

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

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2020

**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		

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   
Non-accelerated filer   
Emerging growth company

Accelerated filer   
Smaller reporting company

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

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

**Part I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**REDWOOD MORTGAGE INVESTORS IX, LLC**

**Balance Sheets**

**March 31, 2020 (unaudited) and December 31, 2019 (audited)**

<u>ASSETS</u>	March 31, 2020	December 31, 2019
Cash, in banks	\$ 7,714,802	\$ 4,450,529
Loans		
Principal	67,450,683	70,660,284
Advances	10,846	14,040
Accrued interest	656,193	680,146
Loan balances secured by deeds of trust	68,117,722	71,354,470
Allowance for loan losses	(55,000)	(87,000)
Loan balances secured by deeds of trust, net	68,062,722	71,267,470
Debt issuance costs	87,611	—
Total assets	<u>\$ 75,865,135</u>	<u>\$ 75,717,999</u>
<u>LIABILITIES, INVESTORS IN APPLICANT STATUS, AND MEMBERS' CAPITAL</u>		
Accounts payable and accrued liabilities	\$ 29,073	\$ 36,933
Payable to affiliate	53,173	—
Total liabilities	82,246	36,933
Commitments and contingencies (Note 6)		
Members' capital, net	79,725,634	79,629,130
Receivable from manager (formation loan)	(3,942,745)	(3,948,064)
Members' capital, net of formation loan	75,782,889	75,681,066
Total liabilities and members' capital	<u>\$ 75,865,135</u>	<u>\$ 75,717,999</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Statements of Income**  
**For the Three Months Ended March 31, 2020 and 2019 (unaudited)**

	March 31, 2020	March 31, 2019
Revenues, net		
Interest income	\$ 1,427,677	\$ 1,360,992
Late fees	8,048	16,985
Total revenues	1,435,725	1,377,977
Recovery of loan losses	(75)	—
Operations expense		
Mortgage servicing fees	42,273	38,646
Asset management fees, net (Note 3)	135,321	—
Costs from Redwood Mortgage Corp., net (Note 3)	—	—
Professional services	145,586	147,317
Other	67	3,356
Total operations expense	323,247	189,319
Net income	<u>\$ 1,112,553</u>	<u>\$ 1,188,658</u>
Members (99%)	\$ 1,101,427	\$ 1,176,771
Manager (1%)	11,126	11,887
	<u>\$ 1,112,553</u>	<u>\$ 1,188,658</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Statement of Changes in Members' Capital**  
**For the Three Months Ended March 31, 2020 (unaudited)**

	Members' Capital	Manager's Capital	Unallocated Organization and Offering Expenses	Members' Capital, net
Balance at December 31, 2019	\$ 81,755,930	\$ 133,268	\$ (2,260,068)	\$ 79,629,130
Net income	1,101,427	11,126	—	1,112,553
Earnings distributed to members	(1,130,877)	—	—	(1,130,877)
Earnings distributed used in DRIP	589,564	—	—	589,564
Members' redemptions	(488,162)	—	—	(488,162)
Organization and offering expenses allocated	(80,715)	—	80,715	—
Organization and offering expenses repaid by RMC	—	—	9,012	9,012
Early withdrawal penalties	—	—	4,414	4,414
Balance at March 31, 2020	<u>\$ 81,747,167</u>	<u>\$ 144,394</u>	<u>\$ (2,165,927)</u>	<u>\$ 79,725,634</u>

**For the Three Months Ended March 31, 2019 (unaudited)**

	Investors In Applicant Status	Members' Capital	Manager's Capital	Members' Capital, net 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	2,112,263	—	—	—	—
Contributions admitted to members' capital	(1,271,500)	1,271,500	1,272	—	1,272,772
Premiums paid on application by RMC	7,000	—	—	—	—
Net income	—	1,176,771	11,887	—	1,188,658
Earnings distributed to members	—	(1,111,007)	—	—	(1,111,007)
Earnings distributed used in DRIP	—	602,896	—	—	602,896
Members' redemptions	—	(1,092,396)	—	—	(1,092,396)
Organization and offering expenses	—	—	—	(93,239)	(93,239)
Organization and offering expenses allocated	—	(80,808)	—	80,808	—
Organization and offering expenses repaid by RMC	—	—	—	36,845	36,845
Early withdrawal penalties	—	—	—	19,415	19,415
Balance at March 31, 2019	<u>\$ 1,499,263</u>	<u>\$ 79,965,409</u>	<u>\$ 138,359</u>	<u>\$ (2,475,629)</u>	<u>\$ 77,628,139</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Statements of Cash Flows**  
**For the Three Months Ended March 31, 2020 and 2019 (unaudited)**

	March 31,	
	2020	2019
<b>Operations</b>		
Interest income received	\$ 1,439,773	\$ 1,274,865
Late fees	8,048	16,985
Operations expense	(277,935)	(174,389)
Total cash provided by operations	<u>1,169,886</u>	<u>1,117,461</u>
<b>Investing – loans</b>		
Loans funded	(6,373,600)	(16,327,000)
Loans sold to non-affiliate, net	—	143,000
Loan transferred from related mortgage fund	(2,296,677)	—
Principal collected	11,859,810	11,889,592
Advances (made on) received from loans	3,194	(7,003)
Total cash provided by (used in) investing	<u>3,192,727</u>	<u>(4,301,411)</u>
<b>Financing</b>		
<b>Members' capital</b>		
<b>Distributions to members</b>		
Earnings distributed, net of DRIP	(541,313)	(508,111)
Redemptions, net of early withdrawal penalties	(478,428)	(1,046,896)
Total distributions to members	<u>(1,019,741)</u>	<u>(1,555,007)</u>
<b>Contributions by members, net</b>		
Contributions by new members	—	2,120,568
Organization and offering expenses received (paid), net	9,012	(56,394)
Formation loan funding	—	(140,928)
Total contributions by members, net	<u>9,012</u>	<u>1,923,246</u>
Cash (distributed to) received from members, net	<u>(1,010,729)</u>	<u>368,239</u>
<b>Debt issuance costs</b>		
Total cash (used in) provided by financing	<u>(1,098,340)</u>	<u>368,239</u>
Net increase (decrease) in cash	<u>3,264,273</u>	<u>(2,815,711)</u>
Cash, beginning of period	4,450,529	10,674,953
Cash, March 31,	<u>\$ 7,714,802</u>	<u>\$ 7,859,242</u>

Non-cash financing activity for the three months ended March 31, 2020 and 2019 includes early withdrawal penalties of \$9,733 and \$45,500, respectively, which reduced members' capital by \$4,414 and \$19,415, respectively, as they were applied to unallocated O&O and the formation loan by \$5,319 and \$26,085, respectively. Non-cash investing activities includes \$20,068 for the three months ended March 31, 2020 for the principal charged off. There were no write offs of principal during the three months ended March 31, 2019.

**Reconciliation of net income to total cash provided by operations**

	March 31,	
	2020	2019
Net income	\$ 1,112,553	\$ 1,188,658
Adjustments to reconcile net income to net cash provided by operating activities		
Charge off of accrued interest	(11,857)	—
Recovery of loan losses	(75)	—
Change in operating assets and liabilities		
Accrued interest	23,952	(86,127)
Accounts payable and accrued liabilities	45,313	14,930
Total adjustments	<u>57,333</u>	<u>(71,197)</u>
Total cash provided by operations	<u>\$ 1,169,886</u>	<u>\$ 1,117,461</u>

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

**NOTE 1 – ORGANIZATION AND GENERAL**

In the opinion of management of Redwood Mortgage Corp. (RMC or the manager), the accompanying unaudited financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial information included therein. These unaudited financial statements should be read in conjunction with the audited financial statements included in the company's Form 10-K for the year ended December 31, 2019, filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the operating results to be expected for the full year.

