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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2018

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 333-203707

**SHEPHERD'S FINANCE, LLC**  
(Exact name of registrant as specified on its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

36-4608739  
(I.R.S. Employer  
Identification No.)

13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258  
(Address of principal executive offices)

(302)752-2688  
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 ☒

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**FORM 10-Q**  
**SHEPHERD'S FINANCE, LLC**  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q of Shepherd's Finance, LLC, other than historical facts, may be considered forward-looking statements within the meaning of the federal securities laws. Words such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue," "predict," or other similar words identify forward-looking statements. Forward-looking statements appear in a number of places in this report, including without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and include statements regarding our intent, belief or current expectation about, among other things, trends affecting the markets in which we operate, our business, financial condition and growth strategies. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including but not limited to those set forth in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission. If any of the events described in "Risk Factors" occur, they could have an adverse effect on our business, consolidated financial condition, results of operations, and cash flows.

When considering forward-looking statements, you should keep these risk factors, as well as the other cautionary statements in this report and in our 2017 Form 10-K in mind. You should not place undue reliance on any forward-looking statement. We are not obligated to update forward-looking statements.

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### Shepherd's Finance, LLC Interim Condensed Consolidated Balance Sheets

<i>(in thousands of dollars)</i>	As of	
	June 30, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	\$ 247	\$ 3,478
Accrued interest receivable	653	720
Loans receivable, net	41,819	30,043
Foreclosed assets	5,636	1,036
Property, plant and equipment, net	1,045	1,020
Other assets	176	58
<b>Total assets</b>	<b>\$ 49,576</b>	<b>\$ 36,355</b>
<b>Liabilities, Redeemable Preferred Equity and Members' Capital</b>		
<b>Liabilities</b>		
Customer interest escrow	\$ 544	\$ 935
Accounts payable and accrued expenses	482	705
Accrued interest payable	1,654	1,353
Notes payable secured, net of deferred financing costs	21,058	11,644
Notes payable unsecured, net of deferred financing costs	20,769	16,904
Due to preferred equity member	31	31
<b>Total liabilities</b>	<b>44,538</b>	<b>31,572</b>
Commitments and Contingencies (Notes 3 and 9)		
<b>Redeemable Preferred Equity</b>		
Series C preferred equity	1,165	1,097
<b>Members' Capital</b>		
Series B preferred equity	1,280	1,240
Class A common equity	2,593	2,446
Members' capital	3,873	3,686
<b>Total liabilities, redeemable preferred equity and members' capital</b>	<b>\$ 49,576</b>	<b>\$ 36,355</b>

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

**Shepherd's Finance, LLC**  
**Interim Condensed Consolidated Statements of Operations - Unaudited**  
**For the Three and Six Months ended June 30, 2018 and 2017**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<i>(in thousands of dollars)</i>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Interest Income</b>				
Interest and fee income on loans	\$ 2,045	\$ 1,356	\$ 3,872	\$ 2,530
Interest expense:				
Interest related to secured borrowings	517	215	928	394
Interest related to unsecured borrowings	513	401	963	768
Interest expense	1,030	616	1,891	1,162
Net interest income	1,015	740	1,981	1,368
Less: Loan loss provision	19	15	59	26
Net interest income after loan loss provision	996	725	1,922	1,342
<b>Non-Interest Income</b>				
Gain from sale of foreclosed assets	—	—	—	77
Total non-interest income	—	—	—	77
Income	996	725	1,922	1,419
<b>Non-Interest Expense</b>				
Selling, general and administrative	691	450	1,308	898
Depreciation and amortization	21	6	38	12
Impairment loss on foreclosed assets	80	106	85	155
Total non-interest expense	792	562	1,431	1,065
<b>Net Income</b>	<u>\$ 204</u>	<u>163</u>	<u>\$ 491</u>	<u>\$ 354</u>
<b>Earned distribution to preferred equity holders</b>	<u>67</u>	<u>57</u>	<u>130</u>	<u>88</u>
<b>Net income attributable to common equity holders</b>	<u>\$ 137</u>	<u>106</u>	<u>\$ 361</u>	<u>\$ 266</u>

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

**Shepherd's Finance, LLC**  
**Interim Condensed Consolidated Statements of Changes in Members' Capital - Unaudited**  
**For the Six Months Ended June 30, 2018**

