

**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, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-27816

**REDWOOD MORTGAGE INVESTORS VIII,  
a California Limited Partnership**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

**94-3158788**  
(I.R.S. Employer  
Identification No.)

**177 Bovet Road, Suite 520, San Mateo, CA**  
(Address of principal executive offices)

**94402**  
(Zip Code)

**(650) 365-5341**

(Registrant's telephone number, including area code)

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  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

**Part I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Consolidated Balance Sheets**

**March 31, 2021 (unaudited) and December 31, 2020 (audited)  
(\$ in thousands)**

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
<b><u>ASSETS</u></b>		
Cash, in banks	\$ 564	\$ 364
Loan payments in trust	33	116
Loans		
Principal	78,413	74,080
Advances	143	164
Accrued interest	738	716
Loan balances secured by deeds of trust	79,294	74,960
Allowance for loan losses	(50)	(50)
Loan balances secured by deeds of trust, net	79,244	74,910
Real estate owned (REO), net	8,805	8,805
Debt issuance costs, net	54	67
Other assets	56	59
Total assets	<u>\$ 88,756</u>	<u>\$ 84,321</u>
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>		
Accounts payable	\$ 274	\$ 184
Accrued liabilities	1,112	882
Line of credit	10,000	2,453
Mortgages payable	2,449	2,449
Total liabilities	13,835	5,968
Commitments and Contingencies (Note 8)		
Partners' capital		
Limited partners' capital	79,402	82,991
General partners' deficit	(649)	(655)
Total partners' capital	78,753	82,336
Receivable from manager (formation loan)	(3,832)	(3,983)
Partners' capital, net of formation loan	74,921	78,353
Total liabilities and partners' capital	<u>\$ 88,756</u>	<u>\$ 84,321</u>

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

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Consolidated Statements of Income  
For the Three Months Ended March 31, 2021 and 2020 (\$ in thousands) (unaudited)**

	Three Months Ended March 31	
	2021	2020
<b>Revenue</b>		
Interest income	\$ 1,642	\$ 1,738
<b>Interest expense</b>		
Line of credit	(61)	—
Mortgages payable	(25)	—
Total interest expense	(86)	—
Net interest income	1,556	1,738
Late fees	5	6
Gain on sale, loans	—	—
Total revenue, net	1,561	1,744
Provision for (recovery of) loan losses	(1)	—
<b>Operations expense</b>		
Mortgage servicing fees	277	323
Asset management fees	77	92
Costs from Redwood Mortgage Corp.	174	314
Professional services	361	292
REO, net (Note 5)	68	(49)
Other	3	—
Total operations expense	960	972
Net income	<u>\$ 602</u>	<u>\$ 772</u>
<b>Net income</b>		
Limited partners (99%)	\$ 596	\$ 764
General partners (1%)	6	8
	<u>\$ 602</u>	<u>\$ 772</u>

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

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

**For the Three Months Ended March 31, 2021  
(\$ in thousands) (unaudited)**

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, December 31, 2020	\$ 82,991	\$ (655)	\$ 82,336
Net income	596	6	602
Distributions	(379)	—	(379)
Withdrawals	(3,806)	—	(3,806)
Balance, March 31, 2021	<u>\$ 79,402</u>	<u>\$ (649)</u>	<u>\$ 78,753</u>

**For the Three Months Ended March 31, 2020  
(\$ in thousands) (unaudited)**

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, December 31, 2019	\$ 98,770	\$ (689)	\$ 98,081
Net income	764	8	772
Distributions	(501)	—	(501)
Withdrawals	(4,891)	—	(4,891)
Balance, March 31, 2020	<u>\$ 94,142</u>	<u>\$ (681)</u>	<u>\$ 93,461</u>

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

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2021 and 2020  
(\$ in thousands) (unaudited)**

	Three Months Ended March 31	
	2021	2020
<b>Operating Activities</b>		
Interest income received	\$ 1,619	\$ 1,418
Interest expense	(34)	—
Late fees and other loan income	88	6
Operations expense	(675)	(908)
Total cash provided by operating activities	998	516
<b>Investing Activities</b>		
<b>Loans</b>		
Loans funded	(9,564)	(1,500)
Principal collected	698	853
Loan transferred from related mortgage fund	(624)	—
Loans transferred to related mortgage fund	4,672	2,297
Loans sold to non-affiliate	485	—
Advances received from (made on) loans	22	(30)
Total - Loans	(4,311)	1,620
REO - sales proceeds, net	—	186
Total cash (used in) provided by investing activities	(4,311)	1,806
<b>Financing Activities</b>		
<b>Partners' capital</b>		
Partner withdrawals, net of early withdrawal penalties	(3,768)	(4,817)
Partner distributions	(379)	(501)
RMC payments - formation loan	113	—
Cash distributions to partners, net	(4,034)	(5,318)
<b>Line of credit</b>		
Advances	7,547	—
Debt issuance costs	—	(88)
Cash provided by (used in) line of credit	7,547	(88)
Total cash provided by (used in) financing activities	3,513	(5,406)
Net increase (decrease) in cash	200	(3,084)
Cash, beginning of period	364	4,142
Cash, end of period	\$ 564	\$ 1,058

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**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2021 and 2020  
(\$ in thousands) (unaudited)**

Reconciliation of net income to net cash provided by operating activities:

	<b>Three Months Ended March 31</b>	
	<b>2021</b>	<b>2020</b>
Cash flows from operating activities		
Net income	\$ 602	\$ 772
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of debt issuance costs	13	—
REO – gain on disposal	—	(68)
Change in operating assets and liabilities		
Loan payments in trust	83	—
Accrued interest	(22)	(212)
Prepaid interest	—	(109)
Other assets	—	(10)
Accounts payable and accrued liabilities	322	41
Payable to affiliate	—	102
Net cash provided by operating activities	<u>\$ 998</u>	<u>\$ 516</u>

Non-cash financing activity for three months ended March 31, 2021 and 2020 includes early withdrawal penalties of approximately \$38,000 and \$74,000, respectively. Early withdrawal penalties are applied as a reduction to the formation loan.

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

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Notes to Consolidated Financial Statements  
March 31, 2021 (unaudited)**

**NOTE 1 – ORGANIZATION AND GENERAL**

Redwood Mortgage Investors VIII, a California Limited Partnership (“RMI VIII” or “the partnership”), was formed in 1993 to engage in business as a mortgage lender and investor by making and holding-for-investment mortgage loans secured by California real estate, primarily by first and second deeds of trust. The partnership is externally managed by Redwood Mortgage Corp. (“RMC” or “the manager”). The general partners are RMC and Michael R. Burwell (Burwell), the President, Secretary and Treasurer of RMC and its principal shareholder. RMC provides the personnel and services necessary to conduct the business as RMI VIII has no employees of its own. The general partners are entitled to one percent (1%) of profits or loss of the partnership. The mortgage loans the partnership funds and/or invests in, are arranged and generally are serviced by RMC.

In the opinion of management of RMC, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the consolidated financial information included therein. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the partnership’s Form 10-K for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the operating results to be expected for the full year.

The rights, duties, and powers of the limited partners and general partners of the partnership are governed by the Limited Partnership Agreement (“Partnership Agreement”). Limited partners representing a majority of the outstanding units may, without the consent of the general partners, vote to: (i) dissolve the partnership; (ii) amend the Partnership Agreement subject to certain limitations; (iii) approve or disapprove the sale of all or substantially all of the assets of the partnership; and (iv) remove or replace one or all of the general partners. A majority in interest of partnership units is required to elect a new general partner to continue the partnership business after a general partner ceases to be a general partner due to its withdrawal.

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

The manager is responsible for managing the business and affairs of RMI VIII, subject to the voting rights of the partners on specified matters. The manager acting alone has the power and authority to act for and bind the partnership. RMC is entitled to fees and reimbursements of qualifying costs as specified in the Partnership Agreement.

The partnership’s primary investment objectives are to:

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

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

The partnership’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;
- line of credit advances, repayments and the interest rate thereon;
- loan sales to unaffiliated third parties, and any gains received thereon;
- the amount of fees and cost reimbursements to RMC;
- the timing and amount of other operation expense; and
- the timing and amount of payments from RMC on the formation loan.

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Notes to Consolidated Financial Statements  
March 31, 2021 (unaudited)**

The ongoing sources of funds for loans are the proceeds (net of withdrawals from limited partners' capital accounts and operation expense) from:

- loan payoffs;
- borrowers' monthly principal and interest payments;
- line of credit advances;
- loan sales to unaffiliated third parties;
- REO sales;
- payments from RMC on the outstanding balance of the formation loan; and
- earnings retained (i.e., not distributed) in partners' capital accounts.

The partnership 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 partnership may sell mortgage loans (or fractional interests therein) when the manager determines that it appears to be advantageous for the partnership to do so, based upon then current interest rates, the length of time that the loan has been held by the partnership, the partnership's credit risk and concentration risk and the overall investment objectives of the partnership. Loans sold to third parties may be sold for par, at a premium or, in the case of non-performing or under performing loans, at a discount. Partnership loans may be sold to third parties or to the manager or its 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 partnership; however, selling loans will increase partnership capital available for investing in new loans for which the manager will earn brokerage fees and other forms of compensation.

#### *COVID-19*

The ongoing ability of the partnership to meet its primary investment objectives and to generate funds for loans from one or more of the ongoing sources above may be adversely affected by the COVID-19 pandemic and by the social and governmental responses and severe economic disruptions caused by the pandemic.