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 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;
- 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;
- a line of credit;
- loan sales to unaffiliated 3<sup>rd</sup> parties and loan transfers by executed assignment to affiliated mortgage funds; and,
- payments from RMC on the outstanding balance of the formation loan.

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

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

Loans generally are funded at a fixed interest rate with a loan term of up to five years. Loans acquired are generally done so within the first six months of funding, and purchased at the current par value, which approximates fair value. 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 related mortgage funds; however, any loan sold to the manager or a related mortgage fund thereof will be sold for a purchase price equal to the greater of (i) the par value of the loan or (ii) the fair market value of the loan. The manager will not receive commissions or broker fees with respect to loan sales conducted for the 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.

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 is externally managed by RMC. The manager is solely responsible for managing the business and affairs of RMI IX, 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 RMI IX to conduct its business as the company has no employees of its own.

Prior to May 2019, the manager was required to contribute to capital one tenth of one percent (0.1%) of the aggregate capital accounts of the members. RMC is entitled to 1% of the profits and losses of the company and to fees and reimbursements of qualifying cost as specified in the Operating Agreement.

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

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.

Members representing a majority of the outstanding units may, without the concurrence of the managers, 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; and
- 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.

Net income (losses) are allocated among the members according to their respective capital accounts after one percent (1%) of the net income (losses) are allocated to the manager. The monthly results are subject to subsequent adjustment as a result of quarterly and year-end accounting and reporting. Investors should not expect the company to provide tax benefits of the type commonly associated with limited partnership tax shelter investments. Federal and state income taxes are the obligation of the members, other than the annual California franchise tax and the California LLC cash receipts taxes paid by the company.

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, has 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. For periods prior to March 2018, this support increased RMI IX'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). 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.).

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

In June 2019, RMC began collecting from RMI IX the asset management fee of three quarters of one percent annually (0.75%). Also in 2019, RMC arranged for RMI IX to be invoiced directly fees from 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 through the cost-reimbursement, all of which was waived.

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.

*COVID-19*

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

The ultimate effect of COVID-19 on the California real estate markets and broader economy is not known nor is the ultimate length of time California and other regions will be subject to the restrictions described and their accompanying effects. Some states and regions have begun to ease prior restrictions which may improve economic and market conditions; however, if the easing of these restrictions results in significant increases in COVID-19 cases or deaths, reinstatement of prior restrictions may be required and the COVID-19 crisis prolonged. As of March 31, 2020, the company has seen an increase in the number of borrowers delaying payments. However, as the company generally lends at loan to value ratios below 70%, the delays in payments has not increased the credit risk on the loans, and therefore based on the company's assessment of the value of real estate collateralizing its loans, there has not been an increase in the allowance for loan losses during the three months ended March 31, 2020. In either case, the impacts of COVID-19 may have significant adverse effects on our business, financial condition and result of operations due to the inability of some borrowers to make principal and interest payments and a decrease in the volume of loans funded and the values of the California real properties that serve as collateral for the loans. Declines in the value of real estate may lead to increases in the allowance for loan losses. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate, which may negatively affect interest income and, therefore, earnings, financial condition and results of operation of the company. Potential other issues and risks resulting from the COVID-19 pandemic include:

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

Given the ongoing and dynamic nature of the circumstances, it is not possible to predict or estimate the ultimate impact of the coronavirus outbreak on the financial condition or results of operations and liquidity of the company for the remainder of 2020.

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



**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

*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 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 cumulative program to date difference between earnings allocated to members' capital accounts and net income available to members is approximately \$70,000, which is net of the surplus of approximately \$40,600 at the beginning of the year, and is expected to be offset by future earnings in excess of net distributions in 2020 as the cash available at March 31, 2020 and advances on the line of credit are deployed in new loans.

*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 for 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 if any, that 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.

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

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 order of priority provided in the Operating Agreement.

*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 in those states in which approval has been obtained. The Registration Statement on Form S-3 became effective on May 9, 2019.

As of March 31, 2020, 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 \$2,204,000.

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 uses the gross proceeds from the sale of the units (for periods beginning May 1, 2019, DRIP units only) to:

- make additional loans;
- fund working capital reserves;
- prior to May 2019, pay RMC up to 4.5% of proceeds from sale of units for O&O expenses, excluding units sold in the DRIP; and
- prior to May 2019, fund a formation loan to RMC at up to 7% of proceeds from sale of units, excluding units sold in the DRIP.

*Commissions paid to broker-dealers/ Formation loan for periods prior to May 2019*

Commissions for unit sales (other than DRIP units) 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."

*Term of the company*

The term of the company will continue until 2028, unless sooner terminated as provided in the Operating Agreement, or extended by majority vote of the members.

**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").

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**Notes to Financial Statements**  
**March 31, 2020 (unaudited)**

*Management estimates*

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

*Fair value estimates*

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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 in banks*

At March 31, 2020, certain 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.

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*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 arrears) 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 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 operating activities, performing loans that are maturing or have matured may be renewed at then current market rates of interest and terms for new loans. Such renewals are not designated as impaired.

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

In March 2020, various regulatory agencies issued an interagency statement on loan modifications and reporting for financial institutions working with borrowers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. The company is evaluating the potential impact that the interagency guidance will have on the company's financial statements; however, this impact, if any cannot be quantified at this time.

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

*Allowance for loan losses*

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

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

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

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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 the property's net realizable value, which is the fair value less estimated costs to sell, as applicable. The fair value estimates are derived from information available in the real estate markets including similar property, and often require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The estimates figure materially in calculating the value of the property at acquisition, the level of charge to the allowance for loan losses and any subsequent valuation reserves. After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, REO is analyzed periodically for changes in fair values and any subsequent write down is charged to operations expenses. 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.

*Debt issuance costs*

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

*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. However, the impact, if any, upon adoption will be dependent upon the facts and circumstances relating to our loans at that date.

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

The Operating Agreement provides for fees as compensation to the manager and for reimbursement of qualifying costs, as detailed below.

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Loan administrative fees, asset management fees, and costs from RMC, and the amounts waived by RMC for the three months ended March 31, 2020 are presented in the following table.

For the three months ended	<u>Loan Admin Fees</u>	<u>Asset Management Fees</u>	<u>Costs from RMC</u>	<u>Total</u>
<u>March 31, 2020</u>				
Chargeable/reimbursable	\$ 63,736	\$ 135,321	\$ 152,716	\$ 351,773
RMC support	(63,736)	—	(152,716)	(216,452)
Net charged	<u>\$ —</u>	<u>\$ 135,321</u>	<u>\$ —</u>	<u>\$ 135,321</u>

Loan administrative fees, asset management fees, and costs from RMC, and the amounts waived by RMC for the three months ended March 31, 2019 are presented in the following table.

For the three months ended	<u>Loan Admin Fees</u>	<u>Asset Management Fees</u>	<u>Costs from RMC</u>	<u>Total</u>
<u>March 31, 2019</u>				
Chargeable/reimbursable	\$ 163,270	\$ 119,187	\$ 179,656	\$ 462,113
RMC support	(163,270)	(119,187)	(179,656)	(462,113)
Net charged	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

*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 funded 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.