<i>(in thousands of dollars)</i>	<b>Six Months Ended June 30, 2018</b>
Members' capital, beginning balance	\$ 3,686
Net income	491
Contributions from members (preferred)	40
Earned distributions to preferred equity holders	(130)
Distributions to common equity holders	(214)
Members' capital, ending balance	<u>\$ 3,873</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**Shepherd's Finance, LLC**  
**Interim Condensed Consolidated Statements of Cash Flows - Unaudited**  
**For the Six Months Ended June 30, 2018 and 2017**

<i>(in thousands of dollars)</i>	Six Months Ended June 30,	
	2018	2017
<b>Cash flows from operations</b>		
Net income	\$ 491	\$ 354
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Amortization of deferred financing costs	95	121
Provision for loan losses	59	26
Net loan origination fees deferred (earned)	351	254
Change in deferred origination expense	(87)	(71)
Impairment of foreclosed assets	85	155
Depreciation and amortization	38	12
Gain from sale of foreclosed assets	-	(77)
Net change in operating assets and liabilities		
Other assets	(118)	10
Accrued interest receivable	(176)	(74)
Customer interest escrow	(391)	17
Accounts payable and accrued expenses	78	39
Net cash provided by (used in) operating activities	425	742
<b>Cash flows from investing activities</b>		
Loan originations and principal collections, net	(15,996)	(9,090)
Investment in foreclosed assets	(545)	(265)
Proceeds from sale of foreclosed assets	-	1,890
Property plant and equipment additions	(63)	(583)
Net cash provided by (used in) investing activities	(16,564)	(8,048)
<b>Cash flows from financing activities</b>		
Contributions from redeemable preferred equity	-	1,004
Contributions from members (preferred)	40	10
Distributions to preferred equity holders	(62)	(58)
Distributions to common equity holders	(214)	(117)
Proceeds from secured note payable	13,538	5,775
Repayments of secured note payable	(4,118)	(4,277)
Proceeds from unsecured notes payable	8,784	9,218
Redemptions/repayments of unsecured notes payable	(4,953)	(5,687)
Deferred financing costs paid	(67)	(40)
Net cash provided by (used in) financing activities	12,948	5,828
Net increase (decrease) in cash and cash equivalents	(3,231)	(1,478)
<b>Cash and cash equivalents</b>		
Beginning of period	3,478	1,566
End of period	\$ 247	\$ 88
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 1,533	\$ 1,062
<b>Non-cash investing and financing activities</b>		
Earned but not paid distribution of preferred equity holders	\$ 68	\$ 29
Foreclosure of assets	\$ 3,897	\$ -
Accrued interest reduction due to foreclosure	\$ 243	\$ -

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

**Shepherd's Finance, LLC**  
**Notes to Interim Condensed Consolidated Financial Statements (unaudited)**

Information presented throughout these notes to the interim condensed consolidated financial statements (unaudited) is in thousands of dollars.

**1. Description of Business and Basis of Presentation**

**Description of Business**

Shepherd's Finance, LLC and subsidiary (the "Company") was originally formed as a Pennsylvania limited liability company on May 10, 2007. The Company is a sole member of a consolidating subsidiary, 84 REPA, LLC. The Company operates pursuant to its Second Amended and Restated Operating Agreement by and among Daniel M. Wallach and the other members of the Company effective as of March 16, 2017.

As of June 30, 2018, the Company extends commercial loans to residential homebuilders (in 17 states) to:

- construct single family homes,
- develop undeveloped land into residential building lots, and
- purchase and improve for sale older homes.

*Basis of Presentation*

The accompanying (a) interim condensed consolidated balance sheet as of December 31, 2017, which has been derived from audited consolidated financial statements, and (b) unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. While certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), management believes that the disclosures herein are adequate to make the unaudited interim condensed consolidated information presented not misleading. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. The consolidated results of operations for any interim period are not necessarily indicative of results expected for the fiscal year ending December 31, 2018. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2017 (the "2017 Statements"). The accounting policies followed by the Company are set forth in Note 2 – *Summary of Significant Accounting Policies* in the 2017 Statements.

*Accounting Standards Adopted in the Period*

Accounting Standards Update ("ASU") 2016-01, "*Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of FASB ASC 825)*." The Financial Accounting Standards Board ("FASB") issued ASU 2016-01 in January 2016, and it was intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value, with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; and (iii) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.



ASU 2016-01 became effective for the Company on January 1, 2018. The adoption of ASU 2016-01 did not have a material impact on the Company's consolidated financial statements.

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Issued in May 2014, ASU 2014-09 added FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers," and superseded revenue recognition requirements in FASB ASC Topic 605, "Revenue Recognition," and certain cost guidance in FASB ASC Topic 605-35, "Revenue Recognition – Construction-Type and Production-Type Contracts." ASU 2014-09 requires an entity to recognize revenue when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue should be recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer. ASU 2014-09 became effective for the Company on January 1, 2018. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements.