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Since that time, COVID-19 has spread throughout the United States, including in the California regions and markets in which the partnership lends. In response, national, state, and local governments took, and are expected to continue to take, various actions to slow the spread of COVID-19. These actions substantially limited the operation of non-essential businesses and the activities of individuals throughout 2020 and into 2021 causing a significant adverse effect on the global, US, and California economies as well as disruption to the financial and real estate markets.

During 2020, the "Coronavirus Aid, Relief, and Economic Security ("CARES") Act" and the "Consolidated Appropriations Act ("CAA") of 2020" were signed into law. The CARES Act includes various measures to provide relief to companies and the CAA extended some of the CARES Act programs along with adding new stimulus provisions. In March 2021, the American Rescue Plan Act of 2021 was also passed which further extended several CARES Act relief programs and other assistance. The manager has not taken and does not expect to take advantage of any measures under the CARES Act, the CAA or the American Rescue Plan Act.

During 2020, as a result of the disruptions caused by the pandemic, the partnership experienced a manageable increase in delinquencies and requests for forbearance agreements from borrowers. Market conditions, regulatory restrictions on our enforcement rights with respect to loans in default, delays in foreclosure proceedings, including moratoriums in some jurisdictions, and backlogs in the courts increased the timeline to resolve non-performing and /or maturing loans. The majority of borrowers continued to make monthly payments and negotiated in good faith, resulting in extensions on terms consistent with the original loan terms. Delays in repayment of maturing loans and/or sales of properties acquired by foreclosure reduce the partnership's capital available for loan originations.

Even with the recent re-openings of businesses in California and improvement in the economy in recent months, economic activity in certain businesses and industries remains below pre-pandemic levels and unemployment remains elevated.



**REDWOOD MORTGAGE INVESTORS VIII,  
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Notes to Consolidated Financial Statements  
March 31, 2021 (unaudited)**

Given the ongoing and dynamic nature of the circumstances, it is not possible to predict or estimate the impact - in 2021 and beyond - of the COVID-19 outbreak on the financial condition, the liquidity or the results of operations of the partnership. While the partnership has not incurred material disruptions to date, the rapid developments and fluidity of COVID-19 may cause the manager to adjust its lending parameters and investment strategy. The manager is continuing to monitor this situation and will adjust its response in concert with federal, California and local health officials and governmental authorities to protect the health and safety of its employees and to respond to changes in the real estate markets that it serves.

*Distribution to limited partners*

At the time of their subscription to the partnership, limited partners elected either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound income in their capital account. If an investor initially elected to receive monthly, quarterly or annual distributions, such election, once made, is irrevocable. If the investor initially elected to compound income in their capital account, in lieu of cash distributions, the investor may, after three (3) years, change the election and receive monthly, quarterly or annual cash distributions. Income allocable to limited partners who elect to compound income in their capital account will be retained by the partnership for making further loans or for other proper partnership purposes and such amounts will be added to such limited partners' capital accounts. The percentage of limited partners electing distribution of allocated net income, by weighted average to total partners' capital was approximately 61% at March 31, 2021 and 2020.

To determine the amount of cash to be distributed in any month, the manager relies in part on its forecast of the partnership's full-year net income, which takes into account the difference between the forecasted net income for the remainder of the year and actual results in the year to date and the requirement to maintain cash to meet the partnership's obligations.

*Capital withdrawals*

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

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

*Term of the partnership*

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

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Notes to Consolidated Financial Statements  
March 31, 2021 (unaudited)**

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

*Basis of presentation*

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The partnership's consolidated financial statements include the accounts of the partnership, its wholly-owned subsidiaries (consisting of single-member limited liability companies owning a single real property asset). All significant intercompany transactions and balances have been eliminated in consolidation.

*Reclassifications*

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

*Management estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Such estimates relate principally to the determination of the allowance for loan losses, including, when applicable, the valuation of impaired loans (which itself requires determining the fair value of the collateral), and the valuation of real estate 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 partnership has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly in active markets and quoted prices for identical assets or liabilities that are not active, and inputs other than quoted prices that are observable or inputs derived from or corroborated by market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the partnership's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the partnership's own data.

The fair value of 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, including the consideration of adjustments made for any attributes specific to the real property.

**REDWOOD MORTGAGE INVESTORS VIII,  
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March 31, 2021 (unaudited)**

Management has the requisite familiarity with the real estate markets it lends in and of the specific properties lent on 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*

Certain of the partnership'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. See Note 7 (Line of Credit) for compensating balance arrangements.

*Loans and interest income*

Performing loans are carried at amortized cost, which is generally equal to the unpaid principal balance (principal). Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the partnership's interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums, and attorney fees. Advances generally are stated at the 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 for accounting purposes only; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement. Late fees are recognized in the period received.

The partnership may fund a specific loan 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 of principal.

In the normal course of the partnership'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.

From time to time, the manager negotiates and enters into loan modifications with borrowers whose loans are delinquent (i.e., 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 (TDR).

In March 2020, various federal 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. The agencies confirmed with the staff of the Financial Accounting Standards Board (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.

The partnership funds loans with the intent to hold the loans until maturity. From time to time the partnership may sell certain loans when the manager determines it to be in the best interest of the partnership. 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. Loans classified as held for sale are carried at the lower of cost or fair value.

**REDWOOD MORTGAGE INVESTORS VIII,  
A California Limited Partnership  
Notes to Consolidated Financial Statements  
March 31, 2021 (unaudited)**

*Allowance for loan losses*

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

If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement, then a loan may be designated as impaired. An insignificant delay or insignificant shortfall in the amount of payments does not constitute non-performance with the contractual terms of the original loan agreement if the manager expects to collect the amounts due including interest accrued at the contractual interest rate for the period of delay. In determining the probability that the borrower will not substantially perform according to the terms of the original loan agreement, the manager considers the following:

- payment status – if payments are in arrears 90+ days (typically 3 payments past due) loans are designated impaired unless resolution of the delinquency is forthcoming without significant delay;
- bankruptcy – if the borrower files bankruptcy, the loan is designated impaired;
- notice of sale – if the partnership files a notice of sale, the loan is designated impaired.

Payments on loans designated as impaired are applied to late fees, then to the accrued interest, then to advances, and lastly to principal.

For loans that are deemed to be collateral dependent for repayment, 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 and net of any senior debt and claims.

The partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible. Any amounts collected after a charge off is deemed a recovery of loan losses. If the loan goes to foreclosure, an updated appraisal is ordered and the recorded investment in the loan is adjusted to the net realizable value of the REO to be acquired. The adjustment is made to the specific reserve in the allowance for loan losses by a charge or a credit to the provision for loan losses.

*Real estate owned (REO)*

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

*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 on a straight-line basis, which approximates the interest method, as interest expense over the term of the line of credit.

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*Recently issued accounting pronouncements*

- *Accounting and Financial Reporting for Expected Credit Losses*

The 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 VIII invests in real estate secured loans made with the expectation that the possibility of credit losses is remote as a result of substantial protective equity provided by the underlying collateral. The real estate secured programs and low loan-to-value ratios have caused the partnership 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 the partnership’s loans at that date.

- *Reference Rate Reform*

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, provides temporary optional expedients for various agreements and contracts that utilize the London Interbank Offered Rate (LIBOR) as the benchmark reference rate. The relief generally applies to eligible modifications of contractual terms that change (or have the potential to change) the amount or timing of contractual cash flows related to replacement of a reference rate. The relief allows such modifications to be accounted for as continuations of existing contracts without additional analysis. As the guidance in ASU 2020-04 is intended to assist entities during the global market-wide reference rate transition period, it is in effect from March 12, 2020 through December 31, 2022. The partnership is currently evaluating the impact of the potential discontinuance of LIBOR in relation to the partnership’s line of credit and has not yet adopted the optional relief.

**NOTE 3 – GENERAL PARTNERS AND OTHER RELATED PARTIES**

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

*Mortgage servicing fees*

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

*Asset management fees*

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

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*Costs from Redwood Mortgage Corp.*

The manager is entitled to request reimbursement for operations expense incurred on behalf of RMI VIII, including without limitation, RMC's personnel and non-personnel costs incurred for qualifying business activities, including investor services, accounting, tax and data processing, postage and out-of-pocket general and administration expenses. Qualifying personnel/compensation costs and consulting fees are tracked by business activity, and then costs of qualifying activities are allocated to RMI VIII pro-rata based on the percentage of RMI VIII's limited partners' capital to the total capital of all related mortgage funds managed by RMC. Certain other non-personnel, qualifying costs such as postage and out-of-pocket general and administrative expenses can be tracked by RMC as specifically attributable to RMI VIII; other non-personnel, qualifying costs (e.g., RMC's accounting and audit fees, legal fees and expenses, occupancy, and insurance premiums) are allocated pro-rata based on the percentage of RMI's members' capital to total capital of the related mortgage funds managed by RMC.

*Commissions and fees are paid by the borrowers to RMC*

- *Brokerage commissions, loan originations*

For fees in connection with the review, selection, evaluation and negotiation of loans (including extensions), the general partners may collect loan brokerage commissions (points) limited to an amount not to exceed 4% of the total partnership assets per year. The loan brokerage commissions are paid by the borrowers to RMC, and thus are not an expense of the partnership. Loan brokerage commissions paid by the borrowers to RMC approximated \$165,000 and \$45,000 for the three months ended March 31, 2021 and 2020, respectively.

- *Other fees*

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

*Formation loan*

Commissions for sales of limited partnership units paid to broker-dealers ("B/D sales commissions") were paid by RMC and were not paid directly by the partnership out of offering proceeds. Instead, the partnership advanced to RMC amounts sufficient to pay the B/D sales commissions and premiums paid to partners in connection with unsolicited orders up to 7% of offering proceeds. The receivable arising from the advances is unsecured and non-interest bearing and is referred to as the "formation loan." Since its inception, the partnership's advances totaled \$22,567,000, of which \$3,832,000 remains outstanding at March 31, 2021.

