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 June 30, 2022

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, L.P.
a California Limited Partnership
(Exact name of registrant as specified in its charter)

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

REDWOOD MORTGAGE INVESTORS VIII, L.P.
A California Limited Partnership

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Part I –FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REDWOOD MORTGAGE INVESTORS VIII, L.P.

A California Limited Partnership

Consolidated Balance Sheets

June 30, 2022 (unaudited) and December 31, 2021 (audited)

($ in thousands)

	June 30, 2022	December 31, 2021
ASSETS		
Cash, in banks	$ 321	$ 3,903
Loan payments in trust	150	490
Loans		
Principal	63,056	55,099
Advances	28	116
Accrued interest	640	459
Loan balances secured by deeds of trust	63,724	55,674
Allowance for loan losses	(55)	(55)
Loan balances secured by deeds of trust, net	63,669	55,619
Real estate owned (REO), net	8,258	8,258
Debt issuance costs, net	50	13
Other assets	32	87
Total assets	$ 72,480	$ 68,370
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable	$ 206	$ 195
Payable to related party (Note 3)	49	47
Accrued liabilities	1,210	1,107
Line of credit	10,000	—
Mortgages payable	1,453	1,453
Total liabilities	12,918	2,802
Commitments and Contingencies (Note 8)		
Partners' capital		
Limited partners' capital	63,206	69,555
General partners' deficit	(617)	(626)
Total partners' capital	62,589	68,929
Receivable from manager (formation loan)	(3,027)	(3,361)
Partners' capital, net of formation loan	59,562	65,568
Total liabilities and partners' capital	$ 72,480	$ 68,370

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

REDWOOD MORTGAGE INVESTORS VIII, L.P.
A California Limited Partnership
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2022 and 2021 (unaudited)
($ in thousands)

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenue				
Interest income	$ 1,286	$ 1,997	$ 2,606	$ 3,639
Interest expense				
Line of credit	(136)	(106)	(196)	(167)
Mortgages payable	(15)	(26)	(30)	(51)
Total interest expense	(151)	(132)	(226)	(218)
Net interest income	1,135	1,865	2,380	3,421
Late fees	22	31	26	36
Gain on sale, loans	81	—	81	—
Total revenue, net	1,238	1,896	2,487	3,457
Provision for (recovery of) loan losses	—	—	—	(1)
Operations expense				
Mortgage servicing fees to Redwood Mortgage Corp.	237	283	460	560
Asset management fees to Redwood Mortgage Corp.	62	75	127	152
Costs from Redwood Mortgage Corp.	164	180	339	354
Professional services	207	232	558	593
REO, net (Note 5)	58	274	142	342
Other	18	28	19	31
Total operations expense	746	1,072	1,645	2,032
Net income	$ 492	$ 824	$ 842	$ 1,426
Net income				
Limited partners (99%)	$ 487	$ 816	$ 833	$ 1,412
General partners (1%)	5	8	9	14
	$ 492	$ 824	$ 842	$ 1,426

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

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

For the Three Months Ended June 30, 2022 (unaudited)
($ in thousands)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, March 31, 2022	$ 66,348	$ (622)	$ 65,726
Net income	487	5	492
Distributions	(288)	—	(288)
Withdrawals	(3,341)	—	(3,341)
Balance, June 30, 2022	$ 63,206	$ (617)	$ 62,589

For the Six Months Ended June 30, 2022 (unaudited)
($ in thousands)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance at December 31, 2021	$ 69,555	$ (626)	$ 68,929
Net income	833	9	842
Distributions	(596)	—	(596)
Withdrawals	(6,586)	—	(6,586)
Balance, June 30, 2022	$ 63,206	$ (617)	$ 62,589

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

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

For the Three Months Ended June 30, 2021 (unaudited)
($ in thousands)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, March 31, 2021	$ 79,402	$ (649)	$ 78,753
Net income	816	8	824
Distributions	(394)	—	(394)
Withdrawals	(3,737)	—	(3,737)
Balance, June 30, 2021	$ 76,087	$ (641)	$ 75,446

For the Six Months Ended June 30,2021 (unaudited)
($ in thousands)

	Limited Partners' Capital	General Partners' Capital (Deficit)	Total Partners' Capital
Balance, December 31, 2020	$ 82,991	$ (655)	$ 82,336
Net income	1,412	14	1,426
Distributions	(773)	—	(773)
Withdrawals	(7,543)	—	(7,543)
Balance, June 30, 2021	$ 76,087	$ (641)	$ 75,446

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

REDWOOD MORTGAGE INVESTORS VIII, L.P.
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2022 and 2021 (unaudited)
($ in thousands)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating activities		
Interest income received	$ 2,407	$ 3,913
Interest expense	(143)	(127)
Late fees and other loan income	(99)	102
Operations expense	(1,537)	(1,667)
Total cash provided by operating activities	628	2,221
Investing activities		
Loans		
Loans funded	(30,838)	(15,536)
Principal collected	15,866	13,282
Loan transferred from related mortgage fund	—	(1,371)
Loans transferred to related mortgage fund	996	4,672
Loans sold to non-affiliate	6,583	485
Advances collected	88	39
Total - Loans	(7,305)	1,571
Total cash (used in) provided by investing activities	(7,305)	1,571
Financing activities		
Partners' capital		
Partner withdrawals, net of early withdrawal penalties	(6,510)	(7,462)
Early withdrawal penalties	(76)	—
Partner distributions	(596)	(773)
Cash distributions to partners, net	(7,182)	(8,235)
Line of credit		
Advances	11,000	12,447
Repayments	(1,000)	(6,300)
Debt issuance costs	(57)	—
Cash provided by line of credit	9,943	6,147
Promissory note received from related party	1,000	—
Promissory note repaid to related party	(1,000)	—
RMC payments - formation loan	334	227
Total cash provided by (used in) financing activities	3,095	(1,861)
Net (decrease) increase in cash	(3,582)	1,931
Cash, beginning of period	3,903	364
Cash, end of period	$ 321	$ 2,295

Non-cash financing activity for the six months ended June 30, 2021 includes early withdrawal penalties of approximately $81,000. There was no non-cash financing activity for early withdrawal penalties for the six months ended June 30, 2022.

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

REDWOOD MORTGAGE INVESTORS VIII, L.P.
A California Limited Partnership
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2022 and 2021 (unaudited)
($ in thousands)

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

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities		
Net income	$ 842	$ 1,426
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale, loans	(81)	—
Amortization of debt issuance costs	21	27
REO – gain on disposal	—	(79)
REO – impairment	—	294
Change in operating assets and liabilities		
Loan payments in trust	(125)	65
Accrued interest	(200)	275
Receivable from related party	—	(14)
Other assets	55	(5)
Accounts payable and accrued liabilities	114	229
Payable to related party	2	3
Net cash provided by operating activities	$ 628	$ 2,221

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

NOTE 1 – ORGANIZATION AND GENERAL

Redwood Mortgage Investors VIII, L.P., 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, 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, 2021 filed with the U.S. Securities and Exchange Commission (SEC). The results of operations for the three and six months ended June 30, 2022 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; and
- 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. Investors should not expect the partnership to provide tax benefits of the type commonly associated with limited partnership tax shelter investments.