The company began paying RMC the asset management fees for periods commencing June 1, 2019.

*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 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 related mortgage funds managed by RMC. RMC, at its sole discretion, has elected to waive reimbursement for operating expenses during the three months ended March 31, 2020 and 2019.

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*Commissions and fees 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 paid by the borrowers to RMC are not recorded by the company and approximated \$152,000 and \$384,000 for the three months ended March 31, 2020 and 2019, respectively.

- *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.

In the ordinary course of business, performing loans may be transferred by executed assignment, in-part or in-full, between the related mortgage funds at par. During the three months ended March 31, 2020, Redwood Mortgage Investors VIII, LP, a related mortgage fund, transferred to the company one performing loan in-full at par value, which approximates fair value, of approximately \$2,297,000. The company paid cash for the loan and the related mortgage fund has no continuing obligation or involvement on the loan. No loans were transferred during the three months ended March 31, 2019.

*Formation loan*

Formation loan transactions are presented in the following table.

	<u>2020</u>
Balance, January 1, 2020	\$ 3,948,064
Early withdrawal penalties applied	(5,319)
Balance, March 31, 2020	<u>\$ 3,942,745</u>

RMC is repaying the formation loan in annual installments of principal, without interest, of \$492,843, less early withdrawal penalties such that the formation loan is paid in full on December 31, 2027, and prior to the end of the term of the company in 2028. The formation loan is forgiven if the manager is removed and RMC is no longer receiving payments for services rendered. The primary source of repayment of the formation loan are loan brokerage commissions earned by RMC.

*Member capital withdrawals*

The table below presents the company's unit redemptions for the three months ended March 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Capital redemptions-without penalty	\$ 317,672	\$ 367,396
Capital redemptions-subject to penalty	170,490	725,000
Total	\$ 488,162	\$ 1,092,396
Early withdrawal penalties	<u>\$ 9,733</u>	<u>\$ 45,500</u>

At March 31, 2020, scheduled future redemptions of members' capital was \$666,259, all of which is 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.

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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 for the three months ended March 31, 2020 and since inception are summarized in the following table.

	2020	Since Inception
Balance, beginning of period	\$ 2,260,068	\$ —
O&O expenses reimbursed to RMC	—	3,671,853
Early withdrawal penalties applied <sup>(1)</sup>	(4,414)	(64,704)
O&O expenses allocated <sup>(2)</sup>	(80,715)	(1,096,305)
O&O expenses repaid to Members' Capital by RMC <sup>(3)</sup>	(9,012)	(344,917)
Balance, March 31, 2020	<u>\$ 2,165,927</u>	<u>\$ 2,165,927</u>

- (1) Prior to June 30, 2019, early withdrawal penalties collected were applied to the next installment due under the formation loan and to reduce the amount owed to RMC for O&O expenses. For periods beginning July 1, 2019, the O&O component of early withdrawal penalties are a reduction to O&O expenses repaid by RMC to members' capital on scheduled redemptions. The amounts credited are 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 RMI IX for the amount of unallocated O&O expenses attributed to members' capital accounts if the member redeems prior to the 40 quarterly allocations. RMC estimated its future obligation to repay unallocated O&O expenses on scheduled redemptions as of March 31, 2020, to be approximately \$11,660, which may be offset in part by early withdrawal penalties collected in future periods.

The payable to affiliate as of March 31, 2020 of \$53,173 is primarily the accrual of asset management fees of \$45,107 which was paid in May 2020 and certain intercompany payables incurred in the normal course of business, which were paid in April 2020.

**NOTE 4 – LOANS**

As of March 31, 2020, 66 of the company's 69 loans (representing 98% of the aggregate principal of the company's loan portfolio) have a loan term of five years or less. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment penalty provision.

As of March 31, 2020, 45 loans outstanding (representing 41% of the aggregate principal of the company's loan portfolio) provide for monthly payments of principal and interest, typically calculated on a 30-year amortization, with the remaining principal due at maturity. The remaining loans provide for monthly payments of interest only, with the principal due at maturity.

*Secured loans unpaid principal balance (principal)*

Secured loan transactions are summarized in the following table for the three months ended March 31, 2020.

Principal, beginning of period	\$ 70,660,284
Loans funded	6,373,600
Loan transferred from related mortgage fund	2,296,677
Principal charged off	(20,068)
Principal collected	(11,859,810)
Principal, March 31, 2020	<u>\$ 67,450,683</u>



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During the three months ended March 31, 2020, the company renewed two maturing (or matured) loans with aggregated principal of approximately \$671,000 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 related mortgage funds.

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 March 31, 2020, \$21,874 of borrower payments made by check, was on deposit in the bank trust account, which was disbursed to the company's account by April 15, 2020. At December 31, 2019, \$71,416 of borrower payments made by check, was on deposit in the trust account, all of which was disbursed to the company by January 23, 2020, when they were recorded by the company.

*Loan characteristics*

Secured loans had the characteristics presented in the following table.

	March 31, 2020	December 31, 2019
Number of secured loans	69	77
Secured loans – principal	\$67,450,683	\$70,660,284
Secured loans – lowest interest rate (fixed)	6.8%	7.8%
Secured loans – highest interest rate (fixed)	10.5%	10.5%
Average secured loan – principal	\$ 977,546	\$ 917,666
Average principal as percent of total principal	1.4%	1.3%
Average principal as percent of members' capital, net	1.2%	1.2%
Average principal as percent of total assets	1.3%	1.2%
Largest secured loan – principal	\$ 6,735,000	\$ 6,735,000
Largest principal as percent of total principal	10.0%	9.5%
Largest principal as percent of members' capital, net	8.4%	8.5%
Largest principal as percent of total assets	8.9%	8.9%
Smallest secured loan – principal	\$ 111,771	\$ 125,656
Smallest principal as percent of total principal	0.2%	0.2%
Smallest principal as percent of members' capital, net	0.1%	0.2%
Smallest principal as percent of total assets	0.1%	0.2%
Number of California counties where security is located	16	17
Largest percentage of principal in one California county	31.4%	27.0%
Number of secured loans with filed notice of default	—	—
Secured loans in foreclosure – principal	\$ —	\$ —

As of March 31, 2020, 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 March 31, 2020, the company had no construction loans outstanding, no rehabilitation loans outstanding, and no commitments to fund construction, rehabilitation or other loans.

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*Lien position*

At funding, secured loans had the lien positions presented in the following table.

	March 31, 2020			December 31, 2019		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	40	\$ 43,279,537	64%	42	\$ 42,712,037	60%
Second trust deeds	29	24,171,146	36	35	27,948,247	40
Total principal, secured loans	69	67,450,683	100%	77	70,660,284	100%
Liens due other lenders at loan closing		52,882,494			54,062,023	
Total debt		<u>\$120,333,177</u>			<u>\$124,722,307</u>	
Appraised property value at loan closing		<u>\$226,913,000</u>			<u>\$237,453,000</u>	
Percent of total debt to appraised values (LTV) at loan closing <sup>(1)</sup>		<u>55.9%</u>			<u>55.3%</u>	

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

*Property type*

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

	March 31, 2020			December 31, 2019		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family <sup>(2)</sup>	43	\$27,210,278	40%	53	\$32,361,343	46%
Multi-family	9	9,690,000	15	9	9,219,497	13
Commercial	17	30,550,405	45	15	29,079,444	41
Total principal, secured loans	<u>69</u>	<u>\$67,450,683</u>	<u>100%</u>	<u>77</u>	<u>\$70,660,284</u>	<u>100%</u>

- (2) Single family property type as of March 31, 2020 consists of 8 loans with principal of \$4,695,984 that are owner occupied and 35 loans with principal of \$22,514,294 that are non-owner occupied. At December 31, 2019, single family property type consisted 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.