RMC is repaying the formation loan principally from loan brokerage commissions earned on loans, early withdrawal penalties on partner withdrawals and other fees paid by the partnership. Since RMC will use the proceeds from loan brokerage commissions on loans to repay the formation loans and, if both or either one of the initial general partners is removed as a general partner by the vote thereafter designated, and if such successor or additional general partner(s) begins using any other loan brokerage firm for the placement of loans, RMC will be immediately released from any further obligation under the formation loans (except for a proportionate share of the principal installment due at the end of that year). In addition, if both of the general partners are removed, no successor general partners are elected, the partnership is liquidated and RMC is no longer receiving any payments for services rendered, the debt on the formation loans shall be forgiven and RMC will be immediately released from any further obligations under the formation loans.

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The formation loan activity for the three months ended March 31, 2021 is summarized in the following table (\$ in thousands).

	<b>2021</b>
Balance, January 1	\$ 3,983
Early withdrawal penalties	(38)
Repayments	(113)
Balance, March 31	<u>\$ 3,832</u>

RMC is repaying the formation loan such that the formation loan is paid by December 31, 2026. Beginning December 31, 2020, RMC will make quarterly payments of principal, without interest, of approximately \$162,500, less early withdrawal penalties until such time – in the opinion of the manager - as the market uncertainties resulting from the COVID-19 pandemic are substantially resolved and loan brokerage commissions earned by the manager on new loan originations return to pre-pandemic levels. Annual payments of \$650,000 are expected to resume by December 2022.

*Limited partner capital - withdrawals*

Withdrawals of limited partners' capital for the three months ended March 31, 2021 and 2020 are presented in the following table (\$ in thousands).

<b>Withdrawals</b>	<b>2021</b>	<b>2020</b>
Without penalty	\$ 3,428	\$ 4,147
With penalty	378	744
Total	<u>\$ 3,806</u>	<u>\$ 4,891</u>
Scheduled, at March 31,	<u>\$ 31,362</u>	<u>\$ 37,858</u>

Scheduled withdrawals of limited partners' capital as of March 31, 2021 are presented in the following table (\$ in thousands).

2021	\$ 10,782
2022	9,699
2023	6,445
2024	3,331
2025	1,020
Thereafter	85
Total	<u>\$ 31,362</u>

Scheduled withdrawals of limited partners' capital of approximately \$856,000, are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

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*Other related party transactions*

- *Payable to related parties*

From time to time, in the normal course of business operations, the partnership may have payables to and/or receivables from related parties. At March 31, 2021, there were no payables to or receivables from related parties. At December 31, 2020 the payable to related parties consisted of accounts payable and cost reimbursements to the manager and related mortgage funds of \$3,388, which was offset by a receivable of \$5,101 due from the manager and related mortgage funds. The net amount due from the manager and related mortgage funds as of December 31, 2020 totaled \$1,713 and is included in other assets on the consolidated balance sheet. The receivable was received from the manager and the payable was paid to the manager in March 2021.

- *Loan transactions with related parties*

In the ordinary course of business, performing loans may be transferred by executed assignment, in-part or in-full, between the RMC managed mortgage funds at par, which approximates fair value. In the three months ended March 31, 2021, a related mortgage fund transferred to RMI VIII one performing loan with principal of approximately \$624,000 in-full at par value, which approximates fair value. RMI VIII paid cash for the loan and the related mortgage fund has no continuing obligation or involvement with the loan. There were no loans transferred from related mortgage funds in the three months ended March 31, 2020.

In the three months ended March 31, 2021 RMI VIII transferred to a related mortgage fund five performing loans with aggregate principal of approximately \$4,672,000 in-full at par value, which approximates fair value. In the three months ended March 31, 2020 RMI VIII transferred to a related mortgage fund one performing loan with principal of approximately \$2,297,000 in-full at par value, which approximates fair value. The related mortgage fund paid cash for the loans and RMI VIII has no continuing involvement with the loans.

**NOTE 4 – LOANS**

Loans generally are funded at a fixed interest rate with a loan term of up to five years. Loans acquired are generally done so within the first six months of origination and are purchased at par value, which approximates fair value. See Note 3 (General Partners and Other Related Parties) for a description of loans transferred by executed assignments between the related mortgage funds.

As of March 31, 2021, 25 loans with principal of \$67,881,493 (representing 87% of the aggregate principal of the partnership's loan portfolio) have a term of five years or less. The remaining loans have terms longer than five years. Substantially all loans are written without a prepayment penalty provision.

As of March 31, 2021, 19 loans with principal of \$19,176,557 (representing 24% of the aggregate principal of the partnership'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 in full at maturity.

*Secured loans unpaid principal balance (principal)*

Secured loan transactions for the three months ended March 31, 2021, are summarized in the following table (\$ in thousands).

	<b>2021</b>
Principal, beginning of period	\$ 74,080
Loans funded	9,564
Principal collected	(698)
Loan transferred from related mortgage fund	624
Loans transferred to related mortgage fund	(4,672)
Loans sold to non-affiliate	(485)
Principal, March 31	<u>\$ 78,413</u>

During the three months ended March 31, 2021, the partnership renewed four maturing (or matured) loans with aggregated principal of approximately \$20,861,000, which are not included in the activity shown in the table above. The loans were current and deemed well collateralized (i.e., the LTV for the collateral was within lending guidelines) at the time they were extended.



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

In January 2021, a loan with principal of approximately \$485,000, was sold to an unaffiliated third party, for an amount that approximated the loan balance at the time of sale.

Pursuant to California regulatory requirements borrower payments are deposited into a trust account established by RMC with an independent bank and are presented on the balance sheet as "Loan payments in trust". Funds are disbursed to the partnership as collected which can range from same day for wire transfers and up to two weeks after deposit for checks. Loan payments in trust at March 31, 2021, were disbursed to the partnership's account by April 20, 2021. Loan payments in trust at December 31, 2020 were disbursed to the partnership's account by January 15, 2021.

*Loan characteristics*

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

	March 31, 2021	December 31, 2020
Number of secured loans	33	33
Secured loans – principal	\$ 78,413	\$ 74,080
Secured loans – lowest interest rate (fixed)	5.0%	5.0%
Secured loans – highest interest rate (fixed)	10.8%	10.8%
Average secured loan – principal	\$ 2,376	\$ 2,245
Average principal as percent of total principal	3.0%	3.0%
Average principal as percent of partners' capital, net of formation loan	3.2%	2.9%
Average principal as percent of total assets	2.7%	2.7%
Largest secured loan – principal	\$ 10,200	\$ 10,200
Largest principal as percent of total principal	13.0%	13.8%
Largest principal as percent of partners' capital, net of formation loan	13.6%	13.0%
Largest principal as percent of total assets	11.5%	12.1%
Smallest secured loan – principal	\$ 45	\$ 46
Smallest principal as percent of total principal	0.1%	0.1%
Smallest principal as percent of partners' capital, net of formation loan	0.1%	0.1%
Smallest principal as percent of total assets	0.1%	0.1%
Number of California counties where security is located	13	14
Largest percentage of principal in one California county	35.4%	40.0%

As of March 31, 2021, the partnership's largest loan, with principal of approximately \$10,200,000 is secured by an industrial building in the City and County of San Francisco, bears an interest rate of 9.5% and matures on March 1, 2022. As of March 31, 2021, the partnership had no commitments to lend outstanding and had no construction or rehabilitation loans outstanding.

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*Lien position*

At funding, secured loans had the lien positions presented in the following table (\$ in thousands).

	March 31, 2021			December 31, 2020		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	26	\$ 69,094	88%	24	\$ 64,286	87%
Second trust deeds	7	9,319	12	9	9,794	13
Total principal, secured loans	<u>33</u>	<u>78,413</u>	<u>100%</u>	<u>33</u>	<u>74,080</u>	<u>100%</u>
Liens due other lenders at loan closing		13,762			15,759	
Total debt		<u>\$ 92,175</u>			<u>\$ 89,839</u>	
Appraised property value at loan closing		<u>\$ 177,746</u>			<u>\$ 180,041</u>	
Percent of total debt to appraised values (LTV) at loan closing <sup>(1)</sup>		<u>55.0%</u>			<u>53.8%</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 (\$ in thousands).

	March 31, 2021			December 31, 2020		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family <sup>(2)</sup>	19	\$ 17,073	22%	19	\$ 16,598	22%
Multi-family	1	6,300	8	1	6,300	9
Commercial	13	55,040	70	12	49,682	67
Land	—	—	—	1	1,500	2
Total principal, secured loans	<u>33</u>	<u>\$ 78,413</u>	<u>100%</u>	<u>33</u>	<u>\$ 74,080</u>	<u>100%</u>

- (2) Single family property type at March 31, 2021, consists of 4 loans with aggregate principal of approximately \$2,238,000 that are owner occupied and 15 loans with aggregate principal of approximately \$14,835,000 that are non-owner occupied. At December 31, 2020, single family property type consisted of 8 loans with aggregate principal of \$3,344,000 that are owner occupied and 11 loans with aggregate principal of \$13,254,000 that are non-owner occupied. Single family includes 1-4 unit residential buildings, condominium units, townhouses and condominium complexes.

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*Distribution by California counties*

The distribution of secured loans within California by counties is presented in the following table (\$ in thousands).