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.

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 tax basis in the net assets of the partnership differs from the book basis by the amount of the allowance for loan losses and the amount of the valuation allowance for real estate owned.

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.

Distributions to limited partners

At the time of their subscription to the partnership, limited partners elected either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound 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 58% and 61% at June 30, 2022 and 2021, respectively.

Capital withdrawals and early withdrawals

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

The partnership has not established a cash reserve from which to fund 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.

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 and 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.

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 involve significant level of uncertainty and have had or are reasonably likely to have a material impact on the partnership's financial condition or results of operations. 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 estate.

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

Cash 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 creditworthiness/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; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement. Late fees are recognized in the period received.

The partnership may fund a specific loan origination net of an interest reserve (one to two years) to insure timely interest payments at the inception of the loan. 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 operations, 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 (non-performing). If a borrower is experiencing financial difficulties and 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).

The partnership funds loans with the intent to hold the loans until maturity. From time to time the partnership may sell certain loans. Loans are classified as held-for-sale once a decision has been made to sell loans and the loans held-for-sale have been identified. Loans classified as held for sale are carried at the lower of cost or fair value.

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.

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 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.

Accrued liabilities

Accrued liabilities at June 30, 2022 and December 31, 2021 were approximately $1,210,000 and $1,107,000, respectively, the significant components of which are accrued professional and consulting fees (approximately $911,000 and $827,000, respectively), accrued REO property taxes and mortgage interest expense (approximately $237,000 and $164,000, respectively) and accrued interest on the line of credit (approximately $42,000 and $8,000, respectively).

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.

Recently issued accounting pronouncements

- *Accounting and Financial Reporting for Expected Credit Losses*

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

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).

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 $471,000 and $98,000 for the three months ended June 30, 2022 and 2021, respectively, and $633,000 and $263,000 for the six months ended June 30, 2022 and 2021, 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 $3,027,000 remains outstanding at June 30, 2022.

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. RMC will use the proceeds from loan brokerage commissions on loans to repay the formation loans. If both or either one of the initial general partners is removed as a general partner by the vote of holders of a majority of the limited partnership units, 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. As such, the formation loan is presented as contra equity.

The formation loan transactions for the six months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

	2022	2021
Balance, January 1	$ 3,361	$ 3,983
Payments received from RMC	(334)	(227)
Early withdrawal penalties applied[1]	—	(81)
Balance, June 30	$ 3,027	$ 3,675

(1) Beginning in 2022, RMC discontinued the specific allocation of early withdrawal penalties it received to the formation loan. The change has no net effect on the amounts paid by RMC to RMI VIII. RMC's payments total $650,000 annually so that the formation loan is paid in full by December 31, 2026.

Limited partner capital - withdrawals

Withdrawals of limited partners' capital for the three and six months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
Withdrawals	**2022**	**2021**	**2022**	**2021**
Without penalty	$ 2,952	$ 3,309	$ 5,842	$ 6,737
With penalty	389	428	744	806
Total	$ 3,341	$ 3,737	$ 6,586	$ 7,543
Scheduled, at June 30,	$ 18,201	$ 27,029	$ 18,201	$ 27,029

Scheduled withdrawals of limited partners' capital in periods as of and after June 30, 2022 are presented in the following table ($ in thousands).

2022	$ 4,936
2023	6,833
2024	3,881
2025	1,710
2026	697
Thereafter	144
Total	$ 18,201

Scheduled withdrawals of limited partners' capital of approximately $411,000 are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

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 June 30, 2022, the partnership had a payable to related parties of approximately $49,000 consisting of accounts payable due to the manager. There were no receivables from related parties at June 30, 2022.

At December 31, 2021, the partnership had a payable to related parties of approximately $47,000 consisting of accounts payable and cost reimbursements to the manager. There were no receivables from related parties at December 31, 2021. The payable was paid to the manager in February 2022.

- *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 six months ended June 30, 2022, RMI VIII transferred to a related mortgage fund one performing loan with aggregate principal of approximately $996,000 at par value, which approximates fair value. The related mortgage fund paid cash for the loan and RMI VIII has no continuing involvement with the loan. No loans were transferred from related mortgage funds.

In the six months ended June 30, 2021, a related mortgage fund transferred to RMI VIII two performing loans with aggregate principal of approximately $1,371,000 at par value, which approximates fair value. RMI VIII paid cash for the loans and the related mortgage fund has no continuing obligation or involvement with the loans.

In the six months ended June 30, 2021, RMI VIII transferred to a related mortgage fund five performing loans with aggregate principal of approximately $4,672,000 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.

- *Promissory note received from/repaid to related parties*

On April 15, 2022, the partnership borrowed $1,000,000 from a related party. This amount was utilized to fund a mortgage loan made by the partnership in the amount of $3,500,000, which mortgage loan was secured by a deed of trust encumbering a real property consisting of six (6) tenancy-in-common units (each, a "TIC Unit"). At the time the mortgage loan was made, one of the TIC Units was in contract for sale with a scheduled closing date of April 18, 2022 and the mortgage loan borrower had agreed to utilize the proceeds of the sale of the TIC Unit to pay down the mortgage loan in exchange for a partial release of the deed of trust securing the mortgage loan ("Release Proceeds"). The loan from the related party accrued interest at the same rate of 7.75% as the mortgage loan and was secured by a pledge of all payments received by the partnership under the mortgage loan, including the Release Proceeds. The note matured on April 30, 2022. The Release Proceeds were received by the partnership on the April 18, 2022 closing date and were thereafter utilized by the partnership to repay the loan, in full.

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 June 30, 2022, 25 loans with principal of $56,252,000 (representing 89% 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 June 30, 2022, 18 loans provide for monthly payments of interest only, with the principal due at maturity, and 11 loans with principal of $21,756,000 (representing 35% 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 and six months ended June 30, 2022, are summarized in the following table ($ in thousands).

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Principal, beginning of period	$ 57,205	$ 55,099
Loans funded	20,349	30,838
Principal collected[(1)]	(13,502)	(15,393)
Loans transferred to related mortgage fund	(996)	(996)
Loans transferred to held for sale[(2)]	—	(6,492)
Principal, end of period	$ 63,056	$ 63,056

(1) Includes principal collected and held in trust at June 30, 2022 of approximately $42 offset by principal collected and held in trust at December 31, 2021 of approximately $465,000 which was disbursed to the partnership in January 2022, and excludes principal collected of approximately $8,000 on loans that had been held for sale and were sold in May 2022.
(2) In May 2022, three loans with aggregate principal of approximately $6.5 million were sold to an unaffiliated third-party. The partnership recognized a gain of approximately $81,000 net of commissions to and transaction costs from third parties.