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*Distribution of loans within California*

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

	<u>March 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Principal</u>	<u>Percent</u>	<u>Principal</u>	<u>Percent</u>
<b>San Francisco Bay Area<sup>(3)</sup></b>				
Santa Clara	\$21,188,642	31.4%	\$19,064,638	27.0%
San Mateo	7,796,910	11.6	10,837,195	15.3
San Francisco	6,941,591	10.3	7,735,173	10.9
Alameda	3,720,691	5.5	2,930,219	4.2
Contra Costa	799,405	1.2	400,000	0.6
Santa Cruz	—	—	264,515	0.4
Marin	—	—	249,628	0.4
	<u>40,447,239</u>	<u>60.0</u>	<u>41,481,368</u>	<u>58.8</u>
<b>Other Northern California</b>				
Sutter	3,815,000	5.7	3,815,000	5.4
Monterey	1,110,000	1.6	1,110,000	1.6
Tehama	405,000	0.6	405,000	0.6
Sacramento	154,083	0.2	492,216	0.6
	5,484,083	8.1	5,822,216	8.2
	<u>45,931,322</u>	<u>68.1</u>	<u>47,303,584</u>	<u>67.0</u>
<b>Los Angeles &amp; Coastal</b>				
Los Angeles	10,158,072	15.1	12,531,312	17.7
San Diego	4,659,602	6.9	4,983,331	7.1
Orange	3,066,464	4.6	3,067,396	4.3
Santa Barbara	497,185	0.7	497,977	0.7
San Luis Obispo	430,000	0.6	—	—
	<u>18,811,323</u>	<u>27.9</u>	<u>21,080,016</u>	<u>29.8</u>
<b>Other Southern California</b>				
San Bernardino	1,632,000	2.4	1,200,000	1.7
Riverside	1,076,038	1.6	1,076,684	1.5
	<u>2,708,038</u>	<u>4.0</u>	<u>2,276,684</u>	<u>3.2</u>
	<u>21,519,361</u>	<u>31.9</u>	<u>23,356,700</u>	<u>33.0</u>
Total principal, secured loans	<u>\$67,450,683</u>	<u>100.0%</u>	<u>\$70,660,284</u>	<u>100.0%</u>

(3) Includes Silicon Valley

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**March 31, 2020 (unaudited)**

*Scheduled maturities*

Secured loans are scheduled to mature as presented in the following table as of March 31, 2020.

	Loans	Principal	Percent
2020 <sup>(4)</sup>	20	\$ 14,696,793	22%
2021	28	39,520,905	59
2022	9	5,493,499	8
2023	3	743,925	1
2024	1	246,038	—
Thereafter	6	5,850,180	9
Total future maturities	67	66,551,340	99
Matured as of March 31, 2020	2	899,343	1
Total principal, secured loans	69	\$ 67,450,683	100%

(4) Loans scheduled to mature in 2020 after March 31.

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

*Delinquency/Non-performing loans*

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

	March 31, 2020		December 31, 2019	
	Loans	Principal	Loans	Principal
Current	59	\$55,688,367	65	\$62,174,140
Past Due				
30-89 days	6	7,343,231	8	3,952,306
90-179 days	2	327,478	2	3,520,112
180 or more days	2	4,091,607	2	1,013,726
Total past due	10	11,762,316	12	8,486,144
Total principal, secured loans	69	\$67,450,683	77	\$70,660,284

No loan payment modifications were made during the three months ended March 31, 2020 and 2019 and the company had no troubled debt restructurings in effect at March 31, 2020 and December 31, 2019.

Payments in arrears for non-performing secured loans (i.e., monthly interest and principal payments past due 30 or more days), are presented in the following table as of March 31, 2020.

	Loans	Principal <sup>(5)</sup>		Interest <sup>(6)</sup>		Total payments in arrears
		Past maturity	Monthly payments	Past maturity	Monthly payments	
Payments in arrears						
30-89 days (1-3 payments)	6	\$ —	\$ 703	\$ —	\$ 74,934	\$ 75,637
90-179 days (4-6 payments)	2	137,078	850	2,656	3,689	144,273
180 or more days (6 or more payments)	2	762,265	12,984	15,722	184,501	975,472
Total payments past due	10	\$ 899,343	\$ 14,537	\$ 18,378	\$263,124	\$1,195,382

(5) At March 31, 2020, two loans were past maturity. One loan with principal of \$137,078 matured on December 1, 2019 and is included in principal past maturity 90-179 days. One loan with principal of \$762,265 matured on April 1, 2019 is included in principal past maturity 180 or more days.

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(6) Interest – past maturity 90-179 days includes foregone interest of \$885 for one loan which was past maturity and designated as in non-accrual status. Interest – monthly payments 180 or more days of \$184,501 includes foregone interest of \$26,357 for one loan which was 213 days delinquent and designated as in non-accrual status.

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

	March 31, 2020	December 31, 2019
Number of loans	4	3
Principal	\$ 4,419,085	\$ 1,204,495
Advances	8,843	10,677
Accrued interest receivable	187,104	37,799
Total recorded investment	<u>\$ 4,615,032</u>	<u>\$ 1,252,971</u>
Foregone interest	<u>\$ 54,485</u>	<u>\$ 3,952</u>

At March 31, 2020, no loans were 90 or more days delinquent and not in non-accrual status. One 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.

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

- One loan with principal of \$762,265 matured on April 1, 2019 and was 366 days delinquent and was designated impaired and in non-accrual status at March 31, 2020. 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 principal of \$3,329,342 was 213 days delinquent and was designated impaired and in non-accrual status at March 31, 2020. 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.

Forbearance agreements do not modify the maturity date or delinquency data presented in the tables above.

At March 31, 2020, the company had one workout agreement with a borrower. The loan, with principal of \$190,400 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. At March 31, 2020 the loan was 91 days delinquent and was designated as impaired and in non-accrual status.

One loan with principal of \$137,078, matured on December 1, 2019, was 122 days delinquent and was designated as impaired and in non-accrual status at March 31, 2020.

*Provision/allowance for loan losses and impaired loans*

Generally, the company has not recorded an allowance for loan losses as all loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan.

From time to time, the manager may deem it in the best interest of the company to agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions primarily for secured loans in second lien position. For the three months ended March 31, 2020, RMI IX recorded an insignificant recovery for loan losses. There were no provision or allowance for loan losses recorded during the three months ended March 31, 2019.

Activity in the allowance for loan losses is presented in the following table for the three months ended March 31, 2020.

	2020
Balance, beginning of period	\$ 87,000
Recovery for loan losses	(75)
Charge-offs	(31,925)
Balance March 31, 2020	<u>\$ 55,000</u>

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

	March 31, 2020	December 31, 2019
Principal	\$ 4,419,085	\$ 4,533,838
Recorded investment <sup>(7)</sup>	4,615,032	4,719,705
Impaired loans without allowance	4,615,032	4,451,368
Impaired loans with allowance	—	268,337
Allowance for loan losses, impaired loans	—	37,000
Number of loans	4	4
Weighted average LTV at origination	64.1%	66.0%

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

As of March 31, 2020 and December 31, 2019, loans designated impaired had an average recorded investment balance and interest income recognized and interest income received in cash for the three months ended March 31, 2020 and the year ended December 31, 2019 is presented in the following table.