	March 31, 2021		December 31, 2020	
	Principal	Percent	Principal	Percent
<b>San Francisco Bay Area<sup>(3)</sup></b>				
San Francisco	\$ 27,761	35.4%	\$ 29,659	40.0%
San Mateo	17,071	21.8	16,756	22.6
Santa Clara	6,393	8.1	4,600	6.2
Alameda	5,806	7.4	823	1.1
Contra Costa	—	—	302	0.4
Marin	916	1.2	917	1.2
	57,947	73.9	53,057	71.5
<b>Other Northern California</b>				
Placer	—	0.0	1,500	2.0
Santa Cruz	—	0.0	485	0.7
Amador	696	0.9	701	0.9
Mariposa	45	0.1	46	0.1
	741	1.0	2,732	3.7
Northern California Total	58,688	74.9	55,789	75.2
<b>Los Angeles &amp; Coastal</b>				
Los Angeles	9,841	12.5	10,199	13.8
Riverside	460	0.6	—	0.0
San Diego	395	0.5	—	0.0
Santa Barbara	2,066	2.6	2,070	2.8
Orange	1,583	2.0	642	0.9
	14,345	18.2	12,911	17.5
<b>Other Southern California</b>				
San Bernardino	5,380	6.9	5,380	7.3
	5,380	6.9	5,380	7.3
Southern California Total	19,725	25.1	18,291	24.8
Total principal, secured loans	\$ 78,413	100.0%	\$ 74,080	100.0%

(3) Includes the Silicon Valley

*Scheduled maturities*

Secured loans scheduled to mature as of March 31, 2021 are presented in the following table (\$ in thousands).

	Loans	Principal	Percent
2021	10	\$ 23,341	30%
2022	14	45,062	57
2023	3	3,282	4
2024	1	592	1
2025	—	—	—
Thereafter	1	737	1
Total scheduled maturities	29	73,014	93
Matured at March 31, 2021	4	5,399	7
Total principal, secured loans	33	\$ 78,413	100%

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Scheduled maturities are presented based on the most recent in-effect agreement with the borrower, including forbearance agreements. As a result, matured loans at March 31, 2021, for the scheduled maturities table may differ from the same captions in the tables of delinquencies and payments in arrears that are based on the loan terms and do not consider forbearance agreements. For matured loans, the partnership may continue to accept payments while pursuing collection of principal or while negotiating an extension of the loan's maturity date.

It is the partnership's experience that the timing of future cash receipts from secured loans will differ from scheduled maturities. Loans may be repaid or renewed before, at or after the contractual maturity date.

*Delinquency/Non-performing secured loans*

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

	March 31, 2021		December 31, 2020	
	Loans	Principal	Loans	Principal
Current	27	\$ 62,279	30	\$ 58,941
Past Due				
30-89 days	2	590	—	—
90-179 days	1	405	—	—
180 or more days	3	15,139	3	15,139
Total past due	6	16,134	3	15,139
Total principal, secured loans	33	\$ 78,413	33	\$ 74,080

At March 31, 2021 and December 31, 2020 there were two forbearance agreements in effect with aggregate principal of \$10,735,000, both of which are included in the table above as 180 or more days past due.

During the three months ended March 31, 2021 the partnership amended an existing forbearance agreement for a loan included in the table above as 180 or more days past due with principal of \$5,355,000 and original maturity date of October 1, 2019. In December 2020, the partnership had entered into a second forbearance agreement with the borrower whereby the borrower agreed to pay all past due interest, resume monthly payments of interest, and make a principal payment of \$675,000 by March 31, 2021 and the partnership agreed to forgo collection of default interest and defer the maturity date until December 31, 2021. In March 2021, the borrower made a payment of approximately \$152,000 in past due interest. The forbearance agreement was amended in March 2021 to provide for full reinstatement of past due fees and interest outstanding and a principal payment of approximately \$675,000 by May 31, 2021. As of March 31, 2021 the loan was designated as impaired and in non-accrual status.

No loan forbearance agreements or payment modifications were made during the three months ended March 31, 2021, and none were in effect at December 31, 2020, that would be deemed troubled debt restructurings.

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Non-performing secured loans at March 31, 2021, and December 31, 2020, had principal payments in arrears totaling \$16,134,000 (6 loans) and \$15,139,000 (3 loans), respectively and interest payments in arrears totaling \$884,000 and \$849,000, respectively. Payments in arrears for non-performing secured loans (i.e., monthly interest and principal payments past due 30 or more days) at March 31, 2021 and December 31, 2020, are presented in the following tables.

	Loans		Principal		Interest <sup>(4)</sup>		Total payments in arrears
	Past maturity	Monthly payments	Past maturity	Monthly payments	Past maturity	Monthly payments	
<b>At March 31, 2021</b>							
Past due							
30-89 days (1-3 payments)	2	—	\$ 590	\$ —	\$ 5	\$ —	\$ 595
90-179 days (4-6 payments)	1	—	405	—	—	—	405
180 or more days (more than 6 payments) <sup>(5)</sup>	3	—	15,139	—	879	—	16,018
Total past due	<u>6</u>	<u>—</u>	<u>\$ 16,134</u>	<u>\$ —</u>	<u>\$ 884</u>	<u>\$ —</u>	<u>\$ 17,018</u>

- (4) Interest includes foregone interest of approximately \$558,000 on non-accrual loans past maturity. Interest for March 2021 is due on April 1, 2021 and is not included in the payments in arrears at March 31, 2021.
- (5) Two loans, with an aggregate principal of approximately \$10,735,000, included in past maturity payments (principal and interest) 180 or more days, had forbearance agreements in place at March 31, 2021.

	Loans		Principal		Interest <sup>(6)</sup>		Total payments in arrears
	Past maturity	Monthly payments	Past maturity	Monthly payments	Past maturity	Monthly payments	
<b>At December 31, 2020</b>							
Past due							
30-89 days (1-3 payments)	—	—	\$ —	\$ —	\$ —	\$ —	\$ —
90-179 days (4-6 payments)	—	—	—	—	—	—	—
180 or more days (more than 6 payments) <sup>(7)</sup>	3	—	15,139	—	849	—	15,988
Total past due	<u>3</u>	<u>—</u>	<u>\$ 15,139</u>	<u>\$ —</u>	<u>\$ 849</u>	<u>\$ —</u>	<u>\$ 15,988</u>

- (6) Interest includes foregone interest of approximately \$512,000 on non-accrual loans past maturity. Interest for December 2020 was due on January 1, 2021 and is not included in the payments in arrears at December 31, 2020.
- (7) Two loans, with an aggregate principal of approximately \$10,735,000, included in past maturity payments (principal and interest) 180 or more days, had forbearance agreements in place at December 31, 2020.

*Delinquency/Loans in non-accrual status*

Secured loans in non-accrual status are summarized in the following table (\$ in thousands).

	March 31, 2021	December 31, 2020
Number of loans	3	3
Principal	\$ 15,139	\$ 15,139
Advances	27	24
Accrued interest <sup>(8)</sup>	315	368
Total recorded investment	<u>\$ 15,481</u>	<u>\$ 15,531</u>
Foregone interest	<u>\$ 666</u>	<u>\$ 582</u>

- (8) Accrued interest in the table above is the amount of interest accrued prior to the loan being placed on non-accrual status, net of any payments received while in non-accrual status.

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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 for accounting purposes only (i.e., foregone interest in the table above); however, previously recorded interest is not reversed.

At March 31, 2021, one loan, with principal of approximately \$405,000 and accrued interest of approximately \$8,000 was contractually 90 or more days past due as to principal and/or interest and not in non-accrual status.

At December 31, 2020, there were no loans contractually 90 or more days past due as to principal and/or interest and not in non-accrual status.

*Provision/allowance for loan losses and impaired loans*

Generally, the partnership 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 partnership to agree to concessions to borrowers to facilitate a sale of collateral or refinance transactions primarily for secured loans in second lien position.

Activity in the allowance for loan losses for the three months ended March 31, 2021, and 2020 is presented in the following table (\$ in thousands).

	2021	2020
Balance, January 1	\$ 50	\$ 50
Provision for loan loss	1	—
Recovery for loan losses	(1)	—
Balance, March 31	<u>\$ 50</u>	<u>\$ 50</u>

Loans designated impaired and any associated allowance for loan losses is presented in the following table (\$ in thousands).

	March 31, 2021	December 31, 2020
Number of loans	3	3
Principal	\$ 15,139	\$ 15,139
Recorded investment <sup>(9)</sup>	15,481	15,531
Impaired loans without allowance	15,481	15,531
Impaired loans with allowance	—	—
Allowance for loan losses, impaired loans	—	—
Weighted average LTV at origination	54.0%	54.0%

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

Loans designated impaired had an average recorded investment balance, interest income recognized, and interest income received in cash for the three months ended March 31, 2021 and the year ended December 31, 2020 as presented in the following table (\$ in thousands).

	March 31, 2021	December 31, 2020
Average recorded investment	\$ 15,506	\$ 14,231
Interest income recognized	—	1,271
Interest income received in cash	287	502

**REDWOOD MORTGAGE INVESTORS VIII,  
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March 31, 2021 (unaudited)**

**NOTE 5 – REAL ESTATE OWNED (REO) AND MORTGAGES PAYABLE**

REO transactions and valuation adjustments for the three months ended March 31, 2021 are summarized in the following table (\$ in thousands).

	2021			2020		
	REO	Valuation Allowance	REO, net	REO	Valuation Allowance	REO, net
Balance, beginning of period	\$ 12,044	\$ (3,239)	\$ 8,805	\$ 6,491	\$ (3,239)	\$ 3,252
Dispositions	—	—	—	(117)	—	(117)
Balance, March 31,	<u>\$ 12,044</u>	<u>\$ (3,239)</u>	<u>\$ 8,805</u>	<u>\$ 6,374</u>	<u>\$ (3,239)</u>	<u>\$ 3,135</u>

There were no REO transactions or valuation allowance adjustments during the three months ended March 31, 2021. During the three months ended March 31, 2020, the partnership sold a unit in a condominium complex in San Francisco County for approximately \$186,000, with a gain of approximately \$68,000.

