behalf. We bear all direct expenses incurred in our operations. These fees and expenses are deducted from cash funds generated by our operations prior to computing the amount that is available for distribution to you. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Performance overview.”

Also, our manager, in its discretion, may retain a portion of cash funds generated from operations for working capital purposes. Thus, there is no assurance as to when or whether cash will be available for distributions to you.

In the event we do not have enough cash flow from operating activities to fund our distributions, we may need to defer or reduce distributions. Our manager has provided significant financial support that improved net income, and the return to investors.

Our manager intends to cease providing support by the fourth quarter of 2020. Depending on our future cash flow from operating activities, we may be required to reduce our distributions as the manager's support is reduced. It is unlikely that we could maintain the existing distribution level through our investment activity.

In addition, increased competition and new entrants in the market for mortgage loan originations could adversely impact our ability to originate and acquire real estate-related loans at attractive risk-adjusted returns, which in turn could have an adverse effect on our distributions to you.

You will have no control over our operations, including the loans we make or sell; you must rely on the judgment of our manager in making loans.

You have no right or power to take part in our management. All decisions with respect to our management will be made exclusively by our manager. Our success will, to a large extent, depend on the judgment of our manager as it relates to lending decisions and sales of loans to third parties, if any. You should carefully evaluate our manager's capabilities to perform such functions.

Our manager has broad discretion to implement our investment objectives and can change investment strategies without member consent.

Our operating agreement contains investment objectives, but our manager has broad discretion to implement those objectives. A change in our investment strategy may, among other things, increase our exposure to real estate market fluctuations, default risk and interest rate risk, all of which could materially affect our results of operations and financial condition.

Our manager has various conflicts of interest.

We are managed by our manager which has various conflicts of interest in connection with its management of us, including but not limited to the following:

- Our manager has legal and financial obligations with respect to other entities that are similar to its obligations to us.
- Our manager has to allocate its time between us and other activities, including other entities with which it is involved.
- The fees of our manager are not determined based on arm's-length negotiations.
- The same legal counsel currently represents us and the manager.
- Our manager has the right to conduct other business and to compete with our business.
- Our manager is responsible for originating or arranging substantially all of the loans invested by us and can place loans in our portfolio or other funds that are also managed by our manager. Loan brokerage commissions on loans originated by our manager for our portfolio are retained by our manager.
- In the event our manager defaults on the repayment of the formation loan, a conflict of interest would arise on the manager's part in connection with the enforcement of the formation loan and continued payment of other fees and compensation to our manager, including, but not limited to, the loan servicing fees, loan administrative fees and asset management fees, while such default is continuing.
- See "Our manager's selection of loans for sale to third parties may involve

conflicts of interest between us and our manager."

We have no board of directors.

As is customary for a limited liability company, we do not have a board of directors or any independent directors. In addition, we are not subject to certain of the corporate governance rules under the federal securities laws or under rules established by the national securities exchanges because our units are not registered for trading under the Exchange Act of 1934, as amended. Among other things, these rules relate to:

- independent director standards;
- audit and compensation committees standards; and
- the use of an audit committee financial expert.

Accordingly, our members do not receive the protections these rules and standards were enacted to provide, such as protections against interested director transactions, conflicts of interest and similar matters.

We do not have an audit or compensation committee. As a result, members will have to rely on our manager, which is not independent, to perform these functions. Thus, there is a potential conflict in that our manager, which is engaged in management, will participate in decisions concerning management compensation and audit issues that may affect management performance.

We established the $1 per unit offering price on an arbitrary basis.

We arbitrarily determined the $1 per unit price for reinvestment of distributions. Such price is not necessarily the amount you may receive pursuant to your limited right to redeem units, subject to certain requirements. The amount that a redeeming member will receive is the lesser of the purchase price for the redeemed units or the redeeming member's capital account balance as of the date of each redemption payment. The fair market value of your interest in the company will be irrelevant in determining amounts to be paid upon redemption.

Our manager may purchase units which generally will give our manager the same rights as members.

Our manager, in its discretion, may purchase units for its own account. Upon any such purchases of units, our manager will have the same rights as other members in respect of the units owned by them, including the right to vote on matters that are subject to the vote of members, subject to certain exceptions.

Your interest in us will be diluted if we issue additional units, which could reduce the value of your investment in us.

Our investors do not have any preemptive rights to any units we issue in the future. Pursuant to our operating agreement, we may issue additional units in the future without your consent or the consent of any other members. To the extent we issue additional equity interests after an investor purchases our units, an investor's percentage ownership interest in us will be diluted. In addition, depending on the terms and pricing of any additional offerings and the value of our investments, an investor may also experience dilution in the book value of his or her units.

Our interests in our properties may not be insured or may be underinsured against certain types of losses.

We require comprehensive insurance, including fire and extended coverage, which is customarily obtained for or by a lender, on properties in which we acquire a security interest. Generally, such insurance will be obtained by and at the cost of the borrower. However, there are certain types of losses (generally of a catastrophic nature, such as civil disturbances or terrorism and acts of God such as earthquakes, floods and land or mud slides) which are either uninsurable or not economically insurable. Should such a disaster occur to, or cause the full or partial destruction of, any property serving as collateral for a loan, we could lose both our invested capital and anticipated profits from such investment, which would adversely affect our profitability.

Downturns in the economy and real estate market in the San Francisco Bay Area and the coastal metropolitan regions of Southern California or on a regional or national scale or changing conditions affecting the mortgage lending business could adversely affect our business.

We expect that most of our loans will continue to be secured by properties located in nine counties that comprise the San Francisco Bay Area (San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Marin, Napa, Solano and Sonoma) and the coastal metropolitan regions of Southern California (Los Angeles, Orange, Ventura, and San Diego counties). Our concentration of loans in the San Francisco Bay Area and the coastal metropolitan regions of Southern California exposes us to greater risk of loss if the economy in the San Francisco Bay Area or the coastal metropolitan regions of Southern California weakens than would be the case if our loans were spread throughout California or the U.S.

Should a significant economic deterioration occur in the San Francisco Bay Area or the coastal metropolitan regions of southern California, or on a more wide scale basis, regionally or nationally, we could suffer increases in loan delinquencies and declines in cash flows.

Prolonged uncertainty with respect to COVID-19 (Coronavirus) in California and the United States could result in an economic downturn which in turn could have an adverse effect on our business, financial performance and results of operations.

COVID-19 is a new strain of the novel coronavirus that causes illness ranging from the common cold to more severe symptoms including fever, cough, breathing difficulties, and in more severe cases, pneumonia, acute respiratory syndrome, kidney failure and death. COVID-19, which is highly contagious, was first publicly reported in Wuhan, China on December 31, 2019 and has since been reported in over 170 countries and territories including the United States and both Northern and Southern California. In response to the COVID-19 outbreak, federal, state and local governments as well as the business community have implemented voluntary and increasingly mandatory “social distancing” polices including quarantines, travel bans, work from home initiatives, cancellation or postponement of public events and school closures, among others. On March 4, 2020, California Governor Gavin Newsom declared a State of Emergency to exist in California with respect to the COVID-19. On March 19, 2020 Governor Newsom issued Executive Order N-33-20 ordering all California residents to stay at home except as needed to maintain continuity of operations of the federal critical infrastructure sectors and other sectors designated by the Governor. These measures and the general uncertainty around the COVID-19 virus have recently caused increased volatility in the United States financial markets and economic uncertainty at the state, local and national level. The overall impact of COVID-19 on the California economy and the California real estate markets is not known at this time. The company's revenues and financial results depend upon the ability of borrowers to make payments of principal and interest in a timely manner and on the interest rates charged on loans. In addition, the company's loans are secured by real properties located in Northern and Southern California and the overall impact of COVID-19 on the California real estate market cannot be predicted at this time. If there is prolonged uncertainty with respect to COVID-19 in California and the United States, it could result in an economic downturn or recession in national and local economies including but not limited to increases in unemployment rates and disruptions to businesses, which could have a negative impact on the ability of borrowers to make principal and interest payments, as well as the company's volume of loan originations. These factors combined with a decline in California real estate values could have a short or long term material adverse impact on the company’s business, financial performance and results of operations.

You will be bound by the actions taken by the majority voting power.

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

- dissolve and terminate the company;

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

If you do not vote with the majority in interest of the other members, you nonetheless will be bound by the majority vote.

If payments are not made on the formation loan under certain circumstances, such as our manager's removal, it may reduce your rate of return or affect our capital available to fund new loans.

We have previously advanced to our manager funds in an amount equal to the sales commissions for our units and premiums paid to investors in connection with unsolicited sales of our units. The formation loan is an unsecured loan that does not bear interest and will be repaid in annual installments. If our manager was removed or unable to repay the formation loan when due, we would incur a significant loss in the amount of the formation loan then owing. See "Investment Risks – Our manager has various conflicts of interests."

A portion of the amount we receive from redeeming members as early redemption penalties may first be applied to reduce the principal balance of the formation loan. This will have the effect of reducing the amount owed by our manager to us. If our manager is removed as a manager by the vote of a majority in interest of the members and a successor or additional manager, which is elected without the concurrence of the manager, begins using any other loan brokerage firm for the placement of loans or loan servicing, our manager will be immediately released from any further payment obligation under the formation loan. If the manager is removed, no other manager is elected, the company is liquidated or our manager is no longer receiving payments for services rendered, we will forgive the debt on the formation loan and our manager will be immediately released from any further obligations under the formation loan.

In addition, if we and our manager agree to suspend formation loan payments for a period of time, then as a result of such suspended payments we would have less capital to invest in loans during that period, which could adversely affect our profitability.

Upon liquidation, you may experience delays in receiving distributions, you may not be able to fully recover your investment or you may not receive any distributions.

Under our operating agreement, we will continue to operate until October 8, 2028, unless our term is extended by the vote of a majority in interest of the members. We do not currently intend to cease operations prior to the end of our term. We could be dissolved and terminated earlier by operation of law or upon the occurrence of various events described in our operating agreement. Upon our dissolution, our manager will seek to promptly liquidate our assets for the best price reasonably obtainable, to use any proceeds to satisfy our debts and to distribute any remaining proceeds to our members and manager in accordance with the terms of our operating agreement. Accordingly, your ability to recover all or any portion of your investment under such circumstances will depend on the amount of funds so realized and claims to be satisfied from those proceeds. Our manager may not be successful in liquidating us regardless of whether it occurs on our anticipated termination date or on an earlier dissolution date. Delays in liquidation could arise due to market conditions and other factors beyond the control of our manager. In the event we are unable to liquidate on or prior to the end of our anticipated term and depending on the amount of liquidation proceeds the manager is able to obtain, you and other members may not receive distributions of remaining proceeds, if any, in a timely manner or at all.

We cannot precisely determine compensation to be paid to our manager that

Our manager is unable to predict the amounts of its compensation to be paid to it. Any such prediction would necessarily involve assumptions of future events and operating results which cannot be made at this time. As a result, there is a risk that

may not be commensurate with your rate of return.

members will not have the opportunity to judge ahead of time whether the compensation realized by our manager is commensurate with the return generated by the loans. Payment of fees to our manager will reduce the amount of cash available for investment in loans or distributions to members.

Insufficient working capital reserves may require borrowings or liquidating our loans which, if not possible, may adversely affect us.

We intend to maintain a working capital reserve to meet our obligations, including our carrying costs and operating expenses. Our manager believes such reserves are reasonably sufficient for our contingencies. If for any reason those reserves are insufficient, we will have to borrow the required funds or liquidate some or all of our loans. In the event our manager deems it necessary to borrow funds, such borrowings may not be on acceptable terms or even available to us which could materially adversely affect our business.

Conflicts or limitations may arise as a result of our manager's legal and financial obligations to itself and other mortgage programs.

Our manager and its affiliates are currently involved with other active mortgage programs with investment objectives similar to ours. Our manager may also organize other mortgage programs in the future with investment objectives similar to ours. Our manager has and may have legal and financial obligations with respect to these other mortgage programs that are similar to its obligations with respect to us. These obligations may at times conflict and may require or incentivize our manager to limit the resources allocated to us in favor of the other program or programs.

Conflicts may arise regarding the financial condition of our manager.

Our manager must maintain a sufficient net worth and cash flow in order to continue to provide services to us. This may require our manager to make decisions regarding investments and other aspects of our business to allow it to collect fees and expense reimbursements, which actions could negatively affect our net income and cash available from operations.

Conflicts may arise from our manager's allocation of time between us and others and loan brokerage services.

Our manager has conflicts of interest in allocating the time of its personnel between us and other activities in which it is involved. Our manager also provides loan brokerage services to investors other than us. Since our manager originates loans or arranges for the purchase of loans for our loan portfolio, a conflict of interest may exist as to the loans our manager allocates to us and to other mortgage programs it manages or other investors with which it is affiliated at such time.

Conflicts may arise if we participate in loans with other programs organized by our manager.

In certain limited circumstances and subject to compliance with applicable regulations or guidelines, we may participate in loans or joint ventures with other programs organized by our manager, where we purchase a direct or indirect partial interest in a loan. Our portion of the total loan may be smaller or greater than the portion of the loan made by the other programs. Participating in loans or joint ventures with other programs organized by our manager could result in a conflict of interest between us and our manager as well as between us and such other programs, in the event that the borrower defaults on the loan and our manager protects the interests of other programs, which it has organized, in the loan and in the underlying security.

The amount of loan brokerage commissions and other compensation of our manager may adversely affect the rate of return to you.

None of the compensation payable to our manager was determined by arm's-length negotiations. We anticipate that the loan brokerage commissions charged to borrowers by our manager, which are paid to our manager and not us, will average approximately 2% to 5% of the principal amount of each loan, but may be higher or lower depending upon market conditions. Any increase in the loan brokerage commission charged on loans may have a direct, adverse effect on the interest rates we charge on loans by reducing the interest rate we receive and thus the overall rate of return to you. This conflict of interest will exist in connection with every loan transaction and all compensation paid to our manager, and you must rely upon our manager to protect your interests.

Certain officers and other key personnel of our manager will face competing demands relating to their time and this may cause our operations and our investors' investments to suffer.

We rely on the executive officers and key personnel of our manager to provide services to us for the day-to-day operation of our business. In particular, as to Mr. Michael Burwell, President, Director, and Secretary/Treasurer of RMC, if he was to terminate his employment the manager's capacity/capability to continue business operations and maintain loan origination volumes could be impacted adversely.

As a result of executive officers' and key personnel's interests in other programs, their obligations to other investors and the fact that they engage in and will continue to engage in other business activities on behalf of themselves and others, these individuals face conflicts of interest in allocating their time between us and other programs sponsored by our manager and other business activities in which they are involved. Should our manager devote insufficient time or resources to our business, our returns on our direct or indirect investments, and the value of our units, may decline.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect our liquidity, financial condition or results of operations.

Our business is dependent on third party communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the value of our units and our ability to pay distributions.

Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include:

- disrupted operations;
- misstated or unreliable financial data;
- liability for stolen assets or information;
- increased cybersecurity protection and insurance costs;

- litigation; and
- damage to our investor relationships.

As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those we have outsourced. Third parties with which we do business (including those that provide services to us) also may be targets of cyber-attacks or sources of other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information and assets, as well as certain investor, counterparty, employee and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure or destruction of data, or other cybersecurity incidents, with increased costs and other consequences, including those described above. Privacy and information security laws and regulation changes, and compliance with those changes, may also result in cost increases due to system changes and the development of new administrative processes.

Our processes and controls to mitigate cyber security risks may not be efficient in preventing a cyber incident.

We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that our financial results, operations, business relationships or confidential information will not be negatively impacted by such an incident.

As a public company, we are subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act. Efforts to comply with such regulations have and will involve significant expenditures.

As a public company, we are subject to regulations not applicable to private companies, including provisions of the Sarbanes-Oxley Act and the related rules and regulations promulgated by the SEC. Our management is required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis, to evaluate and disclose changes in our internal control over financial reporting. We may be required to spend significant amounts in the future to remain in compliance. Such expenditures may reduce amounts available for distribution and may have a material adverse effect on our financial condition and results of operations.

MORTGAGE LENDING AND REAL ESTATE RISKS

A weak economy or real estate market could adversely affect us and your rate of return.

The ability to find suitable loans is more difficult when the economy is weaker and there is less activity in the real estate market. We may be unable to find a sufficient number of suitable loans, which could leave us with excess cash. In such event, we will make short-term, interim investments in government obligations, certificates of deposit, money market or other liquid-asset accounts, with the offering proceeds pending investment in suitable loans. Interest returns on these investments are usually lower than on mortgage loans, which would reduce our profits and return to members.

Our lending decisions are based on the real estate securing the loans. Significant decline in the fair value of the collateral may impact the performance of the loans and their ultimate collectability.

For loans secured by real property other than owner-occupied personal residences, our lending decisions are based primarily on a determination that the value of the real property is sufficient, in and of itself, as a source of repayment. Other considerations such as the cash flow and the income generated by the real property that is to secure the loan and the general creditworthiness, experience and reputation of the borrower are secondary considerations.

This may result in a higher incidence of loan payment delinquencies that would be experienced by conventional lenders.

For any loan, 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 the specified percentage (per the Operating Agreement) of the appraised value of the property as determined by an independent written appraisal at the time the loan is made. The LTV generally will not exceed 80% for residential properties (including multi-family), 75% for commercial properties, and 50% for land. The excess of the value of the collateral securing the loan over our secured loan and any senior debt and/or claims on the property is the "protective equity."

Declines in real estate values may reduce the protective equity provided by the collateral securing our outstanding loans and were we to foreclose on loans with respect to properties that have declined in value, we may ultimately recover less than the amount of such loans.

If borrowers default, and/or economic circumstances increase defaults, we may have to foreclose on the loan beginning the legal process of acquiring the collateral property. Foreclosure proceedings and/or workout agreements may slow our collection efforts and delay ultimate satisfaction of the loan.

We are engaged in the business of lending and, as such, we are subject to the risk that borrowers may be unable to repay the loans we have made to them in accordance with the terms of the loan agreement. Mortgage loans are secured by commercial and residential real property and are subject to risks of delinquency, foreclosure and loss. The ability of a borrower to repay a loan secured by commercial real property is dependent on the income of the real property. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, natural disasters, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans. Our loans are not insured by the Federal Housing Administration or guaranteed by the Veterans Administration or otherwise guaranteed or insured by a government agency. Our loans require monthly interest-only payments or monthly payments of interest and principal. This means:

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

- Defaults and foreclosures may increase if the economy weakens or if interest rates increase, which may make it more difficult for borrowers to refinance their loans at maturity or sell their property.

- If a borrower is unable to repay the loan and defaults, we may be forced to acquire the property at a foreclosure sale, or we may be forced to sell the property for less than the amount owed on the loan. If we cannot quickly sell or refinance such property, and the property does not produce income in excess of expenses, our profitability will be adversely affected.

- Recently enacted consumer protection laws, both Federal and in California, impose additional notice and disclosure requirements on lenders which may slow or limit a lender's ability to exercise remedies against residential real property collateral (principally 1-4 units), including rights to sell the property in a foreclosure sale and certain rights of tenants residing in the properties. Additional federal and state legislation may be proposed in the future which, if enacted, may further limit a lender's ability to exercise remedies against residential real property collateral following a borrower's default in the performance of its loan obligations.

In addition, any litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws may have the effect of delaying enforcement of the lien on a defaulted loan and may in certain circumstances reduce the amount realizable from the sale of a foreclosed property. A "lien" is a charge against the property of which the holder may cause the property to be sold and use the proceeds in satisfaction of the lien. In the event our right to foreclose is contested, the legal proceedings necessary to resolve the issue can be time-consuming and costly. A judicial foreclosure may be subject to most of the delays and expenses of other litigation, sometimes requiring up to several years to complete. If we acquire a property from a borrower, there many factors that are beyond our control that affect the real estate market and could affect our ability to sell properties for the price, on the terms or within the time frame that we desire. These factors include general economic conditions, the availability of financing, interest rates and other factors, including supply and demand. Further, before we can sell a property on the terms we want, it may be necessary to expend funds to correct defects or to make improvements. However, we can give no assurance that we will have the funds available to correct such defects or to make such improvements. We may be unable to sell our properties at a profit. Our inability to sell properties at the time and on the terms we want could reduce our cash flow and limit our ability to make distributions and could reduce the value of our units.

We may periodically enter into workout agreements with borrowers who are past maturity or delinquent in their regular payments. Typically, a workout allows the borrower to extend the due date of the balloon payment and/or defer past-due payments, often while continuing to make current monthly payments, which allows the borrower time to seek alternative means of paying the loan in full.

We rely on appraisals to determine the fair market value (FMV) of the underlying property securing our loans. These appraisals may be inaccurate or not reflect subsequent events affecting FMV which could increase our risk of loss.

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

Increased competition and new entrants in the market for mortgage loan originations could adversely impact our ability to originate and acquire real estate-related loans at attractive risk-adjusted returns.

New entrants in our target markets for mortgage loan originations could adversely impact our ability to execute our investment strategy on terms favorable to us. In originating our loans, we may compete with REITs, numerous regional and community banks, specialty finance companies, savings and loan associations, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders and other entities, and we expect that others may be organized in the future. The effect of the existence of other institutions may be an increase in competition for the available supply of loans suitable for investment by us, which may cause us to reduce the interest rate that can be charged on our loans. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of real estate-related loans and establish more relationships than us. We cannot assure you that the competitive pressures we may face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable loans may be limited in the future and we may not be able to take advantage of attractive lending opportunities from time to time, as we can provide no assurance that we will be able to identify and make loans that are consistent with our investment objectives.

Some of our loans are junior in priority to first and second liens that may make it more difficult and costly to protect our junior security interest.

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

- first mortgages – 40 to 60%;
- second mortgages (junior to first mortgages) – 40 to 60%; and
- third mortgages (junior to other two mortgages) – 0 to 10%.

There is no assurance that we will be able to diversify our loans as set forth above or that this diversification strategy, if successfully implemented, will provide us with the best risk adjusted returns and/or decrease our risk of loss.

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

We may make construction loans which may subject us to greater risks.

Construction loans are those loans made to borrowers constructing entirely new structures or dwellings, whether residential, commercial or multi-family properties. We may make construction loans up to a maximum of 10% of our then gross offering proceeds. Investing in construction loans subjects us to greater risk than loans related to properties with operating histories. If we foreclose on property under construction, construction generally will have to be completed before the property can begin to generate an income stream or be sold. We may not have adequate cash reserves on hand with respect to junior encumbrances and/or construction loans at all times to protect our security. If we have inadequate cash reserves, we could suffer a loss of our investment. Additionally, we may be required to obtain permanent financing of the property in addition to the construction loan which could involve the payment of significant fees and additional cash obligations for us. As of December 31, 2019, we did not have any construction loans.

Owning real estate following foreclosure will subject us to additional risks.

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

- If the property is a rental property we will be required to find and keep tenants.
- We will be required to maintain and oversee and control operating expenses of the property.
- We will be subject to general and local real estate and economic market conditions which could adversely affect the value of the property.
- We will be subject to any change in laws or regulations regarding taxes, use, zoning and environmental protection and hazards.
- We will be required to maintain insurance for property and liability exposures such as environmental risks and potential liability for any injury that occurs on or to the property.
- We will be subject to state and federal laws and local municipal codes and penalties relating to tenant retention and the maintenance and upkeep of lender-owned properties.
- We may be subject to federal and state tax laws and regulations with respect to the tax treatment of items of our

income, gain, loss or deductions for real estate held for investment, rental and/or sale, which in turn may result in federal and state tax payment and filing exposure for our members.

- We will be subject to municipal ordinances, where they have been enacted, applicable to foreclosed and/or distressed properties which require the payment of additional costs and registration fees and may obligate us to secure and maintain, at our expense, real property securing our loans upon the filing of a notice of default or after we acquire ownership of real property through foreclosure.

Bankruptcy and legal limitations on personal judgments may affect our ability to enforce the loans and increase our costs.

Any borrower has the ability to delay a foreclosure sale by us for a period ranging from several months to several years or more by filing a petition in bankruptcy. The filing of a petition in bankruptcy automatically stops or "stays" any actions to enforce the terms of the loan. The length of this delay and the costs associated with it may have an adverse impact on our profitability.

If we make high-cost mortgage loans, we will be required to comply with additional federal and state regulations and our non-compliance could adversely affect us.

Although we anticipate making relatively few loans that would qualify as "high-cost mortgages," as defined by regulations, the failure to comply with these regulations could adversely affect us. Section 1026.32 of Regulation Z defines a "high-cost mortgage" as any consumer loan secured by a primary residence where either (i) the annual percentage rate ("APR"), measured as of the date the rate is set, exceeds the average prime offer rate ("APOR") for a comparable transaction on that date by more than 6.5% on a first mortgage or 8.5% on a junior mortgage; or (ii) the total fees payable by the consumer exceed 5% for a loan of more than or equal to $20,000, or 8.5% or $1,000 (whichever is less) on a loan of less than $20,000.

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

In addition, under California law consumer loans secured by liens on primary residences in amounts less than the Fannie Mae/Freddie Mac conforming loan limit may be considered to be "high-cost loans" under certain circumstances. While it is unlikely that we would make many high-cost loans, the failure to comply with California law regarding such loans could have significant adverse effects on us. The reckless or willful failure to comply with any provision of this law, including the mandatory disclosure provisions, could result in, among other penalties, the imposition of administrative penalties of $25,000, loss or suspension of the offending broker's license, as well as exposure to civil liability to the consumer/borrower (including the imposition of actual and punitive damages).

We operate in a heavily regulated industry and compliance with regulations could increase our costs of doing business and

The mortgage business has traditionally been heavily regulated. The costs of complying with these regulations could adversely affect our profitability, and violations of these regulations could materially

lower your return.

adversely affect our business and financial results. For example, the company's lending activity is subject to regulations promulgated by the Consumer Finance Protection Bureau ("CFPB"), and further, the company may be subject to examination by the CFPB, as well as the California Department of Real Estate and the California Department of Business Oversight. Such examinations, as well as regulations that may be issued in the future, could ultimately increase our administrative burdens and our costs and could adversely affect the return to our members.

Since we are not regulated as a bank, our members and borrowers may have fewer protections.

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

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

Larger loans or concentration of loans to one borrower may result in less diversity and may increase risk.

Investing in fewer, larger loans generally decreases diversification of the portfolio and may increase the risk of credit losses and the possible resultant reduction in profits and yield to our members. However, since larger loans generally will carry a somewhat higher interest rate, our manager may determine, from time to time, that a relatively larger loan is advisable for us. Our maximum investment in a loan will not exceed 10% of our then total gross offering proceeds.

We may invest in multiple secured loans that share a common borrower or principal. The aggregate of our loans, however, to any one borrower may not exceed 10% of the then total gross offering proceeds. The more concentrated our portfolio is with one or a few borrowers, the greater the credit risk we face.

Use of borrowed money to fund loans may reduce our profitability.

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

If we have borrowed money to fund loans, a rise in the prevailing interest rate could result in our having to pay more in interest on the borrowed money than we make on loans to our borrowers. This may reduce our profitability, and, should we default on our debt, may result in additional losses through forced liquidation of loans. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay distributions. Any of these results would have a significant negative impact on your investment.

Changes in interest rates may affect your return on your investment.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. Also, rising interest rates reduce the value of our existing loans that do not have adjustable rates. A reduction in the volume of mortgage loans originated may affect the amount of our distributions. Conversely, we expect that the majority of our loans will not include prepayment penalties for a borrower paying off a loan prior to maturity. The absence of a prepayment penalty in our loans may lead borrowers to refinance higher-interest rate loans in a market of falling interest rates. This would then require us to reinvest the prepayment proceeds in loans or alternative short-term investments with lower interest rates and a corresponding lower yield to members.

The values of our loans may decline without any general increase in interest rates for a number of reasons, such as increases or expected increases in defaults, or increases or expected increases in voluntary prepayments for those loans that are subject to prepayment risk or widening of credit spreads.

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

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make loans that meet our investment criteria, the interest rate on loans in our portfolio, the level of our expenses, the volume and timing of loan sales to third parties, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods.

We may face potential liability for toxic or hazardous substances as a result of our lending activities or as a result of

If we take an equity interest in, management control of, or foreclose on any of the loans, we may be considered the owner of the real property securing such loans. Under current federal and state law, the owner of

foreclosure on properties that secure loans we make.

real property contaminated with toxic or hazardous substances (including a mortgage lender that has acquired title through foreclosure) may be liable for all costs associated with any remedial action necessary to bring the property into compliance with applicable environmental laws and regulations. This liability may arise regardless of who caused the contamination or when it was caused. In the event of any environmental contamination, there can be no assurance that we would not incur full recourse liability for the entire cost of any such removal and cleanup, even if we did not know about or participate in the contamination. Full recourse liability means that any of our property, including the contaminated property, could be sold in order to pay the costs of cleanup in excess of the value of the property at which such contamination occurred.

In addition, we could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. Consequential damages are damages that are a consequence of the contamination but are not costs required to clean up the contamination, such as lost profits of a business. We would also be exposed to risk of lost revenues during any cleanup and to the risk of lower lease rates or decreased occupancy if the existence of such substances or sources on the property becomes known.

If we fail to remove the substances or sources and clean up the property, federal, state, or local environmental agencies could perform such removal and cleanup. Such agencies would impose and subsequently foreclose liens on the property for the cost thereof. We may find it difficult or impossible to sell the property prior to or following any such cleanup. If such substances are discovered after we sell the property, we could be liable to the purchaser thereof if our manager knew or had reason to know that such substances or sources existed. In such case, we could also be subject to the costs described above.