During the three and six months ended June 30, 2022, the partnership extended three and six maturing (or matured) loans with aggregated principal of approximately $9,318,000 and $21,117,000, respectively, which are not included in the activity shown in the table above. The loans have an average extension period of approximately 10 months. 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. Additionally, interest rates charged to borrowers may be adjusted in conjunction with the loan extensions to reflect current market conditions.

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.

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 June 30, 2022, were disbursed to the partnership's account by July 12, 2022. Loan payments in trust at December 31, 2021 were distributed to the partnership's account by January 14, 2022.

Loan characteristics

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

	June 30, 2022	December 31, 2021
Number of secured loans	29	31
Secured loans – principal	$ 63,056	$ 55,099
Secured loans – lowest interest rate (fixed)	6.8%	7.3%
Secured loans – highest interest rate (fixed)	10.8%	10.8%
Average secured loan – principal	$ 2,174	$ 1,777
Average principal as percent of total principal	3.4%	3.2%
Average principal as percent of partners' capital, net of formation loan	3.6%	2.7%
Average principal as percent of total assets	3.0%	2.6%
Largest secured loan – principal	$ 8,860	$ 7,994
Largest principal as percent of total principal	14.1%	14.5%
Largest principal as percent of partners' capital, net of formation loan	14.9%	12.2%
Largest principal as percent of total assets	12.2%	11.7%
Smallest secured loan – principal	$ 53	$ 56
Smallest principal as percent of total principal	0.1%	0.1%
Smallest principal as percent of partners' capital, net of formation loan	0.1%	0.1%
Smallest principal as percent of total assets	0.1%	0.1%
Number of California counties where security is located	13	12
Largest percentage of principal in one California county	32.0%	32.1%

As of June 30, 2022, there are two loans with principal balances in excess of 10% of the total outstanding principal balance. The partnership's largest loan, with principal of approximately $8,860,000 is secured by a commercial building in the City and County of Santa Clara, bears an interest rate of 8.375% and matures on June 1, 2027. The second loan, with principal of approximately $7,994,000 is secured by a commercial building in the City and County of San Francisco, bears an interest rate of 8.375% and matures on September 1, 2022. Both loans were in first lien position.

As of June 30, 2022, the partnership had no commitments to lend outstanding and had no construction or rehabilitation loans outstanding.

REDWOOD MORTGAGE INVESTORS VIII, L.P.
A California Limited Partnership
Notes to Consolidated Financial Statements
June 30, 2022 (unaudited)

Lien position

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

	June 30, 2022			December 31, 2021		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	28	$ 61,112	97%	25	$ 45,992	83%
Second trust deeds	1	1,944	3	6	9,107	17
Total principal, secured loans	29	63,056	100%	31	55,099	100%
Liens due other lenders at loan closing		5,765			14,988	
Total debt		$ 68,821			$ 70,087	
Appraised property value at loan closing		$ 136,730			$117,570	
Percent of total debt to appraised values (LTV) at loan closing[3]		56.0%			62.3%	

(3) 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).

	June 30, 2022			December 31, 2021		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family[4]	13	$ 14,460	23%	16	$ 14,597	26%
Multi-family	4	13,280	21	2	7,550	14
Commercial	12	35,316	56	13	32,952	60
Total principal, secured loans	29	$ 63,056	100%	31	$ 55,099	100%

(4) Single family property type at June 30, 2022, consists of 5 loans with aggregate principal of approximately $4,177,000 that are owner occupied and 8 loans with aggregate principal of approximately $10,283,000 that are non-owner occupied. At December 31, 2021, single family property consisted of 4 loans with aggregate principal of approximately $2,306,000 that were owner occupied and 12 loans with aggregate principal of approximately $12,291,000 that were non-owner occupied. Single family includes 1-4 unit residential buildings, condominium units, townhouses and condominium complexes.

Distribution of secured loans-principal by California counties

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

	June 30, 2022		December 31, 2021	
	Principal	Percent	Principal	Percent
San Francisco Bay Area[5]				
San Francisco	$ 20,148	32.0%	$ 17,694	32.1%
San Mateo	5,917	9.4	7,696	14.0
Santa Clara	9,510	15.1	4,600	8.4
Sonoma	—	0.0	576	1.0
Solano	3,550	5.6	—	0.0
Marin	1,830	2.9	1,653	3.0
Alameda	2,042	3.2	6,239	11.3
Contra Costa	4,635	7.3	—	0.0
	47,632	75.5	38,458	69.8
Other Northern California				
Sacramento	519	0.8	—	0.0
Mariposa	53	0.1	56	0.1
	572	0.9	56	0.1
Northern California Total	48,204	76.4	38,514	69.9
Los Angeles & Coastal				
Santa Barbara	2,052	3.3	2,062	3.7
Los Angeles	10,782	17.1	10,783	19.6
Orange	1,558	2.5	2,192	4.0
San Diego	—	0.0	1,088	2.0
	14,392	22.9	16,125	29.3
Other Southern California				
Riverside	460	0.7	460	0.8
	460	0.7	460	0.8
Southern California Total	14,852	23.6	16,585	30.1
Total principal, secured loans	$ 63,056	100.0%	$ 55,099	100.0%

(5) Includes the Silicon Valley

Scheduled maturities/Secured loans-principal

Secured loans scheduled to mature in periods as of and after June 30, 2022 are presented in the following table ($ in thousands).

	Loans	Principal	Percent
2022[6]	6	$ 16,656	26%
2023	13	21,247	34
2024	2	3,836	6
2025	—	—	—
2026	—	—	—
Thereafter	3	13,140	21
Total scheduled maturities	24	54,879	87
Matured at June 30, 2022[7]	5	8,177	13
Total principal, secured loans	29	$ 63,056	100%

(6) Loans scheduled to mature in 2022 after June 30.
(7) See Delinquency/Secured loans with payments in arrears below for more information on matured loans.

Scheduled maturities are presented based on the most recent in-effect agreement with the borrower, including forbearance agreements. As a result, matured loans at June 30, 2022, 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/Secured loans-principal

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

	June 30, 2022		December 31, 2021	
	Loans	Principal	Loans	Principal
Current	20	$ 42,526	25	$ 48,274
Past Due				
30-89 days	7	16,757	2	5,782
90-179 days	—	—	1	56
180 or more days	2	3,773	3	987
Total past due	9	20,530	6	6,825
Total principal, secured loans	29	$ 63,056	31	$ 55,099

At June 30, 2022 and December 31, 2021, there were no loan forbearance agreements in effect.