REO at March 31, 2021 was comprised of five properties with a carrying value of approximately \$8,805,000. REO is recorded at fair value less costs to sell at acquisition, and subsequently adjusted to the lower of the recorded cost or fair value less cost to sell based on appraisals and analysis by RMC:

- In Los Angeles County (Hollywood Hills) two single-family residences on separate adjoining parcels.
- In San Francisco County, 1 residential unit in a condominium complex, to be marketed as an affordable unit to qualifying buyers pending approval of terms by the City of San Francisco.
- In Fresno County, a partially completed home subdivision.
- In Stanislaus County, approximately 14 acres of undeveloped land zoned commercial.
- In San Francisco County, a real estate interest comprised of a condominium complexes' unit-storage lockers and signage rights for the exterior façade of the building.

The two single-family residences were acquired in 2020 by foreclosure sales (Hollywood Hills) subject to two first mortgages, with aggregate principal outstanding of approximately \$2,449,000, and mortgage interest, property taxes, and other liabilities totaling approximately \$175,000. The mortgages were 201 and 242 days delinquent at the date of foreclosure sale, with accrued interest in arrears of approximately \$33,000 and \$40,000, and delinquent property taxes of \$23,000 and \$47,000 (advanced by the first mortgage lender), respectively. Interest in arrears and delinquent property taxes at acquisition are included in accounts payable on the consolidated balance sheet.

Mortgages payable at March 31, 2021 and December 31, 2020 are summarized in the following table (\$ in thousands).

Lender - summary of terms

Wells Fargo Bank - secured by a first trust deed on a single family residence located in Los Angeles County, matures November 1, 2044, monthly payment \$7,754.40, and interest at 4.125% until October 31, 2024; thereafter interest at LIBOR plus 2.25%, Wells Fargo submitted a payoff statement in July 2020.	\$ 1,453
East West Bank - secured by a first trust deed on a single family residence located in Los Angeles County, matures January 14, 2035, with interest at Prime plus 1% or 4.25% at June 30, 2020. Subsequent to foreclosure, East West Bank submitted a demand to be paid in full in July 2020 and in April 2021 filed a notice of default	996
Total mortgages payable	<u>\$ 2,449</u>

Since acquisition, accrued interest of approximately \$85,000, and property taxes of \$53,000 have been recorded in accrued liabilities on the consolidated balance sheet. The borrower has contested the foreclosure sale, and as of March 31, 2021, has not vacated the residences.

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*REO, net*

REO, net in operations expense on the consolidated income statements is comprised of the following for the three months ended March 31, 2021 and 2020 (\$ in thousands).

	2021	2020
Holding costs, net of other income	\$ 68	\$ 19
Gain on sales	—	(68)
Valuation adjustments	—	—
REO, net	<u>\$ 68</u>	<u>\$ (49)</u>

Holding costs, net of other income includes month-to-month rents received of approximately \$17,000 and \$ 24,000 for the three months ended March 31, 2021 and 2020, respectively for the homes in Fresno County and the unit-storage lockers and signage in San Francisco county.

**NOTE 6 – FAIR VALUE**

*Secured loans*

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 partnership's loans and borrowers the fair value of loan balances secured by deeds of trust is deemed to approximate the recorded amount (per the consolidated financial statements) as our loans:

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

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

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

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

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

*Multi-family residential* – Management's preferred method for determining the aggregate retail value of its multifamily units is the sale comparison method. Sale comps are typically provided in appraisals, or by realtors who specialize in multi-family residential properties. 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.



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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* – Management's preferred method for determining the fair value of its commercial buildings is the sale comparison method. Sale comps are typically provided in appraisals, or by realtors who specialize in commercial properties. 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, common areas, and year built.

Management's secondary method for valuing its commercial buildings is the direct capitalization method. In order to determine market cap rates for properties of the same class and location as the subject, management refers to reputable third-party sources such as the CBRE Cap Rate Survey. Management then applies the appropriate cap rate to the subject's most recent available annual net operating income to determine the property's value as an income-producing commercial rental project.

When adequate sale comps are not available or reliable net operating income information is not available or the project is under development or is under-performing to market, management will seek additional information and analysis to determine the cost to improve and the intrinsic fair value and/or management will seek additional information in the form of brokers' opinion of value or appraisals.

*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 7 – LINE OF CREDIT**

In March 2020, RMI VIII entered into a revolving line of credit and term loan agreement and in September 2020 borrowed on the bank line of credit. Activity involving the line of credit during the three months ended March 31, 2021 is presented in the following table.

	2021
Balance, beginning of period	\$ 2,453
Advances	7,547
Repayments	—
Balance, March 31,	\$ 10,000
Line of credit - average daily balance	\$ 3,795

The partnership can borrow up to a maximum principal of \$10 million subject to a borrowing base calculation pursuant to a credit and term loan agreement (the loan agreement) with a bank. Amounts under the loan 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 loan agreement matures in March 2022 when all amounts outstanding are then due. The partnership 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 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 partnership does not maintain the required compensating balance with a minimum daily average of \$1.0 million for 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.

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For each calendar quarter during which the aggregate average daily outstanding 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 average principal outstanding and fifty percent (50%) of the maximum principal of \$10 million (\$5,000,000).

The loan proceeds are to be used exclusively to fund secured loans. The loan agreement provides for customary financial and borrowing base reporting by the partnership to the lending bank and specifies that the partnership 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 than ten percent (10.0%) at calendar quarter-end, calculated as the principal of loans with payments over 61-days past due as determined by the lending bank's guidance, less loan loss allowances, divided by total principal of the partnership's 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 not to accelerate repayment of the loan.

At March 31, 2021 and December 31, 2020, aggregate principal of pledged loans was approximately \$23,639,000 and \$5,371,000, respectively with a maximum allowed advance thereon of approximately \$10,000,000 and \$3,491,000, respectively.

Debt issuance costs of approximately \$108,000 are being amortized over the two-year term of the loan agreement. For the three months ended March 31, 2021 amortized debt issuance costs included in interest expense approximated \$13,000.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES, OTHER THAN LOAN AND REO COMMITMENTS**

*Commitments*

Note 3 (General Partners and Other Related Parties) presents detailed discussion of the partnership's contractual obligations to RMC and detail of scheduled withdrawals of limited partners' capital at March 31, 2021.

*Legal proceedings*

As of March 31, 2021, the partnership is not involved in any legal proceedings other than those that would be considered part of the normal course of business. In the normal course of its business, the partnership may become involved in legal proceedings (such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc.) to collect the debt owed under the promissory notes, to enforce the provisions of the deeds of trust, to protect its interest in the real property subject to the deeds of trust and to resolve disputes with borrowers, lenders, lien holders and mechanics. None of these actions, in and of themselves, typically would be of any material financial impact to the net income or balance sheet of the partnership.

**NOTE 9 – SUBSEQUENT EVENTS**

In April 2021, one loan designated impaired and non-accrual at March 31, 2021 with principal of approximately \$4,400,000 paid off in-full, including previously foregone interest and late fees of approximately \$223,000 and \$29,000, respectively.

The manager evaluated events subsequent to March 31, 2021 and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the unaudited consolidated 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 partnership’s Annual Report on Form 10-K for the year ended December 31, 2020, filed with the U.S. Securities and Exchange Commission. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the full year.

### **Forward-Looking Statements**

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

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 general partners’ 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 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. The ongoing ability of the partnership to meet its primary investment objectives and to generate funds for loans may be adversely affected by the COVID-19 pandemic and by the social and governmental responses and severe economic disruptions caused by the pandemic. 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 2021.

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 unless required by law.

### **Overview**

Redwood Mortgage Investors VIII, a California Limited Partnership (“we”, “RMI VIII” or the “partnership”), was formed in 1993 to engage in business as a mortgage lender and investor by making and holding-for-investment loans secured by California real estate, primarily through first and second deeds of trust. The partnership is externally managed. Redwood Mortgage Corp. (“RMC” or “the manager”) is the manager of the partnership. See Note 3 (General Partners and Other Related Parties) to the consolidated financial statements included in Part I, Item 1 of this report for a detailed presentation of the partnership’s activities for which related parties are compensated and for other related party transactions.

Cash generated from loan payoffs and borrower payments of principal and interest is used for operating expenses, distributions to limited partners and withdrawals. The cash flow, if any, in excess of these uses plus the cash from advances on the line of credit is reinvested in new loans.

Per the Partnership Agreement, no more than 20% of the total limited partners' capital account balances at the beginning of any year may be liquidated during any calendar year. Notwithstanding this 20% limitation, the general partners have the discretion to further limit the percentage of total limited partners' capital accounts that may be withdrawn in order to comply with the safe harbor provisions of the regulations under Section 7704 of the Internal Revenue Code of 1986, as amended, to avoid the partnership being taxed as a corporation.

See Note 1 (Organization and General) to the consolidated financial statements included in Part I, Item 1 of this report on Form 10-Q for additional detail on the organization and operations of RMI VIII which detail is incorporated by reference into this Item 2.

### **Critical Accounting Policies**

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

Accounting policies are an integral part of our consolidated financial statements. For a summary of our critical accounting policies, see "Critical Accounting Policies" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2020.

There have been no material changes to our critical accounting policies since our annual report on Form 10-K.