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

Our manager’s selection of loans for sale to third parties may involve conflicts of interest between us and our manager.

We may, on occasion, subject to applicable laws and regulations and our operating agreement, sell some of our loans. If we sell loans, we may be required to make customary representations and warranties about such loans to the loan purchaser. Our loan sale agreements may require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser.

Also, there is a conflict of interest between us and our manager as to what loans will be sold. For example, the manager may select loans of a higher credit quality or having higher interest rates than the loans funded with the proceeds from the sale. The sale of loans may result in a reduced overall yield of our portfolio. Loans the manager may sell to third parties will enable the manager to re-lend proceeds from the loans sales generating loan origination revenue and fees under the operating agreement, which increases the managers capital and ability to repay the formation loan.

TAX RISKS

Your ability to offset income with our losses may be limited.

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

Your tax liability may exceed the cash you receive.

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

We expect to generate unrelated business taxable income.

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

You may be subject to state and local tax laws.

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

Changes in tax laws could have an adverse effect on your investment.

Changes in federal, state or local tax law could have an adverse effect on the rate of return on your investment in our units or on the market value of our assets. On December 22, 2017, the tax legislation commonly referred to as the Tax Cuts and Jobs Act was signed into law and contains significant changes to the Internal Revenue Code generally applying in taxable years beginning after December 31, 2017. The Tax Cuts and Jobs Act eliminates or restricts various deductions for taxable years beginning after December 31, 2017 and before January 1, 2026. The reduction or limitation of these tax deductions could adversely affect the real estate prices in California which has high state and local taxes and higher property values. In addition, changes in the tax deductions could increase taxes payable by certain borrowers, thereby reducing their available cash and adversely impacting their ability to make payment on the loans, which in turn, could cause a rise in delinquencies. You are urged to consult with your own tax advisor with respect to the impact of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our units.

ERISA RISKS

Risks of investment by benefit plan investors and other tax-exempt investors.

If you elect to participate in the DRIP, you should consider the same factors that you had to consider when considering an investment in the units initially, including if you are a Benefit Plan Investor subject to the requirements of the Employee Retirement Income Security Act ("ERISA"), you should consider, among other things, (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA; (ii) whether the investment is prudent, since it is not expected that there will be a market created in which you can sell or otherwise dispose of the units. In addition if you are a Benefit Plan Investor that is a tax-qualified pension or 401(k) plan, an IRA or a similar plan, you should consider (i) whether a distribution of units in kind from the plan or IRA would be accepted as a rollover by a trustee or custodian of a successor plan or IRA, and if not accepted, whether the automatic 20% income tax withholding would create the need to effectuate the rollover using assets other than the units; and (ii) whether a required distribution from a tax-qualified pension or 401(k) plan or IRA commencing on the April 1 following the calendar year in which the beneficiary attains age 70 1⁄2 (or if later with respect to a tax-qualified plan distribution, the date the beneficiary retires) could cause the beneficiary to become subject to income tax that the beneficiary would need to satisfy out of assets other than the units if such beneficiary were not able to transfer the units for cash. Finally, all Benefit Plan Investors, including tax-qualified pension and 401(k) plans and IRAs, should consider (i) whether the investment will impair the liquidity of your plan, IRA or other entity; and (ii) whether interests in us or the underlying assets owned by us constitute "plan assets" for purposes of Section 406 of ERISA or Section 4975 of the Code which could cause certain transactions with us to constitute non-exempt prohibited transactions. ERISA requires that the assets of a plan be valued at their fair market value as of the close of the plan year, and it may not be possible to adequately value the units from year to year, since there will not be a market for those units and the appreciation of any property may not be shown in the value of the units until we sell or otherwise dispose of our investments. If you are an employee benefit plan subject to federal, state or local law that is substantially similar to ERISA, you should consider whether an investment in the units would satisfy the requirements of such similar law.

Item 1B – Unresolved Staff Comments

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

Item 2 – Properties

We have not owned any real property since inception.

Item 3 – Legal Proceedings

In the normal course of business, we 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 our 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 company. As of the date hereof, we are not involved in any legal proceedings other than those that would be considered part of the normal course of business.

Item 4 – Mine Safety Disclosures

Not Applicable.

Part II

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

Investors will have limited ability to sell their units. Our units are not listed on an exchange or quoted through a quotation system, and there is no secondary market nor do we expect that any will develop in the foreseeable future. Units are not freely transferable, and they may not be acceptable by a lender as security for borrowing. Our operating agreement also imposes substantial restrictions upon your ability to transfer units. Therefore, an investment in our units is not suitable for investors who expect to require short-term liquidity from their investments. See “Liquidity and unit redemptions program” in Part I of this Report. As of February 29, 2020, we had approximately 1,400 unit holders, who held approximately 81,894,000 units.

Recent sales of unregistered securities

All sales of our units within the past three years were registered under the Securities Act.

DRIP/ SEC registrations

On May 9, 2019, the company filed a Registration Statement on Form S-3 with the SEC (SEC File No. 333-231333) to offer up to 15,000,000 units ($15,000,000) to members of record as of April 30, 2019 that had previously elected to participate in the DRIP or that elect to participate in the DRIP. The Registration Statement on Form S-3 became effective on May 9, 2019.

Members of record as of April 30, 2019, that previously elected to participate in the DRIP or that provide written notice to the manager may elect to participate in the DRIP, in those states in which approval has been obtained. As of December 31, 2019, the gross proceeds from sales of units to our members under our DRIP pursuant to the May 9, 2019 Form S-3 Registration Statement after May 9, 2019 was approximately $1,614,000, and approximately $802,000 for the four month period ended April 30, 2019 pursuant to our S-11 Registration Statement.

On June 11, 2019, the company filed a Post-Effective Amendment No. 5 with the SEC (SEC File No. 333-208315) to deregister all of the units which were registered under its Form S-11 Registration Statement that remained unsold as of April 30, 2019.

Redemption of units

Redemptions are made once a quarter, on the last business day of the quarter. The unit redemption program is ongoing and available to members beginning one year after the purchase of the units. The maximum number of units that may be redeemed in any year and the maximum amount of redemption available in any period to members are subject to certain limitations including, but limited to, the company will not:

- in any calendar year, redeem more than 5%; or
- in any calendar quarter, redeem more than 1.25%, of the weighted average number of units outstanding during the twelve (12) month period immediately prior to the date of the redemption.

In addition, the manager may, in its sole discretion, further limit the percentage of the total members’ units that may be redeemed or may adjust the timing of scheduled redemptions (including deferring withdrawals indefinitely), to the extent that such redemption would cause the company to be treated as a “publicly traded partnership” within the meaning of Section 7704 of the Code or any Treasury Regulations promulgated thereunder (determined without reference to Code Section 469(i)).

In the event that redemption requests in excess of the foregoing limitations are received by the managers, such redemption requests will be honored in the following order of priority:

- first, to redemptions upon the death of a member; and
- next, to other redemption requests until all other requests for redemption have been met.

All redemption requests shall be honored on a pro rata basis, based on the amount of redemption requests received in the preceding quarter plus unfulfilled redemption requests that the company was unable to honor in prior quarter(s).

There are substantial restrictions on transferability of units, and there is no established public trading and/or secondary market for the units and none is expected to develop. In order to provide liquidity to members, the company's Operating Agreement includes a unit redemption program, whereby beginning one year from the date of purchase of the units, a member may redeem all or part of their units, subject to certain limitations.

The price paid for redeemed units is based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. Redemption value is calculated based on the period from date of purchase as follows:

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

Proceeds from sale of units

Proceeds from the sale of the units (including DRIP units) are used to:

- make additional loans;
- fund working capital reserves;
- pay RMC up to 4.5% of proceeds from sale of units for organization and offering expenses, excluding units sold in the DRIP; and,
- fund a formation loan to RMC at up to 7% of proceeds from sale of units, excluding the DRIP.

Commissions for unit sales were paid to broker-dealers (B/D sales commissions) and premiums paid to certain investors upon the purchase of units were paid by RMC and were not paid directly by us out of offering proceeds. Instead, the company advanced to RMC, from offering proceeds, amounts sufficient to pay the B/D sales commissions and premiums to be paid to investors. Such advances in total were not to exceed seven percent (7%) of offering proceeds. The receivable arising from the advances is unsecured and non-interest bearing and is referred to as the "formation loan." As of December 31, 2019, such advances totaled $5,626,566, of which $3,948,064 remains outstanding. Please refer to the information under "—Unit sales commissions paid to broker-dealers/formation loan" in Note 1 (Organization and General) and "—Reimbursement and allocation of organization and offering expenses" in Note 3 (Manager and Related Parties) to the financial statements included in Part II, Item 8 of this report for a discussion of the formation loan and organization and offering expenses, which discussions are incorporated herein by this reference.

RMC is required to repay the balance of the formation loan in equal annual installments of principal, without interest, such that repayment is completed in full by the end of the term of the company in 2028. In 2019 and years prior to the deregistration of the unsold units, RMC made annual payments on the formation loan in the amount of one tenth of the principal balance outstanding at December 31 of the prior year.

Distributions

Distributions totaled $4,534,952 and $4,462,623 in 2019 and 2018, respectively. See "Distribution policy" under Item 1- Business in Part I of this annual report, which discussion is incorporated by reference herein.

Distribution reinvestment plan

The DRIP provision of the Operating Agreement permits members to elect to have all or a portion of their monthly distributions reinvested in additional units. Members of record as of April 30, 2019, that previously elected to participate in the DRIP or that provide written notice to the manager may elect to participate in the DRIP, in those states in which approval has been obtained.

Liquidity and unit redemption program

Units redeemed in 2019 and 2018 by quarter are presented in the following table.

For the quarterly period ended	2019	2018
March 31	$ 1,092,396	$ 403,400
June 30	823,654	299,240
September 30	760,856	787,524
December 31	571,576	1,243,607
Total	$ 3,248,482	$ 2,733,771

All redemptions are made on the last business day of the quarter, and valued at $1 per unit.

Fair market value / unit value

In compliance with FINRA Rule 2310 concerning direct-participation-program value per unit estimates, RMC obtained information regarding fair market valuations of the net assets and unit value as of December 31, 2019, for RMI IX. The valuations were performed with the assistance of an independent valuation firm that provides asset valuations to retirement plan sponsors, plan administrators, banking and trust companies, and ERISA plans. The fair values of the individual properties were taken from appraisals which referenced the most current available market information such as listing agreements, offers, and pending and closed sales. Industry standard valuation approaches, including the Income Approach, were utilized in deriving the fair values, as appropriate. There is no assurance that this estimated fair value of the membership units is or will remain accurate, and it does not determine the amount that a member is entitled to receive upon redemption of units. The redemption amount is determined by the applicable provisions of the Operating Agreement.

The fair value of a unit of RMI IX was determined to be $1.00, after consideration of the fair values of the net assets held, the restrictions in the unit redemption program in the Operating Agreement and the restrictions on transferability of units with consideration to the expected net distribution rate on the units.

The fair value of loan balances (i.e., principal plus interest) secured by deeds of trust, per the Market Approach, is deemed to approximate the recorded amount (per the financial statements) as our loans:

- are of shorter terms at origination than commercial real estate loans by institutional lenders and conventional single-family home mortgage lenders;
- are written without a prepayment penalty; and
- are not yet sellable into an established secondary market as companies or individuals originating loans similar to those originated by RMC on behalf of the company typically intend to hold the loans until maturity.

Market Approach - The market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued. When the market approach is utilized, data is collected on the prices paid for reasonably comparable assets. Adjustments are made to the comparable assets to compensate for differences between those assets and the asset being valued. In the case of real estate for example, adjustments might be made for location, quality or construction, and/or building amenities. The application of the market approach results in an estimate of the price reasonably expected to be realized from the sale of the property.

Income Approach - The income approach is a valuation technique that provides an estimation of the fair value of an asset, such as RMI IX's loans, based on the cash flows that an asset can be expected to generate over its estimated remaining economic term. This approach begins with an estimation of the annual cash flows a prudent investor would expect the subject asset to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows.

The primary purpose of the valuation was to determine the fair value of a unit of membership interest in RMI IX. There is no assurance that this estimated value is or will remain accurate, and it does not determine the amount that a member is entitled to receive upon withdrawal of units. RMC makes no representation, express or implied, that a unit of RMI IX could or would be transferred by an investor for the stated fair value.

Item 6 – Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

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

The following discussion and analysis should be read in conjunction with the audited financial statements and notes thereto, which are included in Part II, Item 8 of this report.

Manager and Other Related Parties

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

Critical Accounting Policies

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

Allowance for loan losses

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

A provision for loan losses to adjust the allowance for loan losses (principal and/or interest) is made to an amount such that the net carrying amount is reduced to the lower of the loan balance or the estimated fair value of the related collateral, net of any costs to sell in arriving at net realizable value and net of any senior loans and/or claims.

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

Fair value estimates

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

Management has the requisite familiarity with the real estate 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.

Results of Operations

General economic conditions – California

COVID-19 (Coronavirus) – COVID-19 is a new strain of the novel coronavirus that causes illness ranging from the common cold to more severe symptoms including fever, cough, breathing difficulties, and in more severe cases, pneumonia, acute respiratory syndrome, kidney failure and death. COVID-19, which is highly contagious, was first publicly reported in Wuhan, China on December 31, 2019 and has since been reported in over 170 countries and territories including the United States and both Northern and Southern California. In response to the COVID-19 outbreak, federal, state and local governments as well as the business community have implemented voluntary and increasingly mandatory "social distancing" polices including quarantines, travel bans, work from home initiatives, cancellation or postponement of public events and school closures, among others. On March 4, 2020, California Governor Gavin Newsom declared a State of Emergency to exist in California with respect to the COVID-19. On March 19, 2020 Governor Newsom issued Executive Order N-33-20 ordering all California residents to stay at home except as needed to maintain continuity of operations of the federal critical infrastructure sectors and other sectors designated by the Governor. These measures and the general uncertainty around the COVID-19 virus have recently caused increased volatility in the United States financial markets and economic uncertainty at the state, local and national level. The overall impact of COVID-19 on the California economy and the California real estate markets is not known at this time. The company's revenues and financial results depend upon the ability of borrowers to make payments of principal and interest in a timely manner and on the interest rates charged on loans. In addition, the company's loans are secured by real properties located in Northern and Southern California and the overall impact of COVID-19 on the California real estate market cannot be predicted at this time. If there is prolonged uncertainty with respect to COVID-19 in California and the United States, it could result in an economic downturn or recession in national and local economies including but not limited to increases in unemployment rates and disruptions to businesses, which could have a negative impact on the ability of borrowers to make principal and interest payments, as well as the company's volume of loan originations. These factors combined with a decline in California real estate values could have a short or long term material adverse impact on the company's business, financial performance and results of operations.