Delinquency/Secured loans with payments in arrears

Non-performing secured loans at June 30, 2022, and December 31, 2021, had principal payments in arrears totaling approximately $8,184,000 (9 loans) and $1,047,000 (6 loans), respectively and interest payments in arrears totaling approximately $442,000 and $71,000, respectively. Payments in arrears for non-performing secured loans (i.e., monthly interest and principal payments past due 30 or more days) at June 30, 2022 and December 31, 2021, are presented in the following tables ($ in thousands).

	Loans		Principal		Interest(8)		
At June 30, 2022	Past maturity	Monthly payments	Past maturity	Monthly payments	Past maturity	Monthly payments	Total payments in arrears
Past due							
30-89 days (1-3 payments)	3	4	$ 4,404	$ 7	$ 10	$ 192	$ 4,613
90-179 days (4-6 payments)	—	—	—	—	—	—	—
180 or more days (more than 6 payments)	2	—	3,773	—	240	—	4,013
Total past due	5	4	$ 8,177	$ 7	$ 250	$ 192	$ 8,626

(8) Interest includes foregone interest of approximately $3,000 on non-accrual loans past maturity. Interest for June 2022 is due on July 1, 2022 and is not included in the payments in arrears at June 30, 2022.

	Loans		Principal		Interest[9]		
At December 31, 2021	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Past maturity**	**Monthly payments**	**Total payments in arrears**
Past due							
30-89 days (1-3 payments)	—	2	$ —	$ 3	$ —	$ 65	$ 68
90-179 days (4-6 payments)	—	—	—	—	—	—	—
180 or more days (more than 6 payments)	4	—	1,044	—	6	—	1,050
Total past due	4	2	$ 1,044	$ 3	$ 6	$ 65	$ 1,118

(9) Interest includes foregone interest of approximately $700 on non-accrual loans past maturity. Interest for December 2021 is due January 1, 2022 and is not included in the payments in arrears at December 31, 2021.

Delinquency/Secured loans in non-accrual status

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

	June 30, 2022	December 31, 2021
Number of loans	2	4
Principal	$ 3,773	$ 1,044
Advances	28	116
Accrued interest[10]	237	13
Total recorded investment	$ 4,038	$ 1,173
Foregone interest	$ 37	$ 1

(10) 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.

Non-performing loans are placed on non-accrual status the first of the following month after it is 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. Once the payments are made current, interest income is recognized.

At June 30, 2022 and December 31, 2021, there were no loans 90 or more days past due 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 six months ended June 30, 2022 and 2021 is presented in the following table ($ in thousands).

	2022	2021
Balance, January 1	$ 55	$ 50
Provision for loan loss	—	1
Recovery for loan losses	—	(1)
Balance, June 30	$ 55	$ 50

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

	June 30, 2022	December 31, 2021
Number of loans	2	4
Principal	$ 3,773	$ 1,044
Recorded investment[11]	4,037	1,173
Impaired loans without allowance	4,037	1,173
Impaired loans with allowance	—	—
Allowance for loan losses, impaired loans	—	—
Weighted average LTV at origination	55.1%	45.4%

(11) 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 six months ended June 30, 2022 and the year ended December 31, 2021 as presented in the following table ($ in thousands).

	June 30, 2022	December 31, 2021
Average recorded investment	$ 2,605	$ 8,352
Interest income recognized	167	107
Interest income received in cash	2	98

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

REO transactions and valuation allowance adjustments for the three and six months ended June 30, 2022 and 2021 are summarized in the following tables ($ in thousands).

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	REO	Valuation Allowance	REO, net	REO	Valuation Allowance	REO, net
Balance, beginning of period	$ 10,458	$ (2,200)	$ 8,258	$ 10,458	$ (2,200)	$ 8,258
Balance, June 30, 2022	$ 10,458	$ (2,200)	$ 8,258	$ 10,458	$ (2,200)	$ 8,258

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	REO	Valuation Allowance	REO, net	REO	Valuation Allowance	REO, net
Balance, beginning of period	$ 12,044	$ (3,239)	$ 8,805	$ 12,044	$ (3,239)	$ 8,805
Valuation allowance adjustment	—	(294)	(294)	—	(294)	(294)
Balance, June 30, 2021	$ 12,044	$ (3,533)	$ 8,511	$ 12,044	$ (3,533)	$ 8,511

The fair value of the REO is adjusted on a nonrecurring basis. When it is determined that the fair value of REO is less than the original cost basis in the property 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) or if an offer deemed likely to result in a sale is received a 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.

REO at June 30, 2022 was comprised of four properties with a carrying value of approximately $8,258,000. 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 estimated 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.
- In Stanislaus County, approximately 14 acres of undeveloped land zoned commercial. The sale of 9 acres was closed in July 2022. The net realized amount approximated the adjusted carrying value of the REO property at July 29, 2022.
- In San Francisco County, a real estate interest comprised of a condominium unit composed of storage lockers and signage rights for the exterior façade of the building.

The two Hollywood Hills single-family residences were acquired in June 2020 by foreclosure sales 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 the foreclosure sale, with accrued interest in arrears of approximately $33,000 and $40,000, and delinquent property taxes of approximately $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. At June 30, 2022, accrued liabilities on the consolidated balance sheet include accrued interest of approximately $124,000 and property taxes of approximately $113,000.

In August 2021, the partnership paid in-full the outstanding principal of approximately $996,000 and the outstanding mortgage interest, late fees and other fees of approximately $96,000 for one of the mortgages.

The mortgage payable at June 30, 2022 and December 31, 2021 is summarized in the following table ($ in thousands).

	June 30, 2022	December 31, 2021
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, and filed the notice of default on May 2, 2022.	$ 1,453	$ 1,453

The borrower has contested the foreclosure sale in the courts.

REO, net

REO, net in operations expense on the consolidated income statements is comprised of the following for the three and six months ended June 30, 2022 and 2021 ($ in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Holding costs, net of other income	$ (58)	$ (59)	$ (142)	$ (127)
Gain on sales	—	79	—	79
Valuation adjustments	—	(294)	—	(294)
REO, net	$ (58)	$ (274)	$ (142)	$ (342)

Holding costs, net of other income includes month-to-month rents received of approximately $6,700 and $27,000 for the three months ended June 30, 2022 and 2021, respectively and $9,400 and $44,000 for the six months ended June 30, 2022 and 2021 respectively, for the homes in Fresno County, which were sold in July 2021, 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.

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 and 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

Activity involving the line of credit during the six months ended June 30, 2022 and 2021 is presented in the following table ($ in thousands).