### **Results of Operations**

The following discussion describes our results of operations for the three months ended March 31, 2021. While the COVID-19 pandemic has not had a material adverse effect on our reported results for the three months ended March 31, 2021, we are actively monitoring the impact of COVID-19, which may negatively impact our business, financial condition, liquidity and results of operations for subsequent periods.

The extent of the impact of the COVID-19 pandemic in 2021 and beyond on the partnership's capital, liquidity, and other financial positions and on the partnership's business, results of operation and prospects, will depend on a number of evolving factors, including:

- COVID-19 has not yet been contained and could continue to affect more households and businesses. The potential exists for variants of the virus and resurgence to occur.
- The accelerating distribution of vaccines for the virus appear to be having a positive impact on businesses and the economy; however, there is no way to predict when or if an economic recovery from the pandemic will occur and if such a recovery will be sustained over time. National, California and local economies and real estate markets could suffer further disruptions that are lasting and may impact the ability of the borrowers to make loan payments or to otherwise perform in accordance with their loan terms.
- Loans secured by rental properties may be adversely impacted by governmental regulations allowing rent payment delays, rent reductions, and changes in timing of rent payments, as well as restrictions or moratoriums on evictions enacted by federal, state or local authorities to address the impacts of COVID-19.
- The ability to enforce loan terms through foreclosure may be adversely affected by limitations or moratoriums on foreclosures enacted by state or local authorities to address the impacts of COVID-19.
- Key personnel of the manager may become incapacitated by the COVID-19 virus adversely impacting the business.

RMC continues to monitor the impact the COVID-19 pandemic is having and may have on California real estate values. See Note 1 (Organization and General) to the consolidated financial statements included in Part I, Item 1 of this report for additional detail on the COVID-19 pandemic, the social and governmental responses thereto and the severe economic disruptions caused by the pandemic.

#### *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 Recovery Gains Momentum as Businesses Reopen” dated April 16, 2021:

### Summary

- Employers added 119,600 jobs in March, following a 156,100-job gain the prior month.
- With COVID cases declining and vaccinations rising, more businesses have been allowed to reopen. Leisure & hospitality firms added 42,400 jobs in March and retailers added back 11,600 jobs. Employment in other services, a catch-all category that captures repair shops, salons and fitness centers, added 7,300 jobs.
- Construction (+6,000), trade, warehousing & utilities (+15,900), administrative & support services (+7,700) and wholesale trade (+4,700) all posted solid gains.
- Providers of professional & business services added 22,000 jobs in March, which [SIC] just under two-thirds of the gain coming from professional, scientific & technical services.
- The state's unemployment rate fell 0.2 percentage points to 8.3% and has fallen by nearly half since peaking at 16% last April.

### Hiring Rose Solidly Across Most Major Industries

California continues to battle its way back. Employers added a nation's best 119,600 jobs in March, and job gains were broad-based across most major industries. California's unemployment rate fell 0.2 percentage points to 8.3% and has fallen by 7.7 percentage points since peaking last April.

After losing 2,714,800 jobs in March and April of last year, employers have since added back 1,187,500 jobs, recouping roughly 44% of the job losses from the initial lockdowns. With COVID cases down more than 90% from their early January peak, the state has allowed more businesses to reopen. The greatest lift is coming from the hard-hit leisure & hospitality, retail trade and other services sectors. Business is also booming at the state's ports, which is supporting transportation & warehousing.

We expect California's recovery to gain momentum in coming months, as businesses reopen and consumers begin to venture out more. The process will likely be gradual, however, as the state incrementally eases operating restrictions on various industries and regions. We expect employers to add back 1.5 million jobs this year in California, which puts the state on track to reach its previous employment peak by early next year.

### Tech Services and Logistics Have Been Two Notable Bright Spots

California's large tech sector has held up relatively well amid the pandemic. The surge in remote work and education increased demand for many tech services centered around the Bay Area. Employment in professional & technical services still tumbled at the onset of the pandemic, with the industry losing 91,100 jobs from last February to last April. Hiring has bounced back, however, with employers adding back 58,900 jobs since April 2020, recovering roughly 65% of their initial job losses.

Transportation and warehousing has been a notable bright spot. Employment in the industry is higher today than it was prior to the pandemic, with most of the increase coming from couriers & messengers and transportation & warehousing.

The resilience and strength of these two sectors reveal quite a bit about the state of California's economy. A large share of workers in the tech sector, financial services, and the myriad of large corporate offices in San Francisco and Los Angeles have the ability to work remotely, which boosted demand for IT services and e-commerce. The downside is that with fewer people coming into the office each day there is less business for restaurants, dry cleaners, repairs shops and other high-contact service providers.

### California's Two Distinctly Different Roads to Recovery

Much has been said about the wide divergence in employment prospects during the recession from the COVID lockdowns. High-contact service providers, which includes the leisure & hospitality and other services industry employment breakouts, endured the brunt of the job losses last year. Prior to pandemic these two industries employed 2,651,500 workers in California. The initial lockdowns led to losses of 1,183,500 jobs in these two industries during last March and April, which translates to a 44.6% drop. Employment modestly recovered over the summer before taking another dip late last year when COVID cases surged again, promptly [SIC] another round of lockdowns.

Employment in all other industries, aside from high-contact services, held up much better at the onset of the pandemic, falling 10.2% from last February to last April. Employment excluding high-contact services has also recovered more steadily since the initial lockdowns ended and has added back slightly more than half the jobs lost during the initial lockdowns.

In the publication “California Posts Solid Job Gains in February” dated March 26, 2021:

## Summary

### California Added 141,000 Jobs in February, the Largest Gain of Any State

California employers added 141,000 jobs in February, as easing operating restrictions allowed restaurants, bars and entertainment venues to start gradually re-opening. Private sector payrolls added an even larger 147,000 jobs, with more than two-thirds of that gain coming in the leisure & hospitality sector. Hiring picked up in most other industries as well and the state's unemployment rate fell half a percentage point to 8.5%.

### Hiring Ramps Up but Still Has Plenty of Ground to Regain

The slide in COVID infections since the start of the year and the ramp up of vaccinations have allowed for some easing of operating restrictions in many California communities, which led to a surge in hiring in the hospitality industry during February. Overall nonfarm payrolls added 141,000 jobs, with more than two-thirds of the increase coming in the leisure & hospitality sector. With the number of daily new COVID cases down 95% since the middle of January, we would expect more businesses to re-open and for more consumers to re-engage in economic activity, leading to even stronger job gains in coming months.

February marks the one-year anniversary of the cycle peak in nonfarm employment, so the year-over-year change provides a real time measure of how much ground California's labor market has to recover to get back to where it was before the pandemic. Nonfarm employment remains 9.4% below its year-ago level, which means California needs to add back 1,662,000 jobs to get back to its pre-pandemic peak. The bulk of those jobs are in the leisure & hospitality sector and at other high-contact businesses, such as salons and fitness centers. We feel most of those jobs will be recovered this year. Given the rise in operating costs to incorporate safety equipment and social distancing requirements, many employers are looking to reduce labor costs by incorporating new labor saving technologies.

Private sector gains were fairly broad-based. The hard-hit leisure & hospitality sector added 102,200 jobs in February, bolstered by a 91,700 job gain from bars, restaurants and hotels. Overall, employment in the industry remains down 33.9% over the year. Other services, a category that includes salons and fitness centers, added 14,100 jobs in February, but even with this gain employment remains 23.7% below its year-ago level. Trade, transportation & utilities (+8,200) and educational & health services (+13,000) both added back jobs during the month.

The goods-producing side of the economy also had a solid month. Manufacturers added 8,900 jobs and construction firms added 600 jobs. Unlike much of the Central United States, California mostly avoided the harsh winter weather that resulted in some huge payroll swings in other states.

Professional & business services added 5,400 jobs. The sector's monthly increase was entirely owed to a 7,000-job gain in administrative & waste services, while technical services and professional management employment fell by 1,500 and 100, respectively. Over the past two months, tech payrolls have declined 6,400. The recent losses follow stronger growth late last year that brought employment in the tech sector back near its pre-pandemic highs. Government (-6,000), information (-2,800) and financial activities (-1,900) employers also cut jobs over the month.

### California's Unemployment Rate Fell in February

California's unemployment rate fell half a percentage point to 8.5%, which marks its lowest level since the onset of the pandemic. The rate peaked at 16.0% in April of last year, after coming into the year at just 4.1%, which marked a modern era low for California.

We expect California's unemployment rate to fall sharply this spring and summer, as more businesses re-open and more workers are rehired. Job postings, as tracked by Burning Glass Technologies, have increased sharply since the start of the year and are running 4.4% ahead of their January 2020, pre-pandemic level.

Unemployment rates in California's largest urban areas remains particularly problematic. The jobless rate in Los Angeles-Long Beach-Glendale fell 1.1 percentage points to a still-elevated 11.5% in February, while the jobless rate in San Francisco fell 0.5 percentage points to 5.5%. Unemployment rates in urban areas are likely to lag behind the improvement in more suburban areas, because workers are not likely to return to high-rise office buildings until this fall or later, which means restaurants, retail shops and service businesses that depend on office workers for a large part of their business will continue to struggle even as businesses re-open in the suburbs. California's highest unemployment rate and perennially one of the highest unemployment rates in the nation is in the El Centro metro area, an agriculturally-driven economy located east of San Diego in Imperial County bordering Mexico and Arizona.

## Key performance indicators

Key performance indicators as of and for the three months ended March 31, 2021 and 2020 are presented in the following table (\$ in thousands).