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

In the publication "The Fed Announces a Barrage of Policy Changes" dated March 16, 2020:

"The Federal Reserve surprised many market participants on Sunday evening, March 15, when it announced a barrage of policy changes, which we will address in more detail subsequently. But to summarize, the FOMC cut the target range for the fed funds rate 100 bps, returning it to 0.00% to 0.25%, where it was maintained from December 2008 to December 2015. The FOMC re-instated its quantitative easing (QE) program via renewed purchases of Treasury and mortgage-backed securities. It slashed its discount rate to only 0.25%, an all-time low, and it encouraged banks to draw on Fed facilities and to use their capital and liquidity buffers to lend to households and businesses. Finally, the Federal Reserve, in concert with other major central banks, cut the interest rate that it charges on its swap lines, which foreign central banks use to borrow dollars from the Fed. All of these steps are an effort by the Fed to ease strains in financial markets and cushion the U.S. economy, as much as possible, from the growth-halting effects of the COVID-19 pandemic. In our view, the FOMC stands ready to do even more, within its legal authority, to support financial and credit markets."

"Let's start with the cut in the target range for the fed funds rate. As we wrote in a report last week, we were anticipating that the FOMC would cut 100 bps at its scheduled meeting on March 18, "if not sooner," so the timing of yesterday's rate cut was not totally unexpected. We wrote in another report last month that lower rates will offer some support to businesses and household via lower interest payments on floating-rate debt obligations."

"The FOMC also authorized the trading desk at the Federal Reserve Bank of New York to purchase $500 billion worth of Treasury securities and $200 billion worth of mortgage-backed securities (MBS) "in coming months." The Fed hopes that these renewed QE purchases of securities will help reduce tensions in other financial markets via an eventual narrowing of credit spreads (over U.S. Treasury securities). In that regard, MBS spreads have widened significantly in recent weeks. Renewed QE purchases of MBS by the Fed should eventually bring those spreads down, which then should help to bring mortgage rates for new purchases and refinancing lower as well…"

"…In sum, all of the moves that the FOMC announced on March 15 are intended to ease strains in financial markets and to support the credit-creation process in the economy as much as possible. In our view, the FOMC stands ready to do even more, within its legal authority, to support financial and credit markets. In that regard, the committee could re-instate some of the programs, or variants thereof, which it created during the financial crisis to keep credit markets functioning. But many of the steps that the Fed is undertaking will offer only limited support to economic activity directly. The federal government has announced some fiscal measures already. In our view, it will need to do more to support the economy in coming months."

Key performance indicators

Key performance indicators are presented in the following table for 2019 and 2018.

	2019	2018
Secured loans principal – end of period balance	$ 70,660,284	$ 62,115,713
Secured loans principal– average daily balance	$ 66,808,000	$ 61,069,000
Interest on loans	$ 5,994,790	$ 5,200,702
Portfolio interest rate(1)	8.8%	8.5%
Effective yield rate(2)	9.0%	8.5%
Provision for loan losses	$ 87,000	$ —
Total operations expense(7)	$ 1,006,908	$ 457,848
Net Income(7)	$ 4,973,712	$ 4,790,272
Percent of average members' capital(3)(4)	6.1%	6.4%
Member Distributions, net	$ 4,534,952	$ 4,462,623
Percent of average members' capital(3)(5)	5.6%	6.0%
Members' capital, gross – end of period balance	$ 81,755,930	$ 79,198,453
Members' capital, gross – average daily balance	$ 81,340,000	$ 74,469,000
Member Redemptions(6)	$ 3,248,482	$ 2,733,771

(1) Stated note interest rate of secured loans - weighted daily average

(2) Percent of secured loans – average daily balance

(3) Percent of members' capital, gross – average daily balance

(4) Percent based on the net income available to members (excluding 1% allocated to the manager)

(5) Members Capital Distributed during 2019 is net of O&O costs allocated to members during the year.

(6) Scheduled member redemptions as of December 31, 2019 were $447,417, payable in 2020. Scheduled member redemptions as of December 31, 2018 were $1,253,669.

(7) See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a detailed discussion on fees and reimbursements waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 7.

Secured loans

The secured loan principal – end of period at December 31, 2019 of $70,660,284 was an increase of approximately 13.8% ($8.5 million) over 2018's $62,115,713.The increase in secured loan principal – end of period is due primarily to the timing of loan payoffs and new loan fundings at year end 2019, as well as an increase in members' capital, end of period of approximately 3.2% ($2.6 million) at December 31, 2019. New loans originated were approximately $58.1 million for the year ended December 31, 2019. Secured loans as a percent of member's capital (based on average balances) was 82.1% and 82.0% for 2019 and 2018, respectively.

We have sought to exercise strong discipline in underwriting loan applications and lending against collateral at amounts that create a mortgage portfolio that has substantial protective equity (i.e., safety margins to outstanding debt) as indicated by the overall conservative weighted average loan-to-value ratio (LTV) which at December 31, 2019 was approximately 55.3%. Thus, per the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 44.7% in the property, and we as lenders have lent in the aggregate 55.3% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans.

Secured loans, principal by LTV and lien position are presented in the following table as of December 31, 2019.

	Principal - secured loans					
LTV	First trust deeds	Percent of total principal	Second trust deeds	Percent of total principal	Total principal	Percent of total principal
<40%	$ 6,949,302	9.8%	$ 2,493,655	3.5%	$ 9,442,957	13.3%
40-49%	2,680,367	3.8%	990,236	1.4%	3,670,603	5.2%
50-59%	16,779,468	23.7%	7,151,619	10.1%	23,931,087	33.8%
60-69%	15,440,914	21.9%	15,819,135	22.4%	31,260,049	44.3%
Subtotal <70%	41,850,051	59.2%	26,454,645	37.4%	68,304,696	96.6%
70-79%	861,986	1.2%	1,243,974	1.8%	2,105,960	3.0%
Subtotal <80%	42,712,037	60.4%	27,698,619	39.2%	70,410,656	99.6%
>80%(1)	—	0.0%	249,628	0.4%	249,628	0.4%
Total	$ 42,712,037	60.4%	$ 27,948,247	39.6%	$ 70,660,284	100.0%

Non-performing secured loans, principal by LTV and lien position are presented in the following table as of December 31, 2019.

	Principal - secured loans - non-performing					
LTV	First trust deeds	Percent total principal	Second trust deeds	Percent total principal	Total	Percent total principal
<40%	$ 2,856,650	4.0%	$ —	0.0%	$ 2,856,650	4.0%
40-49%	—	0.0%	345,706	0.5%	345,706	0.5%
50-59%	—	0.0%	441,367	0.6%	441,367	0.6%
60-69%	1,072,682	1.5%	3,329,342	4.7%	4,402,024	6.2%
Subtotal <70%	3,929,332	5.5%	4,116,415	5.8%	8,045,747	11.3%
70-79%	190,769	0.3%	—	0.0%	190,769	0.3%
Subtotal <80%	4,120,101	5.8%	4,116,415	5.8%	8,236,516	11.6%
>80%(1)	—	0.0%	249,628	0.4%	249,628	0.4%
Total	$ 4,120,101	5.8%	$ 4,366,043	6.2%	$ 8,486,144	12.0%

1) The fair value of the collateral, and the dollar amount of senior claims/liens for loans secured by second deeds of trust, used in the LTV computation in the tables above were those which existed at origination, except the LTV for a non-performing loan with principal of $249,628, which was determined to have an LTV which exceeded 90%. RMI IX made a concession – as did the selling broker – to facilitate the sale of the underlying collateral. RMI IX's concession approximated $37,000.

Payments in arears for non-performing secured loans, (i.e., principal and interest payments past due 30 or more days) totaled approximately $1,316,000, of which $230,000 was accrued interest receivable, and $1,086,000 was principal.

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

Performance overview

Revenue from the interest on loans, net for the year ended December 31, 2019 increased by approximately $794,000, over the same period in 2018, due to the increased average secured loan principal of approximately $5.7 million, approximately $68,000 in default interest collected on loans that had been non-performing, and an increase in the average portfolio interest rate (8.8% in 2019 and 8.5% in 2018).

Operations expense for the year ended December 31, 2019 increased by approximately $549,000, over the same period in 2018 due to the termination of RMC electing to absorb some (or all) of our direct operating expenses (e.g. professional services and other direct operating expenses) beginning April 1, 2018. Additionally an increase in mortgage servicing fees due to an increased loan portfolio, fees paid to an independent service bureau for information technology related to recordkeeping and reporting for the accounts of individual members' which had previously been included in Costs from RMC, and RMC, at its sole discretion, electing to begin collecting asset management fees in June 2019 contributed to the increase in operations expense.

The secured loan, and members' capital balances are used as a base for the calculation for fees charged by RMC, and increases or decreases in the balances will have a similar effect on the total amount chargeable by RMC. In all periods presented, the manager, at its sole discretion, provided financial support that increased net income and the return to investors.

RMC support provided, totaled approximately $1,437,000 and $2,031,000 for the years ended December 31, 2019 and 2018, respectively. The decision to waive all or a portion of these fees is made by RMC, in its sole discretion.

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a detailed discussion on fees and reimbursements waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 7.

Analysis and discussion of income from operations 2019 v. 2018

Significant changes to revenue and expenses during 2019 and 2018 are summarized in the following table.

	Interest on loans, net	Provision For Loan Losses	Operations Expense	Net Income
For the years ended				
December 31, 2019	$ 5,994,790	87,000	1,006,908	4,973,712
December 31, 2018	5,200,702	—	457,848	4,790,272
Change	$ 794,088	87,000	549,060	183,440
Change				
Loan balance increase	$ 383,448	—	15,421	368,027
Loan portfolio effective yield rate	410,640	—	—	410,640
Reduced support from RMC	—	—	157,399	(157,399)
Cost allocated from RMC	—	—	(87,037)	87,037
Gain on sale, loans	—	—	—	(6,300)
Late fees	—	—	—	31,712
Capital balance increase	—	—	56,928	(56,928)
Information technology for members' capital	—	—	87,795	(87,795)
California tax payment	—	—	11,790	(11,790)
RMC fees/costs reimbursements waived	—	—	308,212	(308,212)
Allowance for loan losses, general reserve	—	50,000	—	(50,000)
Allowance for loan losses, specific reserve	—	37,000	—	(37,000)
Other	—	—	(1,448)	1,448
Change	$ 794,088	87,000	549,060	183,440

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

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a detailed discussion on fees and cost reimbursements waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 7. See “Performance Overview” for a discussion of RMC’s plans to reduce and eventually eliminate fee and cost waivers.

Interest on loans, net

Interest on loans increased due to growth of the secured loan portfolio, approximately $68,000 collected in default interest collected on non-performing loans during 2019, and an increase in the average portfolio interest rate (8.8% in 2019 and 8.5% in 2018). The portfolio has a strong payment history, with 3 loans (representing 1.7% of the aggregate principal balance of the company’s loan portfolio) currently designated as in non-accrual status. The Secured loans – average daily balance at December 31, 2019 was approximately $66.8 million, an increase of approximately $5.7 million, or approximately 9.4%, over the average daily balance at December 31, 2018 of approximately $61.1.

Provision for loan losses/Allowance for loan losses

At December 31, 2019, RMI IX recorded a $87,000 provision for loan losses, primarily for secured loans in a second lien position, as the manager may – from time to time – agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions. Included in the provision for loan losses at December 31, 2019 is a $37,000 specific provision on a secured loan in second lien position, to facilitate the sale of the underlying collateral, which was sold in February 2020.

Operations expense

Operations expense as a percent of interest on loans, net was approximately 16.8% and 8.8% during 2019, and 2018, respectively. The increase in operations expense was due primarily to RMC ceasing to absorb our direct operating expenses (e.g. professional service expense and other direct operating expenses), beginning April 1, 2018, an increase in mortgage servicing fees due to an increased average daily balance in the secured loan portfolio, fees paid to an independent service bureau for information technology related to recordkeeping and reporting for the accounts of individual members’ which fees had previously been included in Costs from RMC, and RMC, in its sole discretion, electing to collect asset management fees commencing June 1, 2019 and ongoing.

Significant changes to operations expense during 2019 and 2018, are summarized in the following table.

	Mortgage Servicing Fees	Asset Management Fees, net	Costs From RMC, net	Professional Services, net	Other	Total
For the years ended						
December 31, 2019	$166,878	278,103	—	524,940	36,987	1,006,908
December 31, 2018	151,457	—	—	289,053	17,338	457,848
Change	$ 15,421	278,103	—	235,887	19,649	549,060
Change						
Loan balance increase	$ 15,421	—	—	—	—	15,421
Capital balance increase	—	56,928	—	—	—	56,928
Cost allocated from RMC	—	—	(87,037)	—	—	(87,037)
RMC fees/costs reimbursements waived	—	221,175	87,037	—	—	308,212
Information technology for members' capital	—	—	—	87,795	—	87,795
Reduced support from RMC	—	—	—	143,152	14,247	157,399
California tax payment	—	—	—	—	11,790	11,790
Other	—	—	—	4,940	(6,388)	(1,448)
Change	$ 15,421	278,103	—	235,887	19,649	549,060

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a detailed discussion on fees and cost reimbursements waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 7. See “Performance Overview” for a discussion of RMC’s plans to reduce and eventually eliminate fee and cost waivers.

Mortgage servicing fees

The increase in mortgage servicing fees of $15,421 was attributed to the increase in the average daily secured loan portfolio from approximately $61,069,000 for the year ended December 31, 2018 to $66,808,000, for the year ended December 31, 2019, at the annual rate of 0.25%.

Asset management fees

The total amount of asset management fees chargeable were $476,748 and $419,820 for the years ended December 31, 2019 and 2018, respectively. The increase in asset management fees chargeable was due to the increase in total capital. Total members capital at December 31, 2019 and 2018 was approximately $81,756,000 and $79,198,000, respectively. RMC, at its sole discretion, elected to begin collecting asset management fees in June 2019. Of the total asset management fees chargeable, RMC, at its sole discretion, waived $198,645 and $419,820 during 2019 and 2018, respectively.

The asset management fee is chargeable in an amount up to three-quarters of one percent (0.75%) annually of the portion of the capital originally committed to investment in mortgages, not including leverage, and including up to two percent (2%) of working capital reserves. This amount is to be recomputed annually after the second full year of operations by subtracting from the then fair value of the company’s loans plus working capital reserves, an amount equal to the outstanding debt.

Costs from RMC, net

Cost incurred by RMC, for which reimbursement could have been requested were $657,864 and $744,901 for the years ended December 31, 2019 and 2018, respectively. RMC, at its sole discretion, waived all reimbursements for the years ended December 31, 2019 and 2018. The decrease in costs from RMC, net chargeable was due primarily to a decrease in allocable expenses incurred by RMC, specifically relating to payroll and consultant expenses.