	2022	2021
Balance, January 1	$ —	$ 2,453
Draws	11,000	12,447
Repayments	(1,000)	(6,300)
Balance, June 30,	$ 10,000	$ 8,600
Line of credit - average daily balance	$ 6,882	$ 5,613

In March 2020, RMI VIII entered into a revolving line of credit and term loan agreement with Western Alliance Bank (bank) which is governed by the terms of the Business Loan Agreement (Revolving Line of Credit and Term Loan Agreement) between bank and the partnership (original credit agreement), which was amended and modified by the First Loan Modification Agreement made effective March 4, 2022 (the "modification agreement" and together with the original credit agreement, the "credit agreement of 2022")

Under the terms of the credit agreement of 2022, RMI VIII can borrow up to a maximum principal of $10 million subject to a borrowing base calculation set forth in the credit agreement and the amounts advanced under the credit agreement are secured by a first priority security interest in the notes and deeds of trust of the pledged loans included in the borrowing base. The maturity date is March 13, 2024 when all amounts outstanding are then due. RMI VIII has the option at the maturity date to convert - for a fee of one-quarter of one percent (0.25%) – the then outstanding principal balance to a two-year term loan maturing in March 2026.

Prior to the modification agreement, interest on outstanding principal was payable monthly and accrued 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%). The modification agreement replaced LIBOR as the reference rate under the credit agreement with the 30-day American Interbank Offered Rate Term -30 Index published for loans in United States Dollars by the American Financial Exchange ("Ameribor"). Following the modification agreement, interest on the outstanding principal under the credit line is payable monthly and accrues at the annual rate that is the greater of: (i) the Ameribor Rate plus three and one-quarter percent (3.25%); and (ii) five percent (5.0%).

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. At March 31, 2022 the interest rate was five percent (5%).

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).

Advances on the line of credit are to be used exclusively to fund secured loans. The credit agreement provides for customary financial and borrowing base reporting by RMI VIII 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 June 30, 2022 and December 31, 2021, aggregate principal of pledged loans was approximately $22,302,000 and $21,487,000, respectively, with a maximum allowed advance thereon of approximately $10,000,000, subject to the borrowing base calculation.

The debt issuance costs from the original credit agreement were fully amortized in March 2022. Debt issuance costs of approximately $57,000 from the modification agreement are being amortized over its two-year term. Amortized debt issuance costs included in interest expense approximated $7,000 and $13,000 for the three months ended June 30, 2022 and 2021, respectively and approximately $21,000 and $27,000 for the six months ended June 30, 2022 and 2021, respectively.

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 June 30, 2022.

Legal proceedings

As of June 30, 2022, 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 July 2022, RMI VIII sold 9 acres of undeveloped land zoned commercial located in Stanislaus County for $1,664,000. The net realized amount approximated the net carrying value of the REO property at July 29, 2022.

The manager evaluated events subsequent to June 30, 2022 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, 2021, filed with the U.S. Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2022 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 (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), 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 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 and 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 impact of global unrest and economic instability which has an adverse effect on US markets and economic conditions, including inflationary pressures on interest rates.

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 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, 2021.

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 and six months ended June 30, 2022. While the COVID-19 pandemic has not had a material adverse effect on our reported results, 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.

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 Payroll Growth Moderates in June" dated July 22, 2022:

Summary

Job Growth Moderates Across California

Employers added 19,900 jobs across California during June, as the rebound from the pandemic appears to be losing a bit of steam. This past month's gain was the smallest of the year and falls well short of the 71,100 jobs added per month on average during the first five months of this year. The smaller increase also comes as a number of major employers have announced plans to slow hiring or even trim headcounts. While we expect conditions to slow further in coming months, it is still far too soon to see evidence of such slowing in the monthly employment figures. Most industries continued to add jobs during the month. Trade, transportation & utilities (+9,600 jobs) and accommodations & food services (+8,400 jobs) added the largest number of jobs during the month. This past month's slowdown appears to be concentrated in a handful of industries, namely administrative services, construction and arts, entertainment & recreation.

The household survey also shows some signs of moderation, although the latest numbers still show a healthy increase in civilian employment. The number of Californians that reported they were employed in June rose by 75,000, which is down slightly from the average gain 123,700 through the first five months of this year. The stronger household employment data are likely capturing the rebound in contract workers and gig workers, which are both more prevalent in California than they are nationwide. Growth in the number of employed Californians still outpaced the growth in the labor force, which helped cut California's unemployment rate another 0.1 percentage point to 4.2%.

Job Growth Slows in June

- California posted its smallest gain in nonfarm employment this year, with employers adding just 19,900 jobs in June. This past month's gain was the smallest of the year and falls well short of 71,100 jobs added per month on average during the first five months of this year.
- Job growth for May was also revised lower, with payrolls now showing an increase of 40,800 jobs, 2,100 fewer than the prior month.
- While there have been a rash of announcements in recent weeks from major employers stating plans to scale back hiring or reduce headcounts altogether, we believe it is too soon to see the impact of these decisions. The latest data reflect employment conditions during the second half of May and first half of June. Any slowing related to recent announcements will not likely be evident until late this summer or early fall.
- A large part of this past month's shortfall appears to be due to some slowing in the rebound from the pandemic. The strongest job growth has been in relatively lower paying industries that require a high degree of customer contact, such as restaurants, bars and hotels; or jobs where workers work in close proximity to one another, such as administrative services and other services.
- The leisure & hospitality sector, which gained an average of more than 40,000 jobs a month from February 2021 to April 2022, has added an average of just 3,600 jobs over the past two months. Moreover, hiring in the arts, entertainment & recreation—a category that includes amusement parks—has seen employment decline for the past three months. We suspect this drop is a seasonal quirk. Hiring ramped up earlier this year and there was less seasonal hiring than usual this late this spring and early summer, which resulted in a seasonally adjusted drop. On a non-seasonally adjusted basis, employment in the arts, entertainment & recreation sector is up 20% year-over-year, while hiring at amusement parks is up 18.4%.
- The slowdown in California's tech sector is harder to explain away. The sum of employment in professional, technical & scientific services and information services is a fairly good proxy for tech employment. Tech payrolls, by this measure, added just 5,800 jobs in June, which is the smallest increase in five months. We expect growth to slow further during the next year to 18 months, during which we expect the overall economy to endure a modest-to-average recession.
- The number of Californians that reported they were employed in June rose by 75,000, which is down slightly from the average gain 123,700 through the first five months of this year. The stronger household employment data are likely capturing the rebound in contract workers and gig workers, which are both more prevalent in California than they are nationwide.
- With the household survey showing the number of employed rising slightly faster than the labor force, California's unemployment rate continued to edge lower in June, declining 0.1 percentage point to 4.2%.

Key performance indicators

Key performance indicators as of and for the six months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

		2022		2021
Secured loans principal – end of period balance	$	63,056	$	72,548
Secured loans principal – average daily balance	$	61,281	$	74,611
Interest income	$	2,606	$	3,639
Portfolio interest rate(1)		8.6%		8.9%
Effective yield rate(2)		8.5%		9.8%
Line of credit – end of period	$	10,000	$	8,600
Line of credit – average daily balance(3)	$	6,882	$	5,613
Mortgages payable – end of period	$	1,453	$	2,449
Mortgages payable – average daily balance (4)	$	1,453	$	2,449
Interest expense				
Line of credit	$	196	$	167
Mortgages payable	$	30	$	51
Provision for (recovery of) loan losses	$	—	$	(1)
Operations expense	$	1,645	$	2,032
Net income	$	842	$	1,426
Percent(5)(6)		2.5%		3.6%
Limited partners' capital – end of period	$	63,206	$	76,087
Limited partners' capital – average balance	$	66,370	$	79,493
Limited partners' capital – withdrawals(7)	$	6,586	$	7,543

(1) Stated note interest rate, weighted daily average (annualized)
(2) Percent secured loans principal – average daily balance (annualized)
(3) 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 June 30, 2022 were approximately $18,201,000. 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 June 30, 2021 were approximately $27,029,000.