	March 31, 2020	December 31, 2019
Average recorded investment	\$ 4,474,982	\$ 4,334,931
Interest income recognized	46,823	169,585
Interest income received in cash	19,438	67,990

#### *Fair Value*

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

*Secured loans, performing and non-performing not designated as impaired (Level 3)* - Each loan is reviewed quarterly for its delinquency, LTV adjusted for the most recent valuation of the underlying collateral, remaining term to maturity, borrower's payment history and other factors. Due to the nature of the 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, non-performing and designated impaired (Level 3)* - The fair value of secured loans, non-performing and designated impaired is the lesser of the fair value of the collateral or the enforceable amount of the note. Secured loans designated impaired are collateral dependent because it is expected that the primary source of repayment will not be from the borrower but rather from the collateral. The fair value of the collateral is determined on a nonrecurring basis by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values and publicly available information on in-market transactions (Level 3 inputs). When the fair value of the collateral exceeds the enforceable amount of the note, the borrower is likely to redeem the note. Accordingly, third party market participants would generally pay the fair value of the collateral, but no more than the enforceable amount of the note.

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

*Single family* – Management's preferred method for determining the fair market value of its single-family residential assets is the sale comparison method. Management primarily obtains 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.

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*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 – LINE OF CREDIT**

In March 2020, RMI IX entered into a revolving line of credit and term loan agreement with a bank pursuant to which RMI IX can borrow up to a maximum principal of \$10 million subject to a borrowing base calculation. Amounts under the agreement are secured by a first priority security interest in the notes and deeds of trust of the pledged loans in the borrowing base. The agreement matures March 13, 2022 when all amounts outstanding are then due. The company has the option at the maturity date to convert the then outstanding principal balance on the line of credit to a one-year term loan - for a fee of one-quarter of one percent (0.25%) – thereby extending the maturity date to March 13, 2023.

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

Principal of pledged loans was approximately \$17.9 million at month-end April 2020 with a maximum advance thereon of approximately \$8.8 million, with \$5.0 million advanced and outstanding. Available borrowings under the revolving line of credit was effective beginning in April 2020.

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The loan proceeds are to be used exclusively to fund secured loans. The loan agreement provides for customary financial and borrowing base reporting by RMI IX to the lending bank and specifies that RMI IX shall maintain (i) minimum tangible net worth of \$50 million, net of amounts due from related companies; (ii) debt service coverage ratio at all times of not less than 2.00 to 1.00; and (iii) loan payment delinquency of less ten percent (10%) on a quarterly basis as of the calendar quarter-end commencing with the calendar quarter ending March 31, 2020 calculated as the principal of loans with payments over 61-days past due, less loan loss allowances, divided by total principal of RMI IX loans. The loan agreement provides that in the event the loan payment delinquency rate exceeds 10.0% as of the end of any quarter, the bank will cease to make any further advances but agrees to not accelerate repayment of the loan.

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

*Commitments*

At March 31, 2020, scheduled future redemptions of members' capital was \$666,259, 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 March 31, 2020, the company is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

**NOTE 7 – SUBSEQUENT EVENTS**

As of May 13, 2020, April contractual loan payments from loans which existed at March 31, 2020 were received from approximately 86% of our borrowers. In addition, the company received a number of short-term loan payment relief requests, most of which were in the form of requests for deferral of payments or requests for further discussion of COVID-19 related relief. No requests were granted and four remain pending as of May 13, 2020.

The manager evaluated subsequent events that have occurred after March 31, 2020 and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the unaudited financial statements.



## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto, which are included in Item 1 of this report on Form 10-Q, as well as the audited financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the U.S. Securities and Exchange Commission (or SEC). The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the operations results to be expected for the full year.

### **Forward-Looking Statements**

Certain statements in this Report on Form 10-Q which are not historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (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 economic conditions, interest rates, and/or changes in California real estate markets;
- the impact of competition and competitive pricing for mortgage loans;
- the manager's ability to make and arrange for loans that fit our investment criteria;
- whether we will have any future loan sales to unaffiliated third parties, and if we do, the gain, net of expenses, and the volume/timing of loan sales to unaffiliated third parties, which to date have provided only immaterial gains to us;
- the timing and dollar amount of the decreasing financial support from the manager and the corresponding impact on the net distribution rate to members;
- the concentration of credit risks to which we are exposed;
- increases in payment delinquencies and defaults on our mortgage loans;
- changes in government regulation and legislative actions affecting our business; and,
- the COVID-19 pandemic and social and governmental responses to the pandemic have caused, and are likely to continue to cause, severe economic, market and other disruptions worldwide. The extent to which COVID-19 and related actions impact our operations will depend on future developments, which are highly uncertain and cannot be predicted with any degree of certainty, including the scope, severity, and duration of the outbreak, the actions taken to contain the pandemic or mitigate its impact by governmental authorities or otherwise voluntarily taken by individuals or businesses, the success of governmental actions undertaken to support the economy and the duration and severity of direct and indirect economic effects of the illness and containment measures, among others. As a result, we cannot at this time predict or estimate the impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, liquidity and results of operations for the remainder of 2020.

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

### **Overview**

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 loans secured by California real estate, primarily through first and second deeds of trust. The company is externally managed. Redwood Mortgage Corp. (RMC, the manager or management) is the manager of the company.

Cash generated from loan payoffs and borrower payments of principal and interest is used for operating expenses, reimbursements to RMC of O&O expenses, distributions to members and unit redemptions. The cash flow, if any, in excess of these uses plus the cash from sale of DRIP units is reinvested in new loans.

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 manager, 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).

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

Since commencement of operations in 2009, RMC, at its sole discretion, has 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. For periods prior to March 2018, this support increased RMI IX'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). 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.

In June 2019, RMC began collecting from RMI IX the asset management fee of three quarters of one percent annually (0.75%). Also in 2019, RMC arranged for RMI IX to be invoiced directly fees from 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 through the cost-reimbursement, all of which was waived.

In the second half of 2020, RMC plans to commence collection from RMI IX of reimbursements of qualifying costs to which it is entitled.

### **Critical Accounting Policies**

See Part II, Item 7 of the Form 10-K for the year ended December 31, 2019 for a detailed presentation of critical accounting policies which presentation is incorporated by this reference into this Item 2.

## Results of Operations

### *COVID-19*

The following discussion describes our results of operations for the three months ended March 31, 2020. While the coronavirus outbreak (COVID-19) did not have a material adverse effect on our reported results for our first quarter, we are actively monitoring the impact of COVID-19, which may negatively impact our business and results of operations for subsequent quarters.

In March 2020, the World Health Organization declared COVID-19 a pandemic. It has been reported in over 200 countries and territories including the United States and both Northern and Southern California where the company's lending operations are located. The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. In response to the COVID-19 outbreak, federal, state and local governments as well as the business community have implemented voluntary and increasingly mandatory policies and restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions have resulted in increases in unemployment rates, disruptions to businesses, increased volatility in the financial markets and overall economic uncertainty at the state, local and national levels. The impact from the rapidly changing market and economic conditions due to the COVID-19 outbreak is uncertain and will impact our business and results of operations and could impact our financial condition in the future. While we have not incurred significant disruptions thus far from the COVID-19 outbreak, we are unable to accurately predict the impact that COVID-19 will have due to numerous evolving factors, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities, the impact to our borrowers, including the ability of our borrowers to make their loan payments and qualify for future loans and a decrease in the values of California real estate which serves as collateral for the company's loans. Any of these events or consequences could materially adversely impact our business, financial condition, or results of operations.