The Operating Agreement provides that RMC may request reimbursement from the company for operations expense incurred on behalf of the company, including without limitation, the cost of preparation of reports to members and out-of-pocket general and administration expenses. Certain of these qualifying costs (e.g. postage) can be tracked by RMC as specifically attributable to the company. Other costs (e.g. RMC’s accounting and audit fees, legal fees and expenses, qualifying payroll expenses, occupancy, and insurance premium) are allocated on a pro-rata basis based on the company’s percentage of total capital of all mortgage funds managed by RMC. Payroll and consulting fees are allocated based on activity, and then allocated to the company pro-rata, based on percentage of capital to the total capital of all affiliated mortgage funds managed by RMC. Increases or decreases in members’ capital or secured loan principal will have a similar effect on the total amount chargeable by RMC. The decision to waive all or a portion of fees otherwise payable to RMCs is made by RMC, in its sole discretion.

Professional services

Professional services consist primarily of legal, audit and tax compliance, information technology related to recordkeeping and reporting for individual members accounts, and regulatory (including SEC/FINRA compliance) expenses. Professional service expense incurred during the years ended December 31, 2019 and 2018 was $524,940 and $432,205, respectively. Beginning April 1, 2018, RMI IX paid for all professional service expenses directly. Prior to April 1, 2018, RMC, at its sole discretion, had elected to absorb some or all of RMI IX’s expenses for professional services. During the year ended December 31, 2018, RMC, in its sole discretions, reimbursed $143,152 of professional service expense.

Summary comparison – 4th quarter v. 3rd quarter

Significant changes to income or expense items for the three-month period ended December 31, 2019 compared to the three-month period ended September 30, 2019 is summarized in the following table.

	Interest on loans, net	Provision For Loan Losses	Operations Expense	Net Income
For the three months ended				
December 31, 2019	$ 1,589,783	87,000	296,298	1,213,693
September 30, 2019	1,526,142	—	338,408	1,226,729
Change	$ 63,641	87,000	(42,110)	(13,036)
Change				
Loan balance increase	131,890	—	4,418	127,472
Loan portfolio effective yield rate	(68,249)	—	—	(68,249)
Gain on sale, loans	—	—	—	(20,833)
Late fees	—	—	—	(10,954)
Cost allocated from RMC	—	—	(10,360)	10,360
California tax payment	—	—	12,590	(12,590)
RMC fees/costs reimbursements waived	—	—	10,360	(10,360)
Professional Service Timing	—	—	—	—
Allowance for loan losses, general reserve	—	50,000	—	(50,000)
Allowance for loan losses, specific reserve	—	37,000	—	(37,000)
Other	—	—	(59,118)	59,118
Change	$ 63,641	87,000	(42,110)	(13,036)

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

Members' capital, cash flows and liquidity

The table below shows cash flows by business activity for 2019 and 2018.

	2019	2018
Members' capital		
Contributions by members	$ 2,682,081	$ 10,479,930
Organization and offering costs, net	(89,259)	(510,692)
Formation loan, net	168,645	(434,325)
Redemptions, net	(3,166,435)	(2,733,771)
Earnings distributed to manager	(45,000)	—
Earnings distributed to members, net of DRIP	(2,119,145)	(2,080,785)
Cash – members' capital, net	(2,569,113)	4,720,357
Loan principal/advances/interest		
Principal collected	44,597,043	41,506,194
Loans sold to non-affiliate, net	4,994,818	22,128,128
Interest received, net	5,732,666	5,042,952
Other loan income	52,797	18,499
Loan funding & advances, net	(58,052,653)	(64,966,301)
Loans transferred from affiliates	—	(5,889,819)
Cash – loans, net	(2,675,329)	(2,160,347)
Operations expense	(979,982)	(394,909)
Net change in cash	$ (6,224,424)	$ 2,165,101
Cash, end of period	$ 4,450,529	$ 10,674,953

Redemptions of members capital

The table below sets forth redemptions of members capital.

	2019	2018
Capital redemptions-without penalty	$ 1,281,768	$ 1,923,685
Capital redemptions-subject to penalty	1,966,714	810,086
Total	$ 3,248,482	$ 2,733,771
Early withdrawal penalties	$ 111,551	$ 54,429

At December 31, 2019, scheduled redemptions of members' capital equaled $447,417, and is scheduled to be paid in 2020.

Contractual obligations, other than redemptions of members capital

At December 31, 2019, the company had no construction or rehabilitation loans outstanding.

At December 31. 2019, the company has no off-balance sheet arrangements as such arrangements are not permitted by the Operating Agreement.

Item 7A – Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

Item 8 – Financial Statements and Supplementary Data

A – Financial Statements

The following financial statements of Redwood Mortgage Investors IX, LLC at and for the years ended December 31, 2019 and 2018 are included in Item 8:

B – Financial Statement Schedules

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members
Redwood Mortgage Investors IX, LLC
San Mateo, California

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Redwood Mortgage Investors IX, LLC (a Delaware Limited Liability Company) (the "Company") as of December 31, 2019 and 2018, the related statements of income, changes in members' capital, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019**,** in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Support from Manager

As discussed in Note 3, in 2019 and 2018 Redwood Mortgage Corp (the "Manager"), at its sole discretion, provided financial support to the Company that improved net income and the return to investors in the form of waived fees, and by the decision not to seek reimbursement for certain operating costs incurred by the Manager for which reimbursement is allowable under the operating agreement. Collectively, these actions increased net income to the Company during the years ended December 31, 2019 and 2018 by approximately $1,437,025 and $2,030,610, respectively.

Emphasis of a Matter – COVID-19

As more fully described in Note 6 to the financial statements, the Company may be materially impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

San Francisco, California
March 30, 2020

REDWOOD MORTGAGE INVESTORS IX, LLC
Balance Sheets
December 31, 2019 and 2018

ASSETS	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 4,450,529	$ 10,674,953
Loans		
Principal	70,660,284	62,115,713
Advances	14,040	21,041
Accrued interest	680,146	473,966
Loan balances secured by deeds of trust	71,354,470	62,610,720
Allowance for loan losses	(87,000)	—
Loan balances secured by deeds of trust, net	71,267,470	62,610,720
Total assets	$ 75,717,999	$ 73,285,673
LIABILITIES, INVESTORS IN APPLICANT STATUS, AND MEMBERS' CAPITAL		
Accounts payable and accrued liabilities	$ 36,933	$ 9,321
Commitments and contingencies (Note 5)		
Investors in applicant status	—	651,500
Members' capital, net	79,629,130	76,804,195
Receivable from manager (formation loan)	(3,948,064)	(4,179,343)
Members' capital, net, less formation loan	75,681,066	72,624,852
Total liabilities, investors in applicant status and members' capital	$ 75,717,999	$ 73,285,673

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

REDWOOD MORTGAGE INVESTORS IX, LLC
Statements of Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, net		
Interest income	$ 5,994,790	$ 5,200,702
Late fees	51,997	20,285
Gain on sale, loans	20,833	27,133
Total revenues	6,067,620	5,248,120
Provision for loan losses	87,000	—
Operations expense		
Mortgage servicing fees	166,878	151,457
Asset management fees, net (Note 3)	278,103	—
Costs from Redwood Mortgage Corp., net (Note 3)	—	—
Professional services, net (Note 3)	524,940	289,053
Other	36,987	17,338
Total operations expense	1,006,908	457,848
Net income	$ 4,973,712	$ 4,790,272
Members (99%)	4,923,975	4,742,369
Manager (1%)	49,737	47,903
	$ 4,973,712	$ 4,790,272

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

REDWOOD MORTGAGE INVESTORS IX, LLC
Statements of Changes in Members' Capital
For the Years Ended December 31, 2019 and 2018

	Investors In Applicant Status	Members' Capital, net			
		Members' Capital	Manager's Capital	Unallocated Organization and Offering Expenses	Members' Capital, net
Balance at December 31, 2018	$ 651,500	$79,198,453	$ 125,200	$(2,519,458)	$76,804,195
Contributions on application	2,666,508	—	—	—	—
Contributions admitted to members' capital	(3,318,008)	3,318,008	3,331	—	3,321,339
Premiums paid on application by RMC	12,355	—	—	—	—
Premiums admitted to members' capital	(12,355)	12,355	—	—	12,355
Net income	—	4,923,975	49,737	—	4,973,712
Earnings distributed to members	—	(4,534,952)	(45,000)	—	(4,579,952)
Earnings distributed used in DRIP	—	2,415,807	—	—	2,415,807
Members' redemptions	—	(3,248,482)	—	—	(3,248,482)
Organization and offering expenses	—	—	—	(185,332)	(185,332)
Organization and offering expenses allocated	—	(329,234)	—	329,234	—
Organization and offering expenses repaid by RMC	—	—	—	96,073	96,073
Early withdrawal penalties	—	—	—	19,415	19,415
Balance at December 31, 2019	$ —	$81,755,930	$ 133,268	$(2,260,068)	$79,629,130

	Investors In Applicant Status	Members' Capital, net			
		Members' Capital	Manager's Capital	Unallocated Organization and Offering Expenses	Members' Capital, net
Balance at December 31, 2017	$ 3,270,312	$66,450,424	$ 102,902	$(2,335,325)	$64,218,001
Contributions on application	10,413,923	—	—	—	—
Contributions admitted to members' capital	(13,025,630)	13,025,630	13,085	—	13,038,715
Premiums paid on application by RMC	52,990	—	—	—	—
Premiums admitted to members' capital	(60,095)	60,095	—	—	60,095
Net income	—	4,742,369	47,903	—	4,790,272
Earnings distributed to members	—	(4,462,623)	(38,690)	—	(4,501,313)
Earnings distributed used in DRIP	—	2,420,528	—	—	2,420,528
Members' redemptions	—	(2,733,771)	—	—	(2,733,771)
Organization and offering expenses	—	—	—	(591,907)	(591,907)
Organization and offering expenses allocated	—	(304,199)	—	304,199	—
Organization and offering expenses rebated by RMC	—	—	—	81,215	81,215
Early withdrawal penalties	—	—	—	22,360	22,360
Balance at December 31, 2018	$ 651,500	$79,198,453	$ 125,200	$(2,519,458)	$76,804,195

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

REDWOOD MORTGAGE INVESTORS IX, LLC
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operations		
Interest income received	$ 5,732,666	$ 5,039,822
Other loan revenue received	52,797	18,499
Loan administrative fee reimbursed	—	3,130
Operations expense	(979,982)	(394,909)
Total cash provided by operations	4,805,481	4,666,542
Investing – loans		
Loans originated	(58,051,600)	(64,959,250)
Loans sold to non-affiliate, net	4,994,818	22,128,128
Loans transferred from affiliates	—	(5,889,819)
Principal collected	44,597,043	41,506,194
Advances (made) on loans	(1,053)	(7,051)
Total cash used in investing	(8,460,792)	(7,221,798)
Financing – members' capital		
Contributions by members, net		
Contributions by members	2,682,081	10,479,930
Organization and offering expenses paid, net	(89,259)	(510,692)
Formation loan funding	(186,656)	(779,964)
Formation loan collected	355,301	345,639
Total cash provided by members, net	2,761,467	9,534,913
Distributions to members		
Earnings distributed, net of DRIP	(2,119,145)	(2,080,785)
Earnings distributed to manager	(45,000)	—
Redemptions, net of early withdrawal penalties	(3,166,435)	(2,733,771)
Cash distributions to members	(5,330,580)	(4,814,556)
Total cash (used in) provided by financing	(2,569,113)	4,720,357
Net (decrease) increase in cash	(6,224,424)	2,165,101
Cash, beginning of period	10,674,953	8,509,852
Cash, December 31,	$ 4,450,529	$ 10,674,953

Non-cash financing activity for the years ended December 31, 2019 and 2018 includes early withdrawal penalties of $82,047 and $54,430, respectively, which reduced members' capital by $19,415 and $22,360, respectively, as they were applied to unallocated O&O and the formation loan by $62,632 and $32,070, respectively.

Non-cash financing activity for the year ended December 31, 2019 includes investors in applicant status amounts totaling $651,500 representing cash amounts received in 2018 but not admitted until 2019. Non-cash financing activity for the year ended December 31, 2018 includes investors in applicant status amounts totaling $3,270,312 representing cash amounts received in 2017 but not admitted until 2018..

REDWOOD MORTGAGE INVESTORS IX, LLC
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

Reconciliation of net income to total cash provided by operations

	2019	2018
Net income	$ 4,973,712	$ 4,790,272
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) on sale, loans	(20,833)	(27,133)
Provision of loan losses	87,000	—
Amortization of loan administrative fees	—	5,878
Change in operating assets and liabilities		
Accrued interest	(262,124)	(166,758)
Loan administrative fees reimbursed	—	3,130
Accounts payable and accrued liabilities	27,726	3,419
Other	—	57,734
Total adjustments	(168,231)	(123,730)
Total cash provided by operations	$ 4,805,481	$ 4,666,542

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

NOTE 1 – ORGANIZATION AND GENERAL

Redwood Mortgage Investors IX, LLC (RMI IX or the company) is a Delaware limited liability company formed in October 2008 to engage in business as a mortgage lender and investor by making and holding-for-investment mortgage loans secured by California real estate, primarily through first and second deeds of trust.

The company is externally managed by Redwood Mortgage Corp (RMC or the manager). The manager is solely responsible for managing the business and affairs of the company, 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 company. RMC provides the personnel and services necessary for the company to conduct its business as the company has no employees of its own. The mortgage loans the company funds and/or invests in are arranged and generally are serviced by RMC.

The rights, duties and powers of the members and manager of the company are governed by the Ninth Amended and Restated Limited Liability Company Operating Agreement of RMI IX (the "Operating Agreement"), the Delaware Limited Liability Company Act and the California Revised Uniform Limited Liability Company Act.

The following is a summary of certain provisions of the Operating Agreement and is qualified in its entirety by the terms of the Operating Agreement. Members should refer to the company's Operating Agreement for complete disclosure of its provisions.

The company's primary investment objectives are to:

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

The ongoing sources of funds for loans are the proceeds (net of redemption of members' capital and operating expenses) from:

- loan payoffs;
- borrowers' monthly principal and interest payments, net of operating expenses;
- a line of credit;
- loan sales to unaffiliated 3rd parties and loan transfers by executed assignment to affiliated mortgage funds;
- payments from RMC on the outstanding balance of the formation loan; and,
- sale of units to members participating in the dividend reinvestment plan and – prior to May 2019 – sale of units net of reimbursement to RMC of organization and offering expenses ("O&O expenses") and net of amounts advanced for the formation loan to RMC.