Key performance indicators as of and for the three months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

		2022		2021
Secured loans principal – end of period balance	$	63,056	$	72,548
Secured loans principal – average daily balance	$	61,772	$	74,977
Interest income	$	1,286	$	1,997
Portfolio interest rate[(1)]		8.5%		8.9%
Effective yield rate[(2)]		8.3%		10.7%
Line of credit – end of period	$	10,000	$	8,600
Line of credit – average daily balance[(3)]	$	9,971	$	7,411
Mortgages payable – end of period	$	1,453	$	2,449
Mortgages payable – average daily balance [(4)]	$	1,453	$	2,449
Interest expense				
Line of credit	$	136	$	106
Mortgages payable	$	15	$	26
Provision for (recovery of) loan losses	$	—	$	—
Operations expense	$	746	$	1,072
Net income	$	492	$	824
Percent[(5)(6)]		3.0%		4.2%
Limited partners' capital – end of period	$	63,206	$	76,087
Limited partners' capital – average balance	$	64,777	$	77,745
Limited partners' capital – withdrawals[(7)]	$	3,341	$	3,737

(1) Stated note interest rate, weighted daily average (annualized)
(2) Percent secured loans principal – average daily balance (annualized)
(3) 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 June 30, 2022 were approximately $18,201,000. 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 June 30, 2021 were approximately $27,029,000.

Secured loans

The June 30, 2022 secured loans principal of approximately $63.1 million, was a reduction of 13.1% ($9.5 million) compared to June 30, 2021 secured loans principal of approximately $72.5 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. We expect the loan portfolio and capital available to lend to continue to decline as a result of continuing partner withdrawals although this may be offset in part by utilizing the Line of Credit to fund future loans.

At June 30, 2022, limited partners' capital-end of period of approximately $63.2 million was a reduction of 17.0% ($12.9 million) compared to the June 30, 2021 limited partners' capital-end of period of approximately $76.1 million, primarily due to limited partner capital withdrawals, partially offset by net income retained in the capital accounts of partners not electing periodic distribution of net income. 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 June 30, 2022 was 56.0%. Thus, based on the appraisal-based valuations at the time of loan inception, borrowers have, in the aggregate, equity of 44.0% in the property, and we as lenders have loaned in the aggregate 56.0% (including other senior liens on the property, for other than first-lien loans) against the properties we hold as collateral for the repayment of our loans.

Secured loans, principal by LTV and lien position at June 30, 2022 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.

	Secured loans, principal					
LTV(1)	**First trust deeds**	**Percent**	**Second trust deeds**	**Percent**	**Total principal**	**Percent**
<40%	$ 11,742	18.6%	$ —	0.0%	$ 11,742	18.6%
40-49%	2,975	4.7	—	0.0	2,975	4.7
50-59%	8,601	13.6	—	0.0	8,601	13.6
60-69%	23,930	38.0	1,944	3.1	25,874	41.1
Subtotal <70%	47,248	74.9	1,944	3.1	49,192	78.0
70-79%	13,864	22.0	—	0.0	13,864	22.0
Subtotal <80%	61,112	96.9	1,944	3.1	63,056	100.0
≥80%	—	0.0	—	0.0	—	0.0
Total	$ 61,112	96.9%	$ 1,944	3.1%	$ 63,056	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 June 30, 2022 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.

	Non-performing secured loans, principal					
LTV[2]	First trust deeds	Percent[3]	Second trust deeds	Percent[3]	Total Principal	Percent[3]
<40%	401	0.6%	$ —	0.0%	401	0.6%
40-49%	910	1.4	—	0.0	910	1.4
50-59%	2,480	3.9	—	0.0	2,480	3.9
60-69%	12,683	20.1	—	0.0	12,683	20.1
Subtotal <70%	16,474	26.0	—	0.0	16,474	26.0
70-79%	4,056	6.4	—	0.0	4,056	6.4
Subtotal <80%	20,530	32.4	—	0.0	20,530	32.4
≥80%	—	0.0	—	0.0	—	0.0
Total	$ 20,530	32.4%	$ —	0.0%	$ 20,530	32.4%

(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 June 30, 2022, totaled approximately $8.6 million of which $8.2 million was principal, and approximately $442,000 was accrued interest. Almost the entire principal in arrears 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 2022 v. 2021

Net income available to limited partners as a percent of limited partners' capital – average daily balance (annualized) was 2.5% and 3.6% for the six months ended June 30, 2022 and 2021, respectively. Net income decreased approximately $584,000 (41.0%) for the six months ended June 30, 2022 as compared to the same period in 2021, primarily due to the reduction in net interest income of approximately $1,041,000 (30.4%) which was partially offset by a decrease in operations expense of approximately $387,000 (19.0%).

Analysis and discussion of income from operations 2022 v. 2021 (six months ended)

Significant changes to net income for the six months ended June 30, 2022 compared to the same period in 2021 are summarized in the following table ($ in thousands).

	Net interest income	Provision for (recovery of) loan losses	Operations expense	Net income
Six months ended				
June 30, 2022	$ 2,380	$ —	$ 1,645	$ 842
June 30, 2021	3,421	(1)	2,032	1,426
Change	$ (1,041)	$ 1	$ (387)	$ (584)
Change				
Decrease secured loans principal - average daily balance	(567)	—	(100)	(467)
Effective yield rate	(466)	—	—	(466)
Amortization of debt issuance costs	6	—	—	6
Interest on line of credit and promissory note from related party	(35)	—	—	(35)
Interest on mortgages payable assumed at foreclosure	21	—	—	21
Decrease limited partners' capital - average balance	—	—	(57)	57
Increase in allocable expenses from the manager	—	—	17	(17)
Legal, audit and consulting	—	—	(24)	24
Tax compliance cost efficiency	—	—	(7)	7
Timing of services rendered	—	—	(4)	4
REO sales, net	—	—	79	(79)
REO holding costs	—	—	15	(15)
REO valuation adjustments	—	—	(294)	294
Late fees	—	—	—	(10)
Gain on sale, loans	—	—	—	81
Other	—	1	(12)	11
Change	$ (1,041)	$ 1	$ (387)	$ (584)

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

Net interest income

Net interest income decreased approximately $1,041,000 (30.4%) for the six months ended June 30, 2022 compared to the same period in 2021. The decrease in net interest income is due primarily to a decrease in interest income of approximately $1,033,000 (28.4%) resulting from the decrease in the secured loans principal – average daily balance of approximately $13.3 million (17.9%) and an increase in interest expense of approximately $8,000 (3.7%) due to an increase in the balance of line of credit offset by a decrease in amortized debt issuance costs. The line of credit - average daily balance for the six months ended June 30, 2022 was $6,882,000 and for the six months ended June 30, 2021 was $5,613,000, an increase of approximately $1,269,000 (22.6%).