	2021	2020
Secured loans principal – end of period balance	\$ 78,413	\$ 84,553
Secured loans principal – average daily balance	\$ 74,241	\$ 86,100
Interest income	\$ 1,642	\$ 1,738
Portfolio interest rate <sup>(1)</sup>	8.9%	8.9%
Effective yield rate <sup>(2)</sup>	8.8%	8.1%
Line of credit - end of period	\$ 10,000	\$ —
Line of credit - average daily balance <sup>(3)</sup>	\$ 3,795	\$ —
Mortgages payable - end of period	\$ 2,449	\$ —
Mortgages payable - average daily balance <sup>(4)</sup>	\$ 2,449	\$ —
Interest expense		
Line of credit	\$ 61	\$ —
Mortgages payable	\$ 25	\$ —
Recovery of loan losses	\$ (1)	\$ —
Operations expense	\$ 960	\$ 972
Net income	\$ 602	\$ 772
Percent <sup>(5)(6)</sup>	2.9%	3.2%
Limited partners' capital – end of period	\$ 79,402	\$ 94,142
Limited partners' capital – average balance	\$ 81,197	\$ 96,456
Limited partners' capital – withdrawals <sup>(7)</sup>	\$ 3,806	\$ 4,891

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

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

(3) The partnership entered into a revolving line of credit and term loan agreement in March 2020; the first advances on the line of credit provided for in the loan agreement were taken on September 28, 2020. See Note 7 (Line of Credit) to the consolidated financial statements included in Part I, Item 1 of this report on Form 10-Q for a presentation of the activity and discussion of the terms and conditions of the loan agreement.

(4) In June 2020, the partnership acquired by foreclosure sale two adjoining properties subject to two first mortgages. See Note 5 (Real Estate Owned (REO) and Mortgages Payable) to the consolidated financial statements included in Part I, Item 1 of this report on Form 10-Q for a presentation of the activity and of the terms and conditions of the mortgages payable.

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

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

(7) Scheduled liquidations as of March 31, 2021 were approximately \$31,362,000. Additional detail regarding limited partner capital withdrawals is available under the caption "Cash flows and Liquidity" in this Management Discussion and Analysis. Scheduled withdrawals of limited partner capital as of March 31, 2020 were approximately \$37,858,000.

## Secured loans

The March 31, 2021 secured loans principal of approximately \$78.4 million, was a reduction of 7.3% (\$6.14 million) compared to March 31, 2020 secured loans principal of approximately \$84.6 million. The loan portfolio and capital available to lend is declining due to partner withdrawals exceeding the net income retained in limited partners' capital accounts.

At March 31, 2021, limited partners' capital-end of period of approximately \$79.4 million was a reduction of 15.7% (\$14.74 million) compared to the March 31, 2020 limited partners' capital-end of period of \$94.1 million. See Note 3 (General Partners and Other Related Parties) to the consolidated financial statements included in Part I, Item 1 of this report on Form 10-Q for detailed presentations on withdrawals of limited partners' capital.

In future periods, reductions in limited partners' capital (and thereby in capital available to lend) may be offset in part by advances on the line of credit. The REO acquired by foreclosure sale, net of mortgages payable assumed, reduces the capital available to lend until the REO is sold. See Note 5 (Real Estate Owned (REO) and Mortgages Payable) to the consolidated financial statements included in Part I, Item 1 of this report on Form 10-Q for a presentation of the balances and the activity for REO.

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., property value to outstanding debt) as indicated by our overall conservative weighted-average loan-to-value ratio (LTV) at time of origination which at March 31, 2021 was 55.0%. Thus, based on the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 45.0% in the property, and we as lenders have loaned in the aggregate 55.0% (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 at March 31, 2021 are presented in the following table (\$ in thousands). The LTVs shown in this table are updated for any appraisals ordered and received by the manager after origination of the loan.

LTV <sup>(1)</sup>	Secured loans, principal					
	First trust deeds	Percent	Second trust deeds	Percent	Total principal	Percent
<40%	\$ 19,736	25.1%	\$ —	0.0%	\$ 19,736	25.1%
40-49%	1,693	2.1	4,600	5.9	6,293	8.0
50-59%	7,342	9.4	847	1.1	8,189	10.5
60-69%	25,691	32.8	3,694	4.7	29,385	37.5
Subtotal <70%	54,462	69.4	9,141	11.7	63,603	81.1
70-79%	14,588	18.6	178	0.2	14,766	18.8
Subtotal <80%	69,050	88.0	9,319	11.9	78,369	99.9
≥80%	44	0.1	—	0.0	44	0.1
Total	\$ 69,094	88.1%	\$ 9,319	11.9%	\$ 78,413	100.0%

(1) LTV classifications in the table above are based on the partnership's recorded investment in the loan.



Non-performing secured loans, principal by LTV and lien position at March 31, 2021 are presented in the following table (\$ in thousands). The LTVs shown in this table are updated for any appraisals ordered and received by the manager after origination of the loan.

LTV <sup>(2)</sup>	Non-performing secured loans, principal					
	First trust deeds	Percent <sup>(3)</sup>	Second trust deeds	Percent <sup>(3)</sup>	Total Principal	Percent <sup>(3)</sup>
<40%	\$ 4,404	5.6%	\$ —	0.0%	\$ 4,404	5.6%
40-49%	146	0.2	—	0.0	146	0.2
50-59%	849	1.1	—	0.0	849	1.1
60-69%	5,380	6.9	—	0.0	5,380	6.9
Subtotal <70%	10,779	13.8	—	0.0	10,779	13.8
70-79%	5,355	6.8	—	0.0	5,355	6.8
Subtotal <80%	16,134	20.6	—	0.0	16,134	20.6
≥80%	—	0.0	—	0.0	—	0.0
Total	<u>\$ 16,134</u>	<u>20.6%</u>	<u>\$ —</u>	<u>0.0%</u>	<u>\$ 16,134</u>	<u>20.6%</u>

(2) LTV classifications in the table above are based on the partnership's recorded investment in the loan.

(3) 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) at March 31, 2021, totaled approximately \$17.0 million of which \$16.1 million was principal, and approximately \$884,000 was accrued interest. The total principal in arrears of was loans past maturity, all of which were in first lien position.

See Note 4 (Loans) to the consolidated financial statements included in Part I, Item 1 of this report for detail of the secured loan portfolio, including loan characteristics, scheduled maturities, delinquency and payments in arrears, loans in non-accrual status and the allowance for loan losses, which presentations are incorporated by reference into this Item 2.

#### *Performance overview/net income 2021 v. 2020 (three months ended)*

Net income available to limited partners as a percent of limited partners' capital – average daily balance (annualized) was 2.9% and 3.2% for the three months ended March 31, 2021 and 2020, respectively. Net income decreased approximately \$170,000 (22.0%) for the three months ended March 31, 2021 as compared to the same period in 2020, primarily due to the reduction in net interest income.

Net interest income decreased approximately \$182,000 (10.5%) for the three months ended March 31, 2021 as compared to the same period in 2020. Interest income declined approximately \$96,000 (5.5%) in line with the decrease in the average daily balance of secured loans of \$11.9 million (13.8%) that was offset by a 0.7% increase in the effective yield rate to 8.8%. Interest expense for the three months ended March 31, 2021 was approximately \$86,000 on the borrowings on the line of credit and mortgages payable. There were no borrowings and no interest expense for the three months ended March 31, 2020.

Operations expense declined approximately \$12,000 (1.2%) for the three months ended March 31, 2021 compared to the same period in 2020 resulting from:

- decreased mortgage servicing fees of approximately \$46,000, asset management fees of approximately \$15,000, and costs from RMC of approximately \$140,000, primarily related to the decrease in secured loan principal and limited partners' capital;
- increased professional services of approximately \$69,000, primarily related to additional services rendered and timing of services rendered.
- Increase in REO, net of approximately \$117,000 primarily related to the gain on sale of REO of approximately \$68,000 recognized for the three months ended March 31, 2020 and in increase in REO holding costs of approximately \$49,000.

*Analysis and discussion of income from operations 2021 v. 2020 (three months ended)*

Significant changes to net income for the three month period ended March 31, 2021 compared to the same period in 2020 are summarized in the following table (\$ in thousands).

	Net Interest Income	Provision for (Recovery of) Loan Losses	Operations Expense	Net Income
<u>For the three months ended</u>				
March 31, 2021	\$ 1,556	(1)	960	\$ 602
March 31, 2020	1,738	—	972	772
Change	<u>\$ (182)</u>	<u>(1)</u>	<u>(12)</u>	<u>\$ (170)</u>
<u>Change</u>				
Decrease secured loans principal - average daily balance	(257)	—	(46)	(211)
Effective yield rate	161	—	—	161
Amortization of debt issuance costs	(13)	—	—	(13)
Interest on line of credit	(48)	—	—	(48)
Interest on mortgages payable assumed at foreclosure	(25)	—	—	(25)
Decrease limited partners' capital - average balance	—	—	(31)	31
Decrease in allocable expenses from the manager	—	—	(24)	24
Reimbursements to RMC, costs for recovery of loan losses	—	—	(100)	100
Expanded legal and audit services	—	—	79	(79)
Timing of services rendered	—	—	(5)	5
REO sales, net	—	—	68	(68)
REO acquisitions	—	—	49	(49)
Other	—	(1)	(2)	2
Change	<u>\$ (182)</u>	<u>(1)</u>	<u>(12)</u>	<u>\$ (170)</u>

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

*Net interest income*

Net interest income decreased approximately \$182,000 for the three months ended March 31, 2021 compared to the same period in 2020.

Interest income declined approximately \$96,000 (5.5%%) for the three months ended March 31, 2021 compared to the same period in 2020. The secured loans principal – average daily balance decreased \$11.9 million (13.8%) to approximately \$74.2 million, and the effective yield rate increased by 0.7 percentage points to 8.8% for the three months ended March 31, 2021 as compared to the same period in 2020.