As of May 13, 2020, April contractual loan payments from loans which existed at March 31, 2020 were received from approximately 86% of our borrowers. In addition, we received a number of short-term loan payment relief requests, most of them in the form of requests for deferral of payments or requests for further discussion of COVID-19 related relief. No requests were granted and four remain pending as of May 13, 2020. We are evaluating each loan payment relief request on an individual basis, considering a number of factors. Not all of the requests made to the company will result in agreements and we are not considering the waiver or modification of any of our contractual rights under our loan agreements other than extensions of the maturity date of the loan. April collections and loan payment relief requests to date may not be indicative of collections or requests in any future period. Accordingly, it is not possible to predict or estimate the ultimate impact of COVID-19 on the financial condition or results of operations and liquidity of the company for the remainder of 2020. Management also continues to monitor the impact that COVID-19 may have on California real estate values. Decreases in real estate values may lead to an increase in the allowance for loan losses.

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

### *General economic and real estate market conditions – California*

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

In the publication "California's Economy Succumbs to COVID-19 Cutback" dated April 17, 2020:

"California's Economy Deals with an Avalanche of Job Losses – California's longest uninterrupted run of employment gains came to an abrupt end in March, when businesses began to slash payrolls in response to new social distancing guidelines and stay-at-home orders. Restaurants, bars and entertainment facilities, including movie theaters, theme parks and casinos, all took an immediate hit—losing 67,200 jobs in March. Business, household and personal services and construction also posted notable job losses during the month. On the plus side, government payrolls rose modestly in March and the state's important information sector posted modest gains. Information includes new media such as internet search, software and digital streaming, as well as motion pictures and slower growing portions of traditional media, such as printed publications and landline telecommunications."

"With more than two-thirds of the state's job losses occurring in the leisure & hospitality sector, mostly at restaurants & bars, job losses were heavily skewed toward California's largest metropolitan areas. Southern California was particularly hard hit. Los Angeles-Long Beach-Glendale lost 39,600 jobs and Orange County lost 16,500 jobs. Job losses were more modest in the Inland Empire (-4,100), and Ventura County (-500). In total, greater Los Angeles lost 60,700 jobs during the month, while San Diego also had a bad month, posting a net loss of 14,500 jobs."

“The San Francisco Bay area saw widespread job losses as well. While the Bay area is full of tech companies whose services are in high demand, the region’s important tourism sector appears to have been the weak spot. San Francisco lost 13,700 jobs and Marin County lost another 1,400. Job losses were slightly less prevalent in East Bay and South Bay, with Oakland losing 3,300 jobs and San Jose losing 8,400 jobs. As bad as March was, we know job losses are set to surge even further in coming weeks. Weekly initial unemployment claims have surged over the past four weeks, totaling 2.8 million since mid-March. While in a typical recession there would not be a one-for-one decrease in nonfarm employment for each new jobless claim, the relationship is likely to be tighter this go-round because there are so few jobs being created. Jobless claims are also being pushed higher by contract workers, however, which will not be reflected as much in the monthly payroll data.”

“California’s economy began to deal with COVID-19 earlier than the rest of the country, and the state’s mitigation efforts appear to have produced positive results ahead of many other areas. Restarting the economy will be difficult, however, particularly given that social distancing guidelines are likely to remain in place for quite some time. Tourism and entertainment spending will also take longer to get back on track, particularly from overseas visitors. International trade is also likely to be soft spot until growth rebounds in the U.S. and around the world.”

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 for the three months ended March 31, 2020 and 2019 are presented in the following table.

	2020	2019
Secured loans principal – end of period balance	\$ 67,450,683	\$ 66,416,481
Secured loans principal – average daily balance	\$ 67,100,000	\$ 62,209,000
Interest income	\$ 1,427,677	\$ 1,360,992
Portfolio interest rate <sup>(1)</sup>	8.8%	8.7%
Effective yield rate <sup>(2)</sup>	8.5%	8.8%
Recovery of loan losses	\$ (75)	\$ —
Total operations expense <sup>(7)</sup>	\$ 323,247	\$ 189,319
Net income <sup>(7)</sup>	\$ 1,112,553	\$ 1,188,658
Percent of average members' capital <sup>(3)(4)</sup>	5.4%	5.9%
Member distributions, net	\$ 1,130,877	\$ 1,111,007
Percent of average members' capital <sup>(3)(5)</sup>	5.5%	5.6%
Members' capital, gross – end of period balance	\$ 81,747,167	\$ 79,965,409
Members' capital, gross – average daily balance	\$ 81,903,000	\$ 79,874,000
Member redemptions <sup>(6)</sup>	\$ 488,162	\$ 1,092,396

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

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

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

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

(5) Members Distributions is net of O&O expenses allocated to members' accounts during the year

(6) Scheduled member redemptions as of March 31, 2020 were \$666,259 all of which is scheduled for payment in 2020. Scheduled member redemptions as of March 31, 2019 were \$1,039,402, all of which was paid in 2019.

(7) See Note 1 (Organization and General) and Note 3 (Manager and Other Related Parties) to the financial statements included in Part I, Item 1 of this report for a detailed discussion on fees waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 2.

## Secured loans

The secured loan principal – end of period at March 31, 2020 of \$67,450,683 was an increase of approximately 1.6% (\$1.0 million) over the March 31, 2019 secured loan principal of \$66,416,481. New loans funded were approximately \$6.4 million for the three months ended March 31, 2020. One loan with principal of approximately \$2.3 million was assigned through executed transfer from a related mortgage fund in March 2020. The increase in the secured loan principal – end of period is consistent with the members' capital – end of period balance of \$81,747,167, increasing approximately 2% (\$1.8 million) over the March 31, 2019 members' capital – end of period balance of \$79,965,409. Members' capital decreased approximately \$9,000 for the three months ended March 31, 2020 as member distributions exceed net income by approximately \$30,000 and O&O allocated to members totaled approximately \$81,000. This was offset in part by the purchase of DRIP units exceeding members' redemptions by approximately \$101,000 during the three months ended March 31, 2020. Secured loans as a percent of members' capital (based on average balances) was 81.9% and 77.9% for three months ended March 31, 2020 and 2019, respectively due to an increase in the amount of members' capital deployed in loans.

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 March 31, 2020 was approximately 55.9%. Thus, per the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 44.1% in the property, and we as lenders have lent in the aggregate 55.9% (including other senior liens on the property) against the properties we hold as collateral for the repayment of our loans.

Secured loans, principal by LTV and lien position as of March 31, 2020 are presented in the following table.