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 to the allowance for loan losses and no charge-offs to the provision for loan losses during the six months ended June 30, 2022 and 2021. There were no recoveries during the six months ended June 30, 2022. In the six months ended June 30, 2021, an insignificant recovery was recognized on a loan.

Operations expense

Significant changes to operations expense for the six months ended June 30, 2022 compared to the same period in 2021 are summarized in the following table ($ in thousands).

	Mortgage servicing fees	Asset management fees	Costs from RMC	Professional services	REO, net	Other	Total
Six months ended							
June 30, 2022	$ 460	127	339	558	142	19	$ 1,645
June 30, 2021	560	152	354	593	342	31	2,032
Change	$ (100)	(25)	(15)	(35)	(200)	(12)	$ (387)
Change							
Decrease secured loans principal - average daily balance	(100)	—	—	—	—	—	(100)
Decrease limited partners' capital - average balance	—	(25)	(32)	—	—	—	(57)
Increase in allocable expenses from the manager	—	—	17	—	—	—	17
Legal, audit and consulting	—	—	—	(24)	—	—	(24)
Tax compliance cost efficiency	—	—	—	(7)	—	—	(7)
Timing of services rendered	—	—	—	(4)	—	—	(4)
REO sales, net	—	—	—	—	79	—	79
REO holding costs	—	—	—	—	15	—	15
REO valuation adjustments	—	—	—	—	(294)	—	(294)
Other	—	—	—	—	—	(12)	(12)
Change	$ (100)	(25)	(15)	(35)	(200)	(12)	$ (387)

Mortgage servicing fees

The decrease in mortgage servicing fees for the six months ended June 30, 2022 as compared to the same period in 2021, was due to the decrease in the secured loans principal – average daily balance to approximately $61.3 million from approximately $74.6 million. Fees are charged by RMC at the annual rate of 1.5%.

Asset management fees

The decrease in asset management fees for the six months ended June 30, 2022, as compared to the same period in 2021, was due to the decrease in limited partners’ capital – average balance to approximately $66.4 million from $79.5 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 $15,000 for the six months ended June 30, 2022 as compared to the same period in 2021 was due to a decrease in partnership's limited partners' capital as a percent of the total capital of the related mortgage funds managed by RMC of approximately $32,000 which was offset by an increase in cost reimbursements accrued by RMI VIII for costs incurred by RMC in June 2022 to be billed and paid in July 2022 of approximately $17,000.

Professional services

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

The decrease in professional services of approximately $35,000 for the six months ended June 30, 2022 compared to the same period in 2021 was due primarily to a reduction in legal and audit fees and a reduction in tax compliance costs as a result of process efficiency implemented in 2021 and timing of services rendered.

REO, net

The June 30, 2022, REO balance was approximately $8.3 million compared to the June 30, 2021 balance of approximately $8.5 million.

In the six months ended June 30, 2021, the valuation allowance adjustment on REO properties was increased by $294,000 based on pending sales data on transactions expected in the second half of 2021. There were no valuation allowance adjustments on REO properties in the six months ended June 30, 2022.

There were no REO sales or acquisitions in the six months ended June 30, 2022 and 2021. A gain on sale of REO was recognized in June 2021, related to a seller carryback on an REO property sold in 2016. The borrower paid in full in June 2021, and the previously deferred gain of $79,000 was recognized upon payment.

Holding costs, net of other income includes month-to-month rents received of approximately $9,000 and $44,000 for the six months ended June 30, 2022 and 2021, respectively for the homes in Fresno County, which were sold in July 2021, and the unit-storage lockers and signage in San Francisco county. The increase in holding costs, net of other income when comparing the six months ended June 30, 2022 to the six months ended June 30, 2021 is due to a decrease in rental income of approximately $35,000 primarily as a result of the sale of the homes in Fresno County which was offset by a decrease in REO operating expenses of approximately $20,000.

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 detailed presentations of REO activity during the period.

Analysis and discussion of income from operations 2022 v. 2021 (three months ended)

Significant changes to net income for the three months ended June 30, 2022 compared to the same period in 2021 are summarized in the following table ($ in thousands).

	Net interest income	Provision for (recovery of) loan losses	Operations expense	Net income
Three months ended				
June 30, 2022	$ 1,135	—	746	$ 492
June 30, 2021	1,865	—	1,072	824
Change	$ (730)	—	(326)	$ (332)
Change				
Decrease secured loans principal - average daily balance	(266)	—	(46)	(220)
Effective yield rate	(445)	—	—	(445)
Amortization of debt issuance costs	6	—	—	6
Interest on line of credit and promissory note from related party	(36)	—	—	(36)
Interest on mortgages payable assumed at foreclosure	11	—	—	11
Decrease limited partners' capital - average balance	—	—	(30)	30
Increase in allocable expenses from the manager	—	—	1	(1)
Legal, audit and consulting	—	—	(19)	19
Timing of services rendered	—	—	(4)	4
REO sales, net	—	—	79	(79)
REO holding costs	—	—	(1)	1
REO valuation adjustments	—	—	(294)	294
Late fees	—	—	—	(9)
Gain on sale, loans	—	—	—	81
Other	—	—	(12)	12
Change	$ (730)	—	(326)	$ (332)

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

Net interest income

Net interest income decreased approximately $730,000 (39.1%) for the three months ended June 30, 2022 compared to the same period in 2021. The decrease in net interest income is due to a decrease in interest income of approximately $711,000 (35.6%) resulting from the decrease in the secured loans principal – average daily balance of approximately $13.2 million (17.6%) and an increase in interest expense of approximately $19,000 (14.4%) due to an increase in the line of credit offset by a decrease in amortized debt issuance costs. The line of credit - average daily balance for the three months ended June 30, 2022 was $9,971,000 and for the three months ended June 30, 2021 was $7,411,000, an increase of approximately $2,560,000 (34.5%).

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 to the allowance for loan losses and no charge-offs to the provision for loan losses during the three months ended June 30, 2022 or 2021.

Operations expense

Significant changes to operations expense for the three months ended June 30, 2022 compared to the same period in 2021 are summarized in the following table ($ in thousands).