Interest expense was approximately \$86,000 for the three months ended March 31, 2021. There were no borrowings (line of credit nor mortgages payable) in the three months ended March 31, 2020.

*Provision (recovery)/allowance for loan losses*

Generally, the partnership has not recorded a provision/allowance for loan losses as the secured loans have protective equity such that collection is deemed probable for all recorded amounts due on the loan. There were no additions or charge-offs to the provision for loan losses during the three months ended March 31, 2021 and 2020. In the three months ended March 31, 2021 an insignificant recovery was recognized on a loan.

### Operations expense

Significant changes to operations expense for the three months ended March 31, 2021 compared to the same period in 2020 are summarized in the following table (\$ in thousands).

	Mortgage Servicing Fees	Asset Management Fees	Costs From RMC	Professional Services	REO, net	Other	Total
<b>For the three months ended</b>							
March 31, 2021	\$ 277	77	174	361	68	3	\$ 960
March 31, 2020	323	92	314	292	(49)	—	972
Change	\$ (46)	(15)	(140)	69	117	3	\$ (12)
<b>Change</b>							
Decrease secured loans principal - average daily balance	(46)	—	—	—	—	—	(46)
Decrease limited partners' capital - average balance	—	(15)	(16)	—	—	—	(31)
Decrease in allocable expenses from the manager	—	—	(24)	—	—	—	(24)
Reimbursements to RMC, costs for recovery of loan losses	—	—	(100)	—	—	—	(100)
Expanded legal and audit services	—	—	—	79	—	—	79
Timing of services rendered	—	—	—	(5)	—	—	(5)
REO sales, net	—	—	—	—	68	—	68
REO acquisitions	—	—	—	—	49	—	49
Other	—	—	—	(5)	—	3	(2)
Change	\$ (46)	\$ (15)	\$ (140)	\$ 69	\$ 117	\$ 3	\$ (12)

### Mortgage servicing fees

The decrease in mortgage servicing fees for the three months ended March 31, 2021 as compared to the same period in 2020, was primarily due to the decrease in the secured loans principal – average daily balance to approximately \$74.2 million from approximately \$86.1 million. Fees are charged by RMC at the annual rate of 1.5%.

### Asset management fees

The decrease in asset management fees for the three months ended March 31, 2021, as compared to the same period in 2020, was primarily due to the decrease in limited partners' capital – average balance to approximately \$81.2 million from \$96.5 million. Asset management fees are charged up to 1/32 of 1% of the "net asset value" (3/8 of 1% annually).

### Costs from RMC

The decrease in costs from RMC of approximately \$140,000 for the three months ended March 31, 2021 as compared to the same period in 2020 was due to the reduction of the partnership's limited partners' capital as a percent of the total capital of the related mortgaged funds managed by RMC, a decrease in allocable payroll and professional services, and a final reimbursement of \$100,000 in 2020 related to a 2019 recovery of loan losses.

### Professional services

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

The increase in professional services of approximately \$69,000 for the three months ended March 31, 2021 over the same period in 2020 was due primarily to expanded legal and audit services associated with COVID-19, the line of credit agreement, loan transactions and valuation of loan collateral.

## REO, net

The March 31, 2021, REO balance was approximately \$8.8 million compared to the March 31, 2020 balance of approximately \$3.1 million. The increase in the REO balance was due to two single family residences on separate adjoining parcels with a shared driveway in Los Angeles County (Hollywood Hills), which were acquired by two separate foreclosure sales, totaling approximately \$5.8 million in June 2020.

During the three months ended March 31, 2020, one condominium unit in an REO property located in San Francisco County was sold with a gain of approximately \$68,000. There were no REO sales in the three months ended March 31, 2021.

Holding costs, net of other income includes month-to-month rents received of approximately \$17,000 and \$ 24,000 for the three months ended March 31, 2021 and 2020, respectively for the homes in Fresno County and the unit-storage lockers and signage in San Francisco county.

See Note 5 (Real Estate Owned (REO) and Mortgages Payable) to the consolidated financial statements included in Part I, Item 1 of this report for detailed presentations of REO sales transactions, and additional information regarding REO activity during the period.

## Cash flows and liquidity

Cash flows by business activity for the three months ended March 31, 2021 and 2020 are presented in the following table (\$ in thousands).

	Three Months Ended March 31	
	2021	2020
Limited partners' capital		
Withdrawals, net of early withdrawal fees	\$ (3,768)	\$ (4,817)
Distributions	(379)	(501)
Formation loan	113	—
Cash used in limited partners' capital	(4,034)	(5,318)
Borrowings		
Line of credit advances	7,547	—
Interest paid	(34)	—
Debt issuance costs paid - line of credit	—	(88)
Cash from borrowings	7,513	(88)
Loan earnings and payments		
Interest received, net	1,619	1,418
Late fees	88	6
Loans funded, net	(9,564)	(1,500)
Principal collected	698	853
Loan transferred from related mortgage fund	(624)	—
Loans transferred to related mortgage fund	4,672	2,297
Loans sold to non-affiliate, net	485	—
Advances made on loans	22	(30)
Total cash from loan production	(2,604)	3,044
REO		
Sale proceeds, net	—	186
Holding costs	(25)	(20)
Cash from REO operations and sales	(25)	166
Operations expense, excluding REO holding costs	(650)	(888)
Net increase (decrease) in cash	\$ 200	\$ (3,084)
Cash, end of period	\$ 564	\$ 1,058

### *Limited partners' capital - withdrawals*

Withdrawals of limited partners' capital for the three months ended March 31, 2021 and 2020 are presented in the following table (\$ in thousands).

<b>Withdrawals</b>	<b>2021</b>	<b>2020</b>
Without penalty	\$ 3,428	\$ 4,147
With penalty	378	744
Total	<u>\$ 3,806</u>	<u>\$ 4,891</u>
Scheduled, at March 31,	<u>\$ 31,362</u>	<u>\$ 37,858</u>

Scheduled withdrawals of limited partners' capital at March 31, 2021 are presented in the following table (\$ in thousands).

2021	\$	10,782
2022		9,699
2023		6,445
2024		3,331
2025		1,020
Thereafter		85
Total	<u>\$</u>	<u>31,362</u>

Scheduled withdrawals of limited partners' capital of approximately \$856,000, are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

### *Borrowings*

In March 2020, RMI VIII entered into a revolving line of credit and term loan agreement. For the three months ended March 31, 2021, the line of credit had an average daily balance of approximately \$3.8 million. At March 31, 2021, the balance was \$10.0 million. See Note 7 (Line of Credit) to the consolidated financial statements included in Part I, Item 1 of this report for a detailed presentation of the activity and discussion on the terms and provisions of the loan agreement, which presentation is incorporated by this reference into this Item 2.

In June 2020, the partnership acquired REO by foreclosure sale subject to two mortgages payable of approximately \$2,449,000. See Note 5 (Real Estate Owned (REO) and Mortgages Payable) to the consolidated financial statements included in Part I, Item 1 of this report for a detailed presentation on mortgage notes payable, which presentation is incorporated by this reference into this Item 2.

### *Contractual obligations*

At March 31, 2021, the partnership had no construction or rehabilitation loans outstanding, no loan commitments pending, and no off-balance sheet arrangements as such arrangements are not permitted by the Partnership Agreement. Note 3 (General Partners and Other Related Parties) to the consolidated financial statements included in Part I, Item 1 of this report presents detailed discussion of the partnership's contractual obligations to the general partners.

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

Not included because the partnership is a smaller reporting company.

### **Item 4. CONTROLS AND PROCEDURES**

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

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

California limited partnerships generally do not have a board of directors, nor, therefore, do we have an audit committee of the board of directors. Thus, there is no conventional independent oversight of the partnership's financial reporting process. The manager, however, provides the equivalent functions of a board of directors and of an audit committee for, among other things, the following purposes:

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

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

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

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

## PART II – OTHER INFORMATION

Item 1. **Legal Proceedings**

As of March 31, 2021, the partnership was not involved in any legal proceedings other than those that would be considered part of the normal course of business. In the normal course of business, the partnership may become involved in various types of legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc. to enforce provisions of the deeds of trust, collect the debt owed under promissory notes or protect or recoup its investment from real property secured by the deeds of trust and resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions would typically be of any material importance.

Item 1A. **Risk Factors**

Not included because the partnership is a smaller reporting company.

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

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

Liquidations are made once a quarter, on the last business day of the quarter. Liquidations for the three months ended March 31, 2021 were approximately \$3,806,000. The unit liquidation program is ongoing and available to partners beginning one year after the purchase of the units. The maximum number of units that may be liquidated in any year and the maximum amount of liquidation available in any period to partners are subject to certain limitations described in the Partnership Agreement.

Item 3. **Defaults Upon Senior Securities**

Not Applicable.

Item 4. **Mine Safety Disclosures**

Not Applicable.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

Exhibit No.	Description of Exhibits
10.1	<a href="#">Business Loan Agreement; Promissory Note dated March 13, 2020; Pledge and Security Agreement</a>
10.2	<a href="#">Promissory Note; Pledge and Security Agreement dated September 30, 2020</a>
10.3	<a href="#">Promissory Note; Pledge and Security Agreement dated October 14, 2020</a>
31.1	<a href="#">Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</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 VIII, a California  
Limited Partnership**

**(Registrant)**

Date: May 24, 2021

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

By: /s/ Michael R. Burwell

Name: Michael R. Burwell

Title: President, Secretary and Treasurer

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

Date: May 24, 2021

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

By: /s/ Michael R. Burwell

Name: Michael R. Burwell

Title: General Partner