The company intends to hold until maturity the loans in which it invests and does not presently intend to invest in mortgage loans primarily for the purpose of reselling such loans in the ordinary course of business; however, the company may sell mortgage loans (or fractional interests therein) when the manager determines that it appears to be advantageous for the company to do so, based upon then current interest rates, the length of time that the loan has been held by the company, the company's credit risk and concentration risk and the overall investment objectives of the company. 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. Company 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 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 loan sales conducted for the company; however, selling loans will increase members' capital available for investing in new loans for which the manager will earn brokerage fees and other forms of compensation.

Members representing a majority of the outstanding units may, without the concurrence of the managers, vote to: (i) dissolve the company, (ii) amend the Operating Agreement, subject to certain limitations, (iii) approve or disapprove the sale of all or substantially all of the assets of the company or (iv) remove or replace one or all of the managers. Where there is only one manager, a majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

Distribution policy

Cash available for distribution at the end of each calendar month is allocated ninety-nine percent (99%) to the members and one percent (1%) to the manager. Cash available for distribution means cash flow from operations (excluding repayments for loan principal and other capital transaction proceeds) less amounts set aside for creation or restoration of reserves. The manager may withhold from cash available for distribution otherwise distributable to the members with respect to any period the respective amounts of O&O expenses allocated to the members' accounts for the applicable period pursuant to the company's reimbursement to RMC and allocation to members' accounts of O&O expenses. The amount otherwise distributable, less the respective amounts of O&O expenses allocated to members, is the net distribution. Per the terms of the company's Operating Agreement, cash available for distribution to the members is allocated among the members in proportion to their percentage interests (except with respect to differences in the amounts of O&O expenses allocated to the respective members during the applicable period) and in proportion to the number of days during the applicable month that they owned such percentage interests.

See Note 3 (Manager and Other Related Parties) to the financial statements for a detailed discussion on the allocation of O&O expenses to members' accounts.

The distribution reinvestment plan (DRIP) provision of the Operating Agreement permits members to elect to have all or a portion of their monthly distributions reinvested in the purchase of additional units.

Cash available for distributions allocable to members, other than those participating in the DRIP and the manager, is distributed at the end of each calendar month. Cash available for distribution allocable to members who participate in the DRIP is used to purchase additional units at the end of each calendar month. The manager's allocable share of cash available for distribution is also distributed not more frequently than with cash distributions to members.

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

The company's net income, cash available for distribution, and net-distribution rate fluctuates depending on:

- loan origination volume and the balance of capital available to lend;
- the current and future interest rates negotiated with borrowers;
- the timing and amount of gains received from loan sales, if any;
- payment of fees and cost reimbursements to RMC;
- the amount and timing of other operating expenses, including expenses for professional services;
- financial support, if any, from RMC;
- payments from RMC on the outstanding balance of the formation loan; and,
- a line of credit.

Financial Support from RMC

Since commencement of operations in 2009, RMC, at its sole discretion, provided significant financial support to the company which increased the net income, cash available for distribution, and the net-distribution rate, by:

- charging less than the maximum allowable fees;
- not requesting reimbursement of qualifying costs attributable to the company ("Costs from RMC" on the Statements of Income); and/or,
- absorbing some, and in certain periods, all of the company's direct expenses, such as professional fees.

Such fee and cost-reimbursement waivers and the absorption of the company's expenses by RMC were not made for the purpose of providing the company with sufficient funds to satisfy any required level of distributions, as the Operating Agreement has no such required level of distributions, nor to meet withdrawal requests. Any decision to waive fees or cost-reimbursements and/or to absorb direct expenses, and the amount (if any) to be waived or absorbed, is made by RMC in its sole discretion. This support increased the company's financial performance and resulted in an annual 6.5% net distribution rate (6.95% before O&O expenses allocation of 0.45% when applicable) for periods prior to February 28, 2018.

In April 2018, RMI IX began paying its direct expenses for professional-service fees (legal and audit/tax compliance) and other operating expenses (postage, printing etc.).

In June 2019, RMC began collecting from RMI IX the asset management fee of three quarters of one percent annually (0.75%), and plans to commence collection from RMI IX in 2020 of cost reimbursements to which RMC is entitled.

In 2019, the company began being invoiced directly and paying fees to an independent service bureau for information technology relating to the recordkeeping and reporting for the accounts of individual investors and their corresponding member accounts. In prior years these fees were invoiced to RMC and then billed to the company.

Liquidity and unit redemption program

There are substantial restrictions on transferability of units, and there is no established public trading and/or secondary market for the units and none is expected to develop. In order to provide liquidity to members, the company's Operating Agreement includes a unit redemption program, whereby beginning one year from the date of purchase of the units, a member may redeem all or part of their units, subject to certain limitations.

The price paid for redeemed units is based on the lesser of the purchase price paid by the redeeming member or the member's capital account balance as of the date of each redemption payment. Redemption value is calculated based on the period from date of purchase as follows:

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

The company redeems units quarterly, subject to certain limitations as provided in the Operating Agreement. The maximum number of units which may be redeemed per quarter per individual member shall not exceed the greater of (i) 100,000 units, or (ii) 25% of the member's total outstanding units. For redemption requests requiring more than one quarter to fully redeem, the percentage discount amount that, if any, applies when the redemption payments begin continues to apply throughout the redemption period and applies to all units covered by such redemption request regardless of when the final redemption payment is made.

The company has not established a cash reserve from which to fund redemptions. The company's capacity to redeem units upon request is limited by the availability of cash and the company's cash flow. As provided in the Operating Agreement, the company will not, in any calendar year, redeem more than five percent (5%) of the weighted average number of units outstanding during the twelve-month period immediately prior to the date of the redemption. In the event unit withdrawal requests exceed 5% in any calendar year, units will be redeemed in the priority provided in the Operating Agreement.

Contributed capital

Prior to April 30, 2019, the manager was required to contribute to capital one tenth of one percent (0.1%) of the aggregate capital accounts of the members.

Manager's interest

If a manager is removed, withdrawn or terminated, the company will pay to the manager all amounts then accrued and due to the manager. Additionally, the company will terminate the manager's interest in the company's profits, losses, distributions and capital by payment of an amount in cash equal to the then-present fair value of such interest. The formation loan is forgiven if the manager is removed and RMC is no longer receiving payments for services rendered.

Distribution reinvestment plan (DRIP)/Unit sales

On May 9, 2019, the company filed a Registration Statement on Form S-3 with the SEC (SEC File No. 333-231333) to offer up to 15,000,000 units ($15,000,000) to members of record as of April 30, 2019 that had previously elected to participate in the DRIP or that elect to participate in the DRIP. The Registration Statement on Form S-3 became effective on May 9, 2019.

Members of record as of April 30, 2019, that previously elected to participate in the DRIP or that provide written notice to the manager may elect to participate in the DRIP, in those states in which approval has been obtained. As of December 31, 2019, the gross proceeds from sales of units to our members under our DRIP pursuant to the May 9, 2019 Form S-3 Registration Statement (after May 9, 2019) was approximately $1,614,000, and approximately $802,000 (for the four month period ended April 30, 2019) pursuant to the company's Form S-11 Registration Statement.

On June 11, 2019, the company filed a Post-Effective Amendment No. 5 with the SEC (SEC File No. 333-208315) to deregister all of the units which were registered under its Form S-11 Registration Statement that remained unsold as of April 30, 2019.

The company used the gross proceeds from the sale of the units to:

- make additional loans;
- fund working capital reserves;
- pay RMC up to 4.5% of proceeds from sale of units for O&O expenses, excluding units sold in the DRIP; and
- fund a formation loan to RMC at up to 7% of proceeds from sale of units, excluding units sold in the DRIP.

Unit sales – commissions paid to broker-dealers/formation loan

Commissions for unit sales were previously paid to broker-dealers (B/D sales commissions) by RMC and were not paid directly by the company out of offering proceeds. Instead, the company advanced to RMC, from offering proceeds, amounts sufficient to pay the B/D sales commissions and premiums paid to investors up to seven percent (7%) of offering proceeds. The receivable arising from the advances is unsecured, and non-interest bearing and is referred to as the "formation loan." RMC is required to make annual payments on the formation loan in the amount of one tenth of the principal balance outstanding at December 31 of the prior year.

Term of the company

The term of the company will continue until 2028, unless sooner terminated as provided in the Operating 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").

Management estimates

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

Fair value estimates

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the company has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly 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 company's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the company's own data.

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

Management has the requisite familiarity with the real estate 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 company considers all highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents. At December 31, 2019, substantially all of the company's cash balances in banks exceed federally insured limits 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 company's interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums and attorney fees. Advances generally are stated at the amounts paid out on the borrower's behalf and any accrued interest on amounts paid out, until repaid by the borrower. 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 company 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. Any interest reserve is amortized over the period that the amount is prepaid. In the event of an early loan payoff, any unapplied interest reserves would be first applied to any accrued but unpaid interest and then as a reduction to the principal.

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

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.

The company originates loans with the intent to hold the loans until maturity. From time to time the company 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).

Allowance for loan losses

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

If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement, then a loan may be designated as impaired. Impaired loans are included in management's periodic analysis of recoverability. Payments on impaired loans are applied to late fees, then to the accrued interest, then to advances, and lastly to principal.

A provision for loan losses to adjust the allowance for loan losses (principal and/or recorded interest) is made 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 company charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible. Any amounts collected after a charge off is deemed a recovery of loan losses.

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

Real estate owned (REO)

Real estate owned, or REO, is property acquired in full or partial settlement of loan obligations generally through foreclosure, and is recorded at acquisition at 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. REO is analyzed periodically for changes in fair values and any subsequent write down is charged to operations expenses as an adjustment to the valuation allowance. Any recovery in the fair value subsequent to such a write down is recorded and is 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 Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that significantly changes how entities will account for credit losses for most financial assets that are not measured at fair value through net income. The new standard will supersede currently in effect guidance and applies to all entities. Entities will be required to use a current expected credit loss (CECL) model to estimate credit impairment. This estimate will be forward-looking, meaning management will be required to use not only historical trends and current conditions, but must also consider forecasts about future economic conditions to determine the expected credit loss over the remaining life of an instrument. This will be a significant change from the current incurred credit loss model, and generally may result in allowances being recognized in earlier periods than under the current credit loss model. The ASU is effective for smaller reporting companies for interim and annual reporting periods in 2023.

RMI IX 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.

NOTE 3 – MANAGER AND OTHER RELATED PARTIES

The Operating Agreement provides for compensation to the manager, as detailed below. RMC is entitled to 1% of the net income or loss of the company.

Loan administrative fees and operating expenses, including amounts for fees and cost reimbursements waived and/or expenses absorbed by RMC for the year ended December 31, 2019 is presented in the following table.

		Operating Expenses					
For the year ended December 31, 2019	Loan Admin Fees	Mortgage Servicing Fees	Asset Management Fee	Costs from RMC	Professional Services	Other	Total
Chargeable/reimbursable	$ 580,516	$166,878	$ 476,748	$ 657,864	$ 524,940	$ 36,987	$ 2,443,933
RMC support							
Waived	(580,516)	—	(198,645)	(657,864)	—	—	(1,437,025)
Expenses absorbed by RMC	—	—	—	—	—	—	—
Total RMC support	(580,516)	—	(198,645)	(657,864)	—	—	(1,437,025)
Net charged	$ —	$166,878	$ 278,103	$ —	$ 524,940	$ 36,987	$ 1,006,908

Loan administrative fees and operating expenses, including amounts for fees and cost reimbursements waived and/or expenses absorbed by RMC for the year ended December 31, 2018 is presented in the following table.

		Operating Expenses					
For the year ended December 31, 2018	Loan Admin Fees	Mortgage Servicing Fees	Asset Management Fee	Costs from RMC	Professional Services	Other	Total
Chargeable/reimbursable	$ 708,491	$151,457	$ 419,820	$ 744,901	$ 432,205	$ 31,584	$ 2,488,458
RMC support							
Waived	(708,491)	—	(419,820)	(744,901)	—	—	(1,873,212)
Expenses absorbed by RMC	—	—	—	—	(143,152)	(14,246)	(157,398)
Total RMC support	(708,491)	—	(419,820)	(744,901)	(143,152)	(14,246)	(2,030,610)
Net charged	$ —	$151,457	$ —	$ —	$ 289,053	$ 17,338	$ 457,848

Loan administrative fees

RMC is entitled to receive a loan administrative fee in an amount up to one percent (1%) of the principal amount of each new loan originated or acquired on the company's behalf by RMC for services rendered in connection with the selection and underwriting of potential loans. Such fees would be payable by the company upon the closing or acquisition of each loan. Since August 2015, RMC, at its sole discretion, waived and continues to waive, the loan administrative fees.

Mortgage servicing fees

The manager acting as servicing agent with respect to all loans is entitled to receive a servicing fee from the company of up to one-quarter of one percent (0.25%) annually of the unpaid principal balance of the loan portfolio or such lesser amount as is reasonable and customary in the geographic area where the property securing the mortgage is located. RMC is entitled to receive these fees regardless of whether specific mortgage payments are collected. The mortgage servicing fees are accrued monthly on all loans. Remittance to RMC is made monthly unless the loan has been assigned a specific loss reserve, at which point remittance is deferred until the specific loss reserve is no longer required, or the property has been acquired by the company.

Asset management fees

The manager is entitled to receive a monthly asset management fee for managing the company's portfolio and operations in an amount up to three-quarters of one percent (0.75%) annually of the portion of the capital originally committed to investment in mortgages, not including leverage, and including up to two percent (2%) of working capital reserves. In June 2019, the company began paying the manager asset management fees.

Costs from RMC

The manager is entitled to request reimbursement by the company for operations expense incurred on behalf of the company, including without limitation, accounting, tax and data processing, postage and preparation of reports to members and out-of-pocket general and administration expenses. Certain of these qualifying costs (e.g., postage) can be tracked by RMC as specifically attributable to the company. Other costs (e.g., RMC's accounting and audit fees, legal fees and expenses, qualifying payroll expenses, occupancy, and insurance premium) are allocated on a pro-rata basis (e.g., by the company's percentage of total capital of all mortgage funds managed by RMC). Payroll and consulting fees are allocated first based on activity, and then to the company on a pro-rata basis based on percentage of capital to the total capital of all affiliated mortgage funds managed by RMC. RMC, at its sole discretion, has elected to waive reimbursement for operating expenses during the years ended December 31, 2019 and 2018.

Professional Services

Professional services consist primarily of legal, audit and tax compliance, information technology related to recordkeeping and reporting for individual investor accounts, and regulatory (including SEC/FINRA compliance) expenses. Prior to April 2018, RMC, at its sole discretion, had elected to absorb some or all of RMI IX's expenses for professional services (and other operating expenses directly incurred by the company).

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, RMC may collect a loan brokerage commission that is expected to range from approximately 1.5% to 5% of the principal amount of each loan made during the year. Total loan brokerage commissions are limited to an amount not to exceed 4% of the total company assets per year. The loan brokerage commissions are paid by the borrowers, and thus, are not an expense of the company.