	Mortgage servicing fees	Asset management fees	Costs from RMC	Professional services	REO, net	Other	Total
Three months ended							
June 30, 2022	$ 237	62	164	207	58	18	$ 746
June 30, 2021	283	75	180	232	274	28	1,072
Change	$ (46)	(13)	(16)	(25)	(216)	(10)	$ (326)
Change							
Decrease secured loans principal - average daily balance	(46)	—	—	—	—	—	(46)
Decrease limited partners' capital - average balance	—	(13)	(17)	—	—	—	(30)
Increase in allocable expenses from the manager	—	—	1	—	—	—	1
Legal, audit and consulting	—	—	—	(19)	—	—	(19)
Timing of services rendered	—	—	—	(4)	—	—	(4)
REO sales, net	—	—	—	—	79	—	79
REO holding costs	—	—	—	—	(1)	—	(1)
REO valuation adjustments	—	—	—	—	(294)	—	(294)
Other	—	—	—	(2)	—	(10)	(12)
Change	$ (46)	(13)	(16)	(25)	(216)	(10)	$ (326)

Mortgage servicing fees

The decrease in mortgage servicing fees for the three months ended June 30, 2022 as compared to the same period in 2021, was due to the decrease in the secured loans principal – average daily balance to approximately $61.8 million from approximately $75.0 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 June 30, 2022, as compared to the same period in 2021, was due to the decrease in limited partners' capital – average balance to approximately $64.8 million from $77.7 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 $16,000 for the three months ended June 30, 2022 as compared to the same period in 2021 was due to a reduction of the partnership's limited partners' capital as a percent of the total capital of the related mortgaged funds managed by RMC of approximately $17,000 which was offset by an increase in cost reimbursements accrued by RMI VIII for costs incurred by RMC in June 2022 to be billed and paid in July 2022 of approximately $1,000.

Professional services

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

The decrease in professional services of approximately $25,000 for the three months ended June 30, 2022 compared to the same period in 2021 was due primarily to a reduction in legal and audit fees and a reduction in tax compliance costs as a result of timing of services rendered.

REO, net

The June 30, 2022, REO balance was approximately $8.3 million compared to the June 30, 2021 balance of approximately $8.5 million.

In the three months ended June 30, 2021, the valuation allowance adjustment on REO properties was $294,000 based on pending sales data on transactions expected in the second half of 2021. There were no valuation allowance adjustments on REO properties in the three months ended June 30, 2022.

There were no REO sales or acquisitions in the three months ended June 30, 2022 and 2021, A gain on sale of REO was recognized in June 2021, related to a seller carryback on an REO property sold in 2016. The borrower paid in full in June 2021, and the previously deferred gain of $79,000 was recognized upon payment.

Holding costs, net of other income includes month-to-month rents received of approximately $7,000 and $27,000 for the three months ended June 30, 2022 and 2021, respectively, for the homes in Fresno County, which were sold in July 2021, and the unit-storage lockers and signage in San Francisco county. The decrease in holding costs, net of other income when comparing the three months ended June 30, 2022 to the three months ended June 30, 2021 is due to a decrease in REO operating expenses of approximately $21,000 which was offset by a decrease in rental income of approximately $20,000 primarily as a result of the sale of the homes in Fresno 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 activity during the period.

Cash flows and liquidity

Cash flows by business activity for the six months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Limited partners' capital		
Withdrawals, net of early withdrawal fees	$ (6,510)	$ (7,462)
Early withdrawal penalties	(76)	—
Distributions	(596)	(773)
Cash used in limited partners' capital	(7,182)	(8,235)
Borrowings		
Line of credit advances, net	10,000	6,147
Interest paid	(143)	(127)
Debt issuance costs paid - line of credit	(57)	—
Promissory note received from related party	1,000	—
Promissory note repaid to related party	(1,000)	—
Cash provided by borrowings	9,800	6,020
Loan earnings and payments		
Interest received, net	2,407	3,913
Late fees and other loan income	(99)	102
Loans funded, net	(30,838)	(15,536)
Principal collected	15,866	13,282
Loans transferred from related mortgage fund	—	(1,371)
Loans transferred to related mortgage fund	996	4,672
Loans sold to non-affiliate, net	6,583	485
Advances received from loans	88	39
Cash (used in) provided by loan production	(4,997)	5,586
REO		
Holding costs	(44)	(84)
Cash used in REO operations and sales	(44)	(84)
RMC payments - formation loan	334	227
Operations expense, excluding REO holding costs	(1,493)	(1,583)
Net (decrease) increase in cash	$ (3,582)	$ 1,931
Cash, end of period	$ 321	$ 2,295

Limited partners' capital - withdrawals

Withdrawals of limited partners' capital for the three and six months ended June 30, 2022 and 2021 are presented in the following table ($ in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
Withdrawals	**2022**	**2021**	**2022**	**2021**
Without penalty	$ 2,952	$ 3,309	$ 5,842	$ 6,737
With penalty	389	428	744	806
Total	$ 3,341	$ 3,737	$ 6,586	$ 7,543
Scheduled, at June 30,	$ 18,201	$ 27,029	$ 18,201	$ 27,029

Scheduled withdrawals of limited partners’ capital in periods as of and after June 30, 2022 are presented in the following table ($ in thousands).

2022	$	4,936
2023		6,833
2024		3,881
2025		1,710
2026		697
Thereafter		144
Total	$	18,201

Scheduled withdrawals of limited partners’ capital of approximately $411,000 are subject to early withdrawal penalties as the limited partners elected the accelerated payout option as permitted in the Partnership Agreement.

Borrowings

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. In August 2021, the partnership paid in-full the outstanding principal balance of $996,000 due on one of the 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 for details on the remaining mortgage payable outstanding as of June 30, 2022, which presentation is incorporated by this reference into this Item 2.

Liquidity and Capital Resources

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.

RMI VIII’s cash balances are planned to be maintained at levels sufficient to support on-going operations and satisfy obligations, without reducing loan fundings or suspending distributions or redemptions, although these options are available if future circumstances warrant. The manager will continue to utilize line of credit advances, loan assignments to related mortgage funds and loan sales to unaffiliated third parties to meet the liquidity requirements of the partnership, while striving to fully deploy capital available to lend.

The partnership’s only obligation is to fund capital account withdrawal requests subject to cash available pursuant to the terms of the partnership agreement.

Contractual obligations, other than withdrawals of limited partners' capital

At June 30, 2022, the partnership had no construction or rehabilitation loans outstanding, and no other contractual obligations other than redemptions of members capital.

At June 30, 2022, RMI VIII had no off-balance sheet arrangements. Such arrangements are not permitted by the Partnership Agreement.

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 occurred during the three months ended June 30, 2022 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 June 30, 2022, 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 June 30, 2022 were approximately $3,341,000. 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	First Loan Modification Agreement dated as of March 4, 2022 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated as of March 11, 2022, (File No. 000-27816) incorporated herein by reference.)
31.1	Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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: August 15, 2022	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: August 15, 2022	By:		**Michael R. Burwell, General Partner**
		By:	/s/ Michael R. Burwell
		Name:	Michael R. Burwell
		Title:	General Partner