LTV	Secured loan principal					
	First trust deeds	Percent <sup>(1)</sup>	Second trust deeds	Percent <sup>(1)</sup>	Total principal	Percent <sup>(1)</sup>
<40%	\$ 6,099,812	9.1%	\$ 2,489,445	3.7%	\$ 8,589,257	12.8%
40-49%	2,029,863	3.0	411,651	0.6	2,441,514	3.6
50-59%	15,436,827	22.9	6,150,752	9.1	21,587,579	32.0
60-69%	18,283,635	27.1	13,276,360	19.7	31,559,995	46.8
Subtotal <70%	41,850,137	62.1	22,328,208	33.1	64,178,345	95.2
70-79%	1,429,400	2.1	1,842,938	2.7	3,272,338	4.8
Subtotal <80%	43,279,537	64.2	24,171,146	35.8	67,450,683	100.0
>80%	—	0.0	—	0.0	—	0.0
Total	<u>\$ 43,279,537</u>	<u>64.2%</u>	<u>\$ 24,171,146</u>	<u>35.8%</u>	<u>\$ 67,450,683</u>	<u>100.0%</u>

Non-performing secured loans, principal by LTV and lien position as of March 31, 2020 are presented in the following table.

LTV	Principal - secured loans - non-performing					
	First trust deeds	Percent <sup>(1)</sup>	Second trust deeds	Percent <sup>(1)</sup>	Total	Percent <sup>(1)</sup>
<40%	\$ 1,737,078	2.6%	\$ —	0.0%	\$ 1,737,078	2.6%
40-49%	800,000	1.2	—	0.0	800,000	1.2
50-59%	1,949,525	2.9	1,393,706	2.1	3,343,231	5.0
60-69%	2,362,265	3.5	3,329,342	4.9	5,691,607	8.4
Subtotal <70%	6,848,868	10.2	4,723,048	7.0	11,571,916	17.2
70-79%	190,400	0.3	—	0.0	190,400	0.3
Subtotal <80%	7,039,268	10.5	4,723,048	7.0	11,762,316	17.5
>80%	—	0.0	—	0.0	—	0.0
Total	<u>\$ 7,039,268</u>	<u>10.5%</u>	<u>\$ 4,723,048</u>	<u>7.0%</u>	<u>\$ 11,762,316</u>	<u>17.5%</u>

1) percent of secured loan principal, end of period balance

Payments in arrears for non-performing secured loans, (i.e., principal and interest payments past due 30 or more days) totaled approximately \$1,195,382, of which \$913,880 was principal, and \$281,512 was interest receivable. Of the \$913,880 principal in arrears, \$899,343 was relating to loans past maturity, all of which were in first lien position. One loan with principal of \$137,078 matured on December 1, 2019 and is included in principal past maturity 90-179 days. One loan with principal of \$762,265 matured on April 1, 2019 is included in principal past maturity 180 or more days.

Although there is an increase in the principal of non-performing loans from 12 loans (\$8,486,144 in principal) as of December 31, 2019 to 10 loans (\$11,762,316 in principal) as of March 31, 2020, the company has reviewed the loan to value ratios for each non-performing loan and has determined since there is appropriate protective equity, there are no increases in the provision for loan losses during the three months ended March 31, 2020.

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

*Performance overview/net income 2020 v. 2019 (three months ended)*

Net income available to members as a percent of members' capital, gross – average daily balance (annualized) was 5.4% and 5.9% for the three months ended March 31, 2020 and 2019, respectively. Net income decreased approximately \$76,000 during the three months ended March 31, 2020 as compared to the same period in 2019 as operations expense increased approximately \$134,000, which was offset in part by an increase in interest on loans of approximately \$67,000.

*Analysis and discussion of income from operations 2020 v. 2019*

Significant changes to revenue and expenses during the three months ended March 31, 2020 and 2019 are summarized in the following table.

	<u>Interest income</u>	<u>Recovery For Loan Losses</u>	<u>Operations Expense</u>	<u>Net Income</u>
<u>For the three months ended</u>				
March 31, 2020	\$ 1,427,677	\$ (75)	\$ 323,247	\$ 1,112,553
March 31, 2019	1,360,992	—	189,319	1,188,658
Change	<u>\$ 66,685</u>	<u>\$ (75)</u>	<u>\$ 133,928</u>	<u>\$ (76,105)</u>
<u>Change</u>				
Increase secured loans principal - average daily balance	\$ 102,486	\$ —	\$ 3,627	\$ 98,859
Effective yield rate	(35,801)	—	—	(35,801)
Late fees	—	—	—	(8,937)
Increase members' capital - average daily balance	—	—	34,981	(34,981)
Information technology for members' capital accounts	—	—	(4,602)	4,602
RMC fees/costs reimbursements waived	—	—	146,127	(146,127)
Timing of services rendered	—	—	(25,592)	25,592
Other	—	(75)	(20,613)	20,688
Change	<u>\$ 66,685</u>	<u>\$ (75)</u>	<u>\$ 133,928</u>	<u>\$ (76,105)</u>

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 I, Item 1 of this report for a detailed discussion on fees waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 2. See "Performance Overview" for a discussion of RMC's plans to reduce and eventually eliminate fee waivers and cost absorptions.

*Interest income*

Interest on loans increased approximately \$67,000 due to an increase in the secured loan principal – average daily balance of approximately \$4.9 million, or 7.9% to \$67.1 million, over the March 31, 2019 secured loan principal – average daily balance of approximately \$62.2 million which was offset in part by a decline in the effective yield rate due to an increase in foregone interest of approximately \$28,000 for the three months ended March 31, 2020 over the same period in 2019, as well as default interest collected in the first quarter of 2019.

The portfolio has strong payment history with four loans (representing 6.6% of the aggregate principal balance of the company's loan portfolio) currently designated as non-accrual at March 31, 2020.

*Provision/allowance for loan losses*

Generally, the company has not recorded an allowance for loan losses as all loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan.

At December 31, 2019, RMI IX recorded an \$87,000 provision/allowance 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 was 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, which resulted in a charge-off against the allowance for loan losses of approximately \$32,000.

### Operations expense

Significant changes to operations expense during the three months ended March 31, 2020 and 2019, are summarized in the following table.

	Mortgage Servicing Fees	Asset Management Fees, net	Costs From RMC, net	Professional Services, net	Other	Total
<b>For the three months ended</b>						
March 31, 2020	\$ 42,273	\$ 135,321	\$ —	\$ 145,586	\$ 67	\$ 323,247
March 31, 2019	38,646	—	—	147,317	3,356	189,319
Change	<u>\$ 3,627</u>	<u>\$ 135,321</u>	<u>\$ —</u>	<u>\$ (1,731)</u>	<u>\$ (3,289)</u>	<u>\$ 133,928</u>
<b>Change</b>						
Increase secured loans principal - average daily balance	\$ 3,627	\$ —	\$ —	\$ —	\$ —	\$ 3,627
Increase members' capital - average daily balance	—	16,134	18,847	—	—	34,981
Information technology for members' capital accounts	—	—	(28,463)	23,861	—	(4,602)
RMC fees/costs reimbursements waived	—	119,187	26,940	—	—	146,127
Timing of services rendered	—	—	—	(25,592)	—	(25,592)
Other	—	—	(17,324)	—	(3,289)	(20,613)
Change	<u>\$ 3,627</u>	<u>\$ 135,321</u>	<u>\$ —</u>	<u>\$ (1,731)</u>	<u>\$ (3,289)</u>	<u>\$ 133,928</u>

See Note 3 (Manager and Other Related Parties) to the financial statements included in Part I, Item 1 of this report for a detailed discussion on fees waived and costs absorbed by the manager, which presentation is incorporated by this reference into this Item 2. See "Performance Overview" for a discussion of RMC's plans to reduce and eventually eliminate fee waivers and cost absorptions.