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

During the year ended December 31, 2018, Redwood Mortgage Investors VIII, LP, an affiliated mortgage fund, transferred to the company two performing loans in-full at par value, which approximates fair value, of approximately $5,890,000. The company paid cash for the loans and the affiliated mortgage fund has no continuing obligation or involvement on the loans. No loans were transferred during the year ended December 31, 2019.

Formation loan

Formation loan transactions are presented in the following table.

	2019	Since Inception
Balance, beginning of period	$ 4,179,343	$ —
Formation loan advances to RMC	186,656	5,626,566
Payments received from RMC	(355,301)	(1,555,017)
Early withdrawal penalties applied	(62,634)	(123,485)
Balance, December 31, 2019	$ 3,948,064	$ 3,948,064
Subscription proceeds since inception		$ 80,256,995
Formation loan advance rate		7%

The future minimum payments on the formation loan of December 31, 2019 are presented in the following table.

2020	$ 493,508
2021	493,508
2022	493,508
2023	493,508
2024	493,508
Thereafter	1,480,524
Total	$ 3,948,064

RMC is required to make annual payments on the formation loan of one tenth of the principal balance outstanding at December 31 of the prior year. The formation loan is forgiven if the manager is removed and RMC is no longer receiving payments for services rendered.

Member capital withdrawals

The table below presents the company’s unit redemptions for the years ended December 31, 2019 and 2018.

	2019	2018
Capital redemptions-without penalty	$ 1,281,768	$ 1,923,685
Capital redemptions-subject to penalty	1,966,714	810,086
Total	$ 3,248,482	$ 2,733,771
Early withdrawal penalties	$ 111,551	$ 54,429

At December 31, 2019, scheduled redemptions of members’ capital was $447,417, all of which was scheduled for payment in 2020.

Reimbursement and allocation of organization and offering expenses

Per the Operating Agreement, the manager is reimbursed for, or the company may pay directly, O&O expenses incurred in connection with the organization of the company or offering of the units including, without limitation, attorneys’ fees, accounting fees, printing costs and other selling expenses (other than sales commissions) in a total amount not exceeding 4.5% of the original purchase price of all units (other than DRIP units) sold in all offerings (hereafter, the “maximum O&O expenses”), and the manager pays any O&O expenses in excess of the maximum O&O expenses.

For each calendar quarter or portion thereof after December 31, 2015, that a member holds units (other than DRIP units) and for a maximum of forty (40) such quarters, a portion of the O&O expenses borne by the company is allocated to and debited from that member's capital account in an annual amount equal to 0.45% of the member's original purchase price for those units, in equal quarterly installments of 0.1125% each commencing with the later of the first calendar quarter of 2016 or the first full calendar quarter after a member's purchase of units, and continuing through the quarter in which such units are redeemed. If at any time the aggregate O&O expenses actually paid or reimbursed by the company since inception are less than the maximum O&O expenses, the company shall first reimburse the manager for any O&O expenses previously borne by it so long as it does not result in the company bearing more than the maximum O&O expenses, and any savings thereafter remaining shall be equitably allocated among (and serve to reduce any such subsequent cost allocations to) those members who have not yet received forty (40) quarterly allocations of O&O expenses, as determined in the good faith judgment of the manager.

Unallocated O&O transactions are summarized in the following table.

	2019	Since Inception
Balance, beginning of period	$ 2,519,458	$ —
O&O expenses reimbursed to RMC	185,332	3,671,853
Early withdrawal penalties applied (1)	(19,415)	(60,290)
O&O expenses allocated(2)	(329,234)	(1,015,590)
O&O expenses repaid to Members' Capital by RMC(3)	(96,073)	(335,905)
Balance, December 31	$ 2,260,068	$ 2,260,068

(1) Prior to June 30, 2019, early withdrawal penalties collected were applied to the next installment of principal due under the formation loan and to reduce the amount owed to RMC for O&O expenses. The amounts credited were determined by the ratio between the amount of the formation loan and the amount of offering costs incurred by the company.

(2) Beginning in 2016, O&O expenses reimbursed to RMC by RMI IX are allocated to members' capital accounts over 40 quarters.

(3) RMC is obligated under the Operating Agreement to repay the company for unallocated O&O expenses attributed to units redeemed prior to the 40 quarterly allocations. RMC estimated its future obligations to repay unallocated O&O expenses on scheduled redemptions as of December 31, 2019, to be $10,761, which is expected to be offset by early withdrawal penalties.

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. No loans were acquired from affiliates in 2019.

As of December 31, 2019, 74 loans (representing 98% of the aggregate principal of the company's loan portfolio) have a loan term of five years or less from loan inception. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment provision.

As of December 31, 2019, 53 loans outstanding (representing 45% of the aggregate principal balance of the company's loan portfolio) provide from monthly payments of principal and interest, typically calculated on a 30-year amortization schedule, with the remaining principal balance due at maturity. The remaining loans provide for monthly payments of interest only, with the principal balance due at maturity.

Secured loans unpaid principal balance (principal)

Secured loan transactions are summarized in the following table for 2019 and 2018.

	2019	2018
Principal, beginning of period	$ 62,115,713	$ 54,768,689
Loans originated	58,051,600	64,959,250
Loans transferred from affiliates	—	5,889,819
Loans sold to non-affiliate	(4,909,986)	(21,995,851)
Principal collected	(44,597,043)	(41,506,194)
Principal December 31	$ 70,660,284	$ 62,115,713

During each of the years ended December 31, 2019 and 2018, the company renewed eight loans with aggregated principal of approximately$5,195,000 and $5,004,000, respectively, which are not included in the activity shown in the table above. See Note 3 (Manager and Other Related Parties) for a description of loans transferred by executed assignments between affiliates.

Pursuant to California regulatory requirements, borrower payments are deposited into a trust account established by RMC with an independent bank. Funds are disbursed to the company as collected which can range from same day for wire transfers and up to two weeks after deposit for checks. Borrower payments held in the trust account that are yet to be disbursed to the company are not included in the financial statements. At December 31, 2019, $71,416, of borrower payments made by check, was on deposit in the bank trust account, which was fully disbursed to the company's account by January 23, 2020. At December 31, 2018, $67,214 of borrower payments made by check, was on deposit in the trust account, all of which was disbursed to the company's bank account by January 17, 2019, when they were recorded by the company.

The company originates loans with the intent to hold the loans until maturity, although from time to time the company may sell certain loans when the manager determines it to be in the best interest of the company.

- In September 2019, a loan with principal of $500,000, that had been designated as impaired, was sold to an unaffiliated third party which specializes in the resolution of such loans. There was no gain recognized upon sale.
- In July 2019, 8 loans with aggregate principal of $4,273,346 and accrued interest of $31,830 were sold to an unaffiliated third party, at a price that netted an immaterial gain.
- In March 2019, a loan with principal of $136,640, was sold to an unaffiliated third party, for an amount that approximated the loan balance at the time of sale.

Loan characteristics

	December 31, 2019	December 31, 2018
Number of secured loans	77	83
Secured loans – principal	$70,660,284	$62,115,713
Secured loans – lowest interest rate (fixed)	7.8%	7.0%
Secured loans – highest interest rate (fixed)	10.5%	10.5%
Average secured loan – principal	$ 917,666	$ 748,382
Average principal as percent of total principal	1.3%	1.2%
Average principal as percent of members’ capital, net	1.2%	1.0%
Average principal as percent of total assets	1.2%	1.0%
Largest secured loan – principal	$ 6,735,000	$ 4,000,000
Largest principal as percent of total principal	9.5%	6.4%
Largest principal as percent of members’ capital, net	8.5%	5.2%
Largest principal as percent of total assets	8.9%	5.5%
Smallest secured loan – principal	$ 125,656	$ 74,390
Smallest principal as percent of total principal	0.2%	0.1%
Smallest principal as percent of members’ capital, net	0.2%	0.1%
Smallest principal as percent of total assets	0.2%	0.1%
Number of California counties where security is located	17	15
Largest percentage of principal in one California county	27.0%	25.0%
Number of secured loans with filed notice of default	—	2
Secured loans in foreclosure – principal	$ —	$ 565,685

As of December 31, 2019, the company’s largest loan with principal of $6,735,000 is secured by an office building located in Santa Clara county, bears an interest rate of 8.25% and matures on October 1, 2021.

As of December 31, 2019, the company had no loans with filed notices of default. As of December 31, 2019, the company had no construction loans outstanding and had no rehabilitation loans outstanding. As of December 31, 2019, the company had no commitments to fund construction or rehabilitation loans. The company had no loan commitments to lend as of December 31, 2019.

Lien position

Secured loans had the lien positions in the following table.

	December 31, 2019			December 31, 2018		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	42	$ 42,712,037	60%	41	$ 29,699,888	48%
Second trust deeds	35	27,948,247	40	42	32,415,825	52
Total principal, secured loans	77	70,660,284	100%	83	62,115,713	100%
Liens due other lenders at loan closing		54,062,023			65,941,118	
Total debt		$124,722,307			$128,056,831	
Appraised property value at loan closing		$237,453,000			$240,307,000	
Percent of total debt to appraised values (LTV) at loan closing(1)		55.3%			54.5%	

(1) based on appraised values and liens due to 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 of senior liens to other lenders.

Property type

Secured loans summarized by property type are presented in the following table as of December 31, 2019 and 2018.

	December 31, 2019			December 31, 2018		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family(2)	53	$32,361,343	46%	60	$42,967,253	69%
Multi-family	9	9,219,497	13	8	8,210,970	13
Commercial	15	29,079,444	41	15	10,937,490	18
Total principal, secured loans	77	$70,660,284	100%	83	$62,115,713	100%

(2) single family property type as of December 31, 2019 consists of 11 loans with principal of $6,236,571 that are owner occupied and 42 loans with principal of $26,124,772 that are non-owner occupied. At December 31, 2018, single family property consisted of 14 loans with principal of $11,398,869 that are owner occupied and 46 loans with principal $31,568,384 that are non-owner occupied.

Distribution of loans in California

The distribution of secured loans by counties is presented in the following table as of December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
	Principal	**Percent**	**Principal**	**Percent**
San Francisco Bay Area[3]				
Santa Clara	$19,064,638	27.0%	$11,756,695	18.9%
San Mateo	10,837,195	15.3	9,619,609	15.5
San Francisco	7,735,173	10.9	5,238,008	8.4
Alameda	2,930,219	4.2	7,306,779	11.8
Contra Costa	400,000	0.6	725,771	1.2
Santa Cruz	264,515	0.4	—	—
Marin	249,628	0.4	575,000	0.9
Sonoma	—	—	1,300,000	2.1
	41,481,368	58.8	36,521,862	58.8
Other Northern California				
Sutter	3,815,000	5.4	—	—
Monterey	1,110,000	1.6	322,716	0.5
Sacramento	492,216	0.6	822,500	1.3
Tehama	405,000	0.6	—	—
Placer	—	—	637,354	1.0
	5,822,216	8.2	1,782,570	2.8
Northern California Total	47,303,584	67.0	38,304,432	61.6
Los Angeles & Coastal				
Los Angeles	12,531,312	17.7	15,514,789	25.0
San Diego	4,983,331	7.1	5,563,635	9.0
Orange	3,067,396	4.3	1,177,446	1.9
Santa Barbara	497,977	0.7	—	—
	21,080,016	29.8	22,255,870	35.9
Other Southern California				
San Bernardino	1,200,000	1.7	1,200,000	1.9
Riverside	1,076,684	1.5	355,411	0.6
	2,276,684	3.2	1,555,411	2.5
Southern California Total	23,356,700	33.0	23,811,281	38.4
Total principal, secured loans	$70,660,284	100.0%	$62,115,713	100.0%

(3) Includes Silicon Valley

Scheduled maturities

Secured loans are scheduled to mature as presented in the following table as of December 31, 2019.

	Loans	Principal	Percent
2020	35	$25,361,762	36%
2021	26	38,598,944	55
2022	8	3,642,402	5
2023	2	345,101	—
2024	1	246,684	—
Thereafter	2	1,390,000	2
Total future maturities	74	69,584,893	98
Matured as of December 31, 2019	3	1,075,391	2
Total principal, secured loans	77	$70,660,284	100%

Loans may be repaid or refinanced before, at or after the contractual maturity date. For matured loans, the company may continue to accept payments while pursuing collection of amounts owed from borrowers.

Secured loans, principal past maturity are summarized in the following table as of December 31, 2019.

	December 31, 2019
Number of loans	3
Principal	$ 1,075,391
Advances	1,653
Accrued interest	21,013
Total recorded investment	$ 1,098,057
Principal past maturity as percent of total principal	2%

Non-performing loans

Secured loans, principal summarized by payment delinquency is presented in the following table as of December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
Non-performing loans, principal	Loans	Principal	Loans	Principal
Past Due				
30-89 days	8	$ 3,952,306	5	$ 3,828,975
90-179 days	2	3,520,112	—	—
180 or more days	2	1,013,726	2	565,685
Total past due	12	8,486,144	7	4,394,660
Current	65	62,174,140	76	57,721,053
Total principal, secured loans	77	$70,660,284	83	$62,115,713

No loan payment modifications were made during 2019 or 2018.

In 2019 the company entered into two forbearance agreements with borrowers.

- One loan with principal of approximately $764,100 matured on April 1, 2019 and was 274 days delinquent and was designated impaired and in non-accrual status at December 31, 2019. The company entered into a forbearance agreement with the borrower in August 2019, whereby the borrower agreed to resume monthly payments and the company agreed to forbear collection activity until April 1, 2020.
- One loan with a principal balance of approximately $3,329,000 was 121 days delinquent and was designated impaired at December 31, 2019. The company entered into a forbearance agreement with the borrower in August 2019, whereby the company agreed to defer the interest payments due August 1, 2019, September 1, 2019 and October 1, 2019 and the company agreed to forbear collection activity until August 1, 2020.

At December 31, 2019 and 2018, the company had one workout agreement with a borrower. The loan, with principal of approximately $191,000 matured on June 1, 2016, and the company entered into a workout agreement in September 2016, whereby the borrower agreed to resume monthly payments to the company. This agreement extended the maturity date through October 1, 2021. The 2016 agreement was the successor to three prior agreements with the borrower, the first of which was dated August 5, 2011. The borrower was 91 days delinquent and was designated as impaired and in non-accrual status at December 31, 2019.

A loan with principal of approximately $250,000 was 213 days delinquent, and designated as impaired and in nonaccrual status at December 31, 2019.

The remaining eight loans, with principal of approximately $3,952,000, were all 60 or fewer days delinquent and not in non-accrual status or designated as impaired at December 31, 2019.

Payments in arrears for non-performing secured loans (i.e., principal and interest payments past due 30 or more days), principal and accrued interest receivable are presented in the following table as of December 31, 2019.

	Loans	Principal	Accrued interest receivable	Total past due
Payments past due				
30-89 days	8	$ 312,965	$ 60,041	$ 373,006
90-179 days	2	8,175	136,715	144,890
180 or more days	2	765,000	32,870	797,870
Total payments past due	12	$1,086,140	$229,626	$1,315,766

Secured loans in non-accrual status are summarized in the following table.

	December 31, 2019	December 31, 2018
Number of loans	3	2
Principal	$ 1,204,495	$ 565,685
Advances	10,677	10,688
Accrued interest	37,799	19,831
Total recorded investment	$ 1,252,971	$ 596,204
Foregone interest	$ 3,952	$ 33,410

A loan with principal of approximately $3,329,000 was 90 or more days delinquent as to principal or interest and not in non-accrual status at December 31, 2019. No loans were 90 or more days delinquent as to principal or interest and not in non-accrual status at December 31, 2018.

Allowance for Loan Losses

At December 31, 2019, RMI IX recorded a $87,000 provision for loan losses, primarily for secured loans in a second lien position, as the manager may – from time to time – agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions. Included in the provision for loan losses at December 31, 2019 is a $37,000 specific provision on a secured loan in second lien position, to facilitate the sale of the underlying collateral, which was sold in February 2020. At December 31, 2018, the company had no allowance for loan losses.

Loans designated impaired and the associated allowance for loan losses is presented in the following table.

	December 31, 2019	December 31, 2018
Principal	$ 4,533,838	$ 3,841,148
Recorded investment[4]	4,719,705	3,950,157
Impaired loans without allowance	4,451,368	3,950,157
Impaired loans with allowance	268,337	—
Allowance for loan losses, impaired loans	37,000	—
Number of loans	4	6
LTV at origination[5]	66.0%	54.7%

(4) Recorded investment is the sum of the principal, advances, and recorded accrued interest.
(5) A non-performing loan, in second lien position, with principal of approximately $250,000, and recorded investment of approximately $268,000, was determined to have an LTV which exceeded 90%. The loan was paid in February 2020, after RMI IX made a concession – as did the selling broker - to facilitate the sale of the underlying collateral. RMI IX's concession approximated $37,000.

Impaired loans had average balances and interest income recognized and received in cash as presented in the following tables as of and for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Average recorded investment	$ 4,334,931	$ 2,050,897
Interest income recognized	169,585	23,848
Interest income received in cash	67,990	21,670

Fair Value

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. Due to the nature of the company's loans and borrowers, the fair value of loan balances secured by deeds of trust approximates the recorded amount (per the financial statements) due to the following:

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

Secured loans, designated impaired (Level 3) - The fair value of secured loans designated impaired is the lesser of the fair value of the collateral or the enforceable amount of the note. Secured loans designated impaired are collateral dependent because it is expected that the primary source of repayment will not be from the borrower but rather from the collateral. The fair value of the collateral is determined on a nonrecurring basis by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values and publicly available information on in-market transactions (Level 3 inputs). When the fair value of the collateral exceeds the enforceable amount of the note, the borrower is likely to redeem the note. Accordingly, third party market participants would generally pay the fair value of the collateral, but no more than the enforceable amount of the note.

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

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

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

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

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

Commercial buildings – Where commercial rental income information is available, management's preferred method for determining the fair value of its commercial real estate assets is the direct capitalization method. In order to determine market cap rates for properties of the same class and location as the subject, management refers to reputable third-party sources such as the CBRE Cap Rate Survey. Management then applies the appropriate cap rate to the subject's most recent available annual net operating income to determine the property's value as an income-producing commercial rental project. Management supplements the direct capitalization method with additional information in the form of a sale comparison analysis (where adequate sale comps are available), brokers' opinion of value, or appraisal. When adequate sale comps are not available or reliable 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 land – Commercial land has many variations/uses, thus requiring management to employ a variety of methods depending upon the unique characteristics of the subject land, including a determination of its highest and best use. Management may rely on information in the form of a sale comparison analysis (where adequate sale comps are available), brokers' opinion of value, or appraisal.

NOTE 5 – COMMITMENTS AND CONTINGENCIES, OTHER THAN LOAN COMMITMENTS

Commitments

At December 31, 2019, scheduled future redemptions of members' capital was $447,417, all of which is scheduled for payment in 2020.

The company has contractual obligations to RMC per the Operating Agreement. See Note 3 (Manager and Other Related Parties) for a more detailed discussion on the company's contractual obligations to RMC.

Legal proceedings

In the normal course of its business, the company 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 company. As of the date hereof, the company is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

NOTE 6 – SUBSEQUENT EVENTS

COVID-19 (Coronavirus)

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) and in March 2020 classified the outbreak as a pandemic. In March 2020, the President of the United States and the Governor of California declared a state of emergency, based on the rapid increase in COVID-19 cases including in California where the real estate collateralizing the company’s loans are located.

Recently, COVID-19 has caused significant disruptions to the global, national and local economy. The overall impact of COVID-19 on the California economy and the California real estate markets is not known and cannot be predicted at this time. The company’s revenue and operating results depend significantly on the strength of the California real estate market, interest rates charged on loans and the ability of borrowers to make principal and interest payments. If the outbreak causes weakness in national, regional and local economies including but not limited to increases in unemployment rates and disruptions to businesses, it may negatively impact the values of California real estate, the ability of borrowers to make principal and interest payments and the volume of loan originations. If these factors persist, it would likely result in declines in California real estate values which would cause the protective equity in the loan to be eroded and any continued decreases in values would also lead to increases in the allowance for loan losses in future periods.

Taken together, these factors if severe and prolonged would have a short or long term adverse impact, possibly material, on the company’s future financial condition, liquidity, and results of operations.

On March 27, 2020, the company acquired through executed transfer, one performing loan with principal of approximately $2.3 million from an affiliated mortgage fund at par plus accrued interest which approximates fair value.

The manager evaluated subsequent events that have occurred after December 31, 2019 and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the financial statements.

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

None.

Item 9A – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As a limited liability company, we do not have a board of directors, nor, therefore, do we have an audit committee of the board of directors. 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, and review and oversight of the work of our independent public accountants; and
- establishing and maintaining internal controls over our financial reporting.

RMC, as the manager, carried out an evaluation, with the participation of RMC's 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) as of and for 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.

Manager's Report on Internal Control over Financial Reporting

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

RMC, with the participation of RMC's principal executive officer/principal financial officer, conducted an evaluation of the effectiveness of the manager's internal control over financial reporting based on the Internal Control - Integrated Framework (1992 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, management concluded that its internal control over financial reporting was effective as of December 31, 2019.

Changes to Internal Control Over Financial Reporting

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

Item 9B – Other Information

None.

Part III

Item 10 – Directors, Executive Officers and Corporate Governance

The company is externally managed by Redwood Mortgage Corp. (RMC or the manager). The manager is solely responsible for managing the business and affairs of the company, 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 company. RMC provides the personnel and services necessary for us to conduct our business as we have no employees of our own.

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

The rights, duties and powers of the members and manager of the company are governed by the company's Operating Agreement, the Delaware Limited Liability Company Act and the California Revised Uniform Limited Liability Company Act. Members should refer to the company's Operating Agreement for complete disclosure of its provisions. Members representing a majority of the outstanding units may, without the concurrence of the manager, vote to:

- dissolve the company;
- amend the Operating Agreement, subject to certain limitations;
- approve or disapprove the sale of all or substantially all of the assets of the company; or
- remove or replace the manager.

Where there is only one manager, a majority in interest of the members is required to elect a new manager to continue the company business after a manager ceases to be a manager due to its withdrawal.

The company does not have a board of directors or an audit committee. Accordingly, the manager serves the equivalent function of an audit committee for, among other things, the following purposes: appointment, compensation, review and oversight of the work of our independent public accountants, and establishing and enforcing of the Code of Ethics. Since the company does not have an audit committee and the manager is not independent of the company, the company does not have an "audit committee financial expert."

The Manager

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

Officers and Directors of RMC

Michael R. Burwell. Michael R. Burwell, age 63, President, Secretary/Treasurer and, Director, Redwood Mortgage Corp. (1979-present); Director, Secretary and Treasurer A & B Financial Services, Inc. (1980-2009); President, Director, Chief Financial Officer and Secretary of Gymno Corporation (1986-September 2011) and, the manager of Gymno LLC, the entity into which Gymno Corporation was converted (September 2011- June 30, 2015); President, Director, Secretary and Treasurer of The Redwood Group, Ltd. (1979-September 2011); past member of Board of Trustees and Treasurer, Mortgage Brokers Institute (1984-1986). Mr. Burwell is licensed as a real estate sales person. Mr. Burwell was a general partner of each of the RMI, RMI II, RMI III, RMI IV, RMI V, RMI VI, and RMI VII limited partnerships. Mr. Burwell is a general partner of RMI VIII limited partnership. Mr. Burwell attended the University of California, at Davis from 1975-1979, playing NCAA soccer for three seasons.

Lorene A. Randich. Lorene A. Randich, age 62, Executive Vice President of Lending Operations, joined Redwood Mortgage Corp. in 1991, and has served as a Director since November 2011. Ms. Randich has held the real estate broker's license of record for Redwood Mortgage Corp. since November 2011. Ms. Randich has been a licensed real estate broker since 1996. She is a member of the National Association of Realtors, the California

Mortgage Bankers Association, the California Association of Mortgage Professionals (Board Member–San Francisco/Peninsula Chapter) and the California Mortgage Association (Board Member and Education Committee Chairperson). Ms. Randich received a BA from UC Berkeley in 1980.

Thomas R. Burwell. Thomas R. Burwell, age 52, joined Redwood Mortgage Corp. in 2007 and has served as Marketing and Sales Director since 2012; Loan Officer-Builder Division Wells Fargo Bank, N.A (Westwood, CA 2005-2007); Loan Officer, Wells Fargo Bank, N.A. (Beverly Hills 2004-2005); Loan Officer Wells Fargo Bank, N.A. (New York, NY 2002-2004). Mr. Burwell is a member of the Financial Planning Association, San Francisco, CA. Mr. Burwell received a BA from the University of California at Davis in 1990. Mr. Burwell is a former ATP (Association of Tennis Professionals) world tour professional and was a NCAA Team and Individual Finalist, Team Captain, (Three-time) All-American, #1 Singles and #1 Doubles Player for University of California at Davis. Thomas R. Burwell is the brother of Michael R. Burwell.

Code of Ethics

The manager has adopted a Code of Ethics applicable to the manager and to any agents, employees or independent contractors engaged by the manager to perform the functions of a principal financial officer, principal accounting officer or controller of the company, if any. You may obtain a copy of this Code of Ethics, without charge, upon request by calling our Investor Services Department at (650) 365-5341, option 5.

Item 11 – Executive Compensation

The company does not pay any compensation to the officers and directors of our manager for the services they provide to RMC.

As indicated above in Item 10, the company is externally managed and has no officers or directors. The manager is solely responsible for managing the business and affairs of the company, subject to the voting rights of the members on specified matters.

RMC is the manager of the company. The mortgage loans the company invests in are arranged and are generally serviced by RMC. Michael R. Burwell is the president and majority shareholder (through his holdings and beneficial interests in certain trusts) of RMC.

Compensation of the Manager

The company's Operating Agreement permits certain fees and cost reimbursements to be paid to the manager. See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for a presentation of fees and cost reimbursements to the Manager, which presentation is incorporated herein by reference.

In addition to the fees and reimbursements paid by the company, RMC receives compensation directly from the borrowers, including brokerage commissions on loan originations. In 2019, RMC received brokerage commissions of approximately $1.3 million related to loan originations made by the company.

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

No person or entity owns beneficially more than five percent (5%) of the units. The manager does not own any units, but has, per the provisions of the company's Operating Agreement, made capital contributions of one-tenth of one percent (0.1%) of the aggregate capital accounts of the members, and is allocated one percent (1%) of the net income and losses of the company.

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

See Note 1 (Organization and General) and Note 3 (Manager and Other Related Parties) to the Financial Statements in Part II item 8, which describes certain relationships and related transactions and related party fees.

The company is managed externally and does not have the equivalent of independent directors.

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part II, Item 8 of this report for amounts received by the manager in fiscal years 2019 and 2018. The tables in Note 3 also include certain professional service fees that the manager paid on behalf of the company.

Item 14 – Principal Accountant Fees and Services

Fees for services performed for the company by the principal accountant for 2019 and 2018 are as follows:

Audit Fees. The aggregate fees during 2019 and 2018 for professional services rendered for the audit of the company's annual financial statements included in the company's Annual Report on Form 10-K, review of financial statements included in the company's Quarterly Reports on Form 10-Q and for services provided in connection with regulatory filings were approximately $143,450 and $144,100, respectively.

Audit Related Fees. There were no fees during 2019 and 2018 for audit-related services.

Tax fees. There were no fees during 2019 and 2018 for tax related services

All Other Fees. There were no other fees during 2019 and 2018.

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

Part IV

Item 15 – Exhibits and Financial Statement Schedules

A. Documents filed as part of this report are incorporated:

1. In Part II, Item 8 under A – Financial Statements.
2. None.
3. Exhibits.

Exhibit No.	Description of Exhibits
3.2	Certificate of Formation*
3.3	First Amendment to Ninth Amended and Restated Limited Liability Company Operating Agreement of Redwood Mortgage Investors IX, LLC dated June 20, 2018 (incorporated by reference the form 8-k filed with the SEC on June 22, 2018)
4.1	Subscription Agreement and Power of Attorney, including Special Notice for California Residents*
10.1	Form of Distribution Reinvestment Plan*
10.2	Loan Servicing Agreement*
10.3	Form of Note*
10.4	Form of Deed of Trust*
10.5	Form of Participating Broker-Dealer Agreement*
10.6	Form of Advisory Agreement**
10.7	Form of Formation Loan Promissory Note*
31.1	Certification of Manager pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Manager pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Report by Redwood Mortgage Corp. of the estimated fair value at December 31, 2019 of a unit of Redwood Mortgage Investors IX, LLC
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

* Incorporated by reference to the item under the corresponding exhibit number in the registrant's annual report on Form 10-K for the fiscal year ended December 31, 2015 (File no. 000-55601).

** Incorporated by reference to Exhibit 10.7 in the registrant's quarterly report on Form 10-Q for the nine months ended September 30, 2016 (File no. 000-55601).

Item 16 – Form 10-K Summary

None.

SIGNATURES

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

REDWOOD MORTGAGE INVESTORS IX, LLC
(Registrant)

Date: March 30, 2020

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

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity indicated on the 30th day of March, 2020.

Signature	Title
/s/ Michael R. Burwell Michael R. Burwell	President, Secretary/Treasurer Redwood Mortgage Corp. (Principal Executive, Financial and Accounting Officer); Director of Redwood Mortgage Corp.
/s/ Lorene A. Randich Lorene A. Randich	Director of Redwood Mortgage Corp.
/s/ Thomas R. Burwell Thomas R. Burwell	Director of Redwood Mortgage Corp.