### Mortgage Servicing fees

The increase in mortgage servicing fees of \$3,627 was attributed to the increase in the average daily secured loan portfolio from \$60,209,000 for the three months ended March 31, 2019 to \$67,100,000 for the three months ended March 31, 2020, at the annual rate of 0.25%.

### Asset management fee

The total amount of asset management fees chargeable were \$135,321 and \$119,187 for the three months ended March 31, 2020 and 2019, respectively. The increase in asset management fees chargeable was due to the increase in total capital under management. Total members capital at March 31, 2020 and 2019 was approximately \$81,747,000 and \$79,965,000, respectively. No asset management fees were waived during the three months ended March 31, 2020. RMC, at its sole discretion, waived \$119,187 in asset management fees during the three months ended March 31, 2019.

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 will be recomputed annually after the second full year of operations by subtracting from the then fair value of the company's loans plus working capital reserves, an amount equal to the outstanding debt.

The company began paying RMC the asset management fees for periods commencing June 1, 2019.

### Costs from RMC, net

Cost incurred by RMC, for which reimbursement could have been requested were \$152,716 and \$179,656 for the three months ended March 31, 2020 and 2019, respectively. RMC, at its sole discretion, waived all cost reimbursements for the three months ended March 31, 2020 and 2019. The decrease in costs incurred by RMC, for which reimbursement could have been requested, was due primarily to a change implemented in September 2019 to the invoicing separately and directly to RMI IX fees paid to an independent service bureau for information technology related to record keeping and reporting of individual members. Service bureau fees of approximately \$28,000 are included in the RMC costs that increase the reimbursement for the three months ended March 31, 2019. Approximately \$23,800 in service bureau fees were incurred during the three months ended March 31, 2020, and are included in professional service fees.



The Operating Agreement provides that RMC may request reimbursement from the company for operations expense incurred on behalf of the company, including without limitation, 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 related mortgage funds managed by RMC. Increases or decreases in members' capital will have a similar effect on the total amount of costs 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. RMC plans to commence collection from RMI IX of reimbursements of qualifying costs to which it is entitled in the second half of 2020.

#### *Professional Services*

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

The decrease in professional services of \$1,700 for the three months ended March 31, 2020 over the same period in 2019 was due primarily to:

- The recorded expense for fees paid to an independent service bureau for information technology related to record keeping and reporting for accounts of individual investors was approximately \$23,900 and \$0 for the three months ended March 31, 2020 and 2019, respectively. Beginning in September 2019 – and implemented at September 30, 2019 retroactive to January 2019 – these service bureau fees were invoiced separately and directly to RMI IX. Prior to September 30, 2019, these fees were invoiced to RMC, and were included in allocable expenses reimbursed to RMC (Costs from RMC). During the three months ended March 31, 2019, service bureau fees included in Costs from RMC totaled approximately \$28,000, all of which were waived by RMC, in its sole discretion.
- Attorney, audit and tax fees decreased approximately \$36,400 due to the timing in which services were rendered between the first and second calendar quarters of 2020, and we expect by the end of the second quarter year to date expenses to be comparable year over year.
- Consulting/contractor fees increased approximately \$10,800 due in part to outside contractors being engaged to assist with operations in areas previously filled by employees of the manager. The increase is offset in part by a reduction in operating expense incurred by the manager for which reimbursement could have been requested (Costs from RMC).

### Members' capital, cash flows and liquidity

Cash flows by business activity for the three months ended March 31, 2020 and 2019 are presented in the following table.

	2020	2019
<b>Members' capital</b>		
Earnings distributed to members, net of DRIP	\$ (541,313)	\$ (508,111)
Redemptions, net	(478,428)	(1,046,896)
Contributions by new members	—	2,120,568
Organization and offering expenses (paid) received, net	9,012	(56,394)
Formation loan, net	—	(140,928)
Cash – members' capital, net	(1,010,729)	368,239
<b>Loan principal/advances/interest</b>		
Principal collected	11,859,810	11,889,592
Loans sold to non-affiliate, net	—	143,000
Interest received, net	1,439,773	1,274,865
Late fees	8,048	16,985
Loans funded & advances, net	(6,370,406)	(16,334,003)
Loan acquired from related mortgage fund	(2,296,677)	—
Cash – loans, net	4,640,548	(3,009,561)
<b>Operations expense</b>	(277,935)	(174,389)
<b>Debt issuance costs</b>	(87,611)	—
<b>Net change in cash</b>	<u>\$ 3,264,273</u>	<u>\$ (2,815,711)</u>
<b>Cash, end of period</b>	<u>\$ 7,714,802</u>	<u>\$ 7,859,242</u>

### Redemptions of members capital

The table below shows the company's unit redemptions for the three months ended March 31.

	2020	2019
Capital redemptions-without penalty	\$ 317,672	\$ 367,396
Capital redemptions-subject to penalty	170,490	725,000
Total	\$ 488,162	\$ 1,092,396
<b>Early withdrawal penalties</b>	<u>\$ 9,733</u>	<u>\$ 45,500</u>

At March 31, 2020, scheduled redemptions of members' capital equaled \$666,259, all of which is scheduled to be paid in 2020.

### Contractual obligations

At March 31, 2020, the company had no construction or rehabilitation loans outstanding and had no loan commitments pending.

At March 31, 2020, the company has no off-balance sheet arrangements as such arrangements are not permitted by the Operating Agreement.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not included because the company is a smaller reporting company.

### Item 4. 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, RMI IX does 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.

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

There have not been any changes in internal control over financial reporting (as such term is defined in 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.

## **PART II – OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

In the normal course of business, the company may become involved in various legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc. to enforce the provisions of the deeds of trust, collect the debt owed under the promissory notes or protect or recoup its investment from the real property secured by the deeds of trust and to resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions typically would be of any material importance. As of March 31, 2020, the company was not involved in any legal proceedings other than those that would be considered part of the normal course of business.

### **ITEM 1A. Risk Factors**

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

#### *Recent Sales of Unregistered Securities*

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

#### *Use of Proceeds from Registered Securities*

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 in those states in which regulatory approval has been obtained. The Registration Statement on Form S-3 became effective on May 9, 2019.

As of March 31, 2020, 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 \$2,204,000.

Gross proceeds from the sale of DRIP units is used to:

- make additional loans;
- fund working capital reserves.

The units have been registered pursuant to Section 12(g) of the Exchange Act. Such registration of the units, along with the satisfaction of certain other requirements under ERISA, enables the units to qualify as “publicly-offered securities” for purposes of ERISA and regulations issued thereunder. By satisfying those requirements, the underlying assets of the company should not be considered assets of a “benefit plan investor” (as defined under ERISA) by virtue of the investment by such benefit plan investor in the units.

### **ITEM 3. Defaults Upon Senior Securities**

Not Applicable.

### **ITEM 4. Mine Safety Disclosures**

Not Applicable.

### **ITEM 5. Other Information**

None.

ITEM 6. **Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibits</u></b>
10.1	<a href="#"><u>Business Loan Agreement; Promissory Note dated March 13, 2020; Pledge and Security Agreement</u></a>
31.1	<a href="#"><u>Certification of Manager pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32.1	<a href="#"><u>Certification of Manager pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

**REDWOOD MORTGAGE INVESTORS IX, LLC**  
**(Registrant)**

Date: May 15, 2020

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

By: /s/ Michael R. Burwell

Name: Michael R. Burwell

Title: President, Secretary and Treasurer

(On behalf of the registrant, and in the capacity of  
principal financial officer)