## Revenue

On January 1, 2018, the Company implemented ASU 2014-09, codified at ASC Topic 606. The Company adopted ASC Topic 606 using the modified retrospective transition method. As of December 31, 2017, the Company had no uncompleted customer contracts and, as a result, no cumulative transition adjustment was made during the first quarter of 2018. Results for reporting periods beginning January 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be reported under legacy U.S. GAAP.

The majority of the Company's revenue is generated through interest earned on financial instruments, including loans, which falls outside the scope of ASC Topic 606. All of the Company's revenue that is subject to ASC Topic 606 would be included in non-interest income; however, not all non-interest income is subject to ASC Topic 606. The Company had no contract liabilities or unsatisfied performance obligations with customers as of June 30, 2018.

## Reclassifications

Certain prior year amounts have been reclassified for consistency with current period presentation.

## 2. Fair Value

The Company had no financial instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017.

The following tables present the balances of non-financial instruments measured at fair value on a non-recurring basis as of June 30, 2018 and December 31, 2017.

### June 30, 2018

	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Foreclosed assets	\$ 5,636	\$ 5,636	\$ –	\$ –	\$ 5,636

**December 31, 2017**

	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Foreclosed assets	\$ 1,036	\$ 1,036	\$ –	\$ –	\$ 1,036

The Company had no impaired loans as of June 30, 2018 and December 31, 2017.

The table below is a summary of fair value estimates for financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized at the periods indicated:

**June 30, 2018**

	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 247	\$ 247	\$ 247	\$ –	\$ –
Loans receivable, net	41,819	41,819	–	–	41,819
Accrued interest receivable	653	653	–	–	653
<b>Financial Liabilities:</b>					
Customer interest escrow	544	544	–	–	544
Notes payable secured	21,058	21,058	–	–	21,058
Notes payable unsecured, net	20,769	20,769	–	–	20,769
Accrued interest payable	1,654	1,654	–	–	1,654

**December 31, 2017**

	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 3,478	\$ 3,478	\$ 3,478	\$ –	\$ –
Loans receivable, net	30,043	30,043	–	–	30,043
Accrued interest receivable	720	720	–	–	720
<b>Financial Liabilities:</b>					
Customer interest escrow	935	935	–	–	935
Notes payable secured	11,644	11,644	–	–	11,644
Notes payable unsecured, net	16,904	16,904	–	–	16,904
Accrued interest payable	1,353	1,353	–	–	1,353

### 3. Financing Receivables

Financing receivables are comprised of the following as of June 30, 2018 and December 31, 2017:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Loans receivable, gross	\$ 44,803	\$ 32,375
Less: Deferred loan fees	(1,197)	(847)
Less: Deposits	(1,827)	(1,497)
Plus: Deferred origination expense	196	109
Less: Allowance for loan losses	(156)	(97)
Loans receivable, net	<u>\$ 41,819</u>	<u>\$ 30,043</u>

#### Commercial Construction and Development Loans

##### *Commercial Loans – Construction Loan Portfolio Summary*

As of June 30, 2018, the Company has 68 borrowers, all of whom, including four development loan customers (the “Hoskins Group,” consisting of Benjamin Marcus Homes, LLC, Investor’s Mark Acquisitions, LLC, and Mark Hoskins, being the largest of the four), borrow money for the purpose of building new homes.

The following is a summary of the loan portfolio to builders for home construction loans as of June 30, 2018 and December 31, 2017:

Year	Number of States	Number of Borrowers	Number of Loans	Value of Collateral <sup>(1)</sup>	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio <sup>(2)</sup>	Loan Fee
2018	17	68	245	\$ 93,976	\$ 60,551	\$ 38,888	64% <sup>(3)</sup>	5%
2017	16	52	168	75,931	47,087	29,564	62% <sup>(3)</sup>	5%

<sup>(1)</sup> The value is determined by the appraised value.

<sup>(2)</sup> The loan to value ratio is calculated by taking the commitment amount and dividing by the appraised value.

<sup>(3)</sup> Represents the weighted average loan to value ratio of the loans.

##### *Commercial Loans – Real Estate Development Loan Portfolio Summary*

The following is a summary of our loan portfolio to builders for land development as of June 30, 2018 and December 31, 2017:

Year	Number of States	Number of Borrowers	Number of Loans <sup>(4)</sup>	Gross Value of Collateral <sup>(1)</sup>	Commitment Amount <sup>(3)</sup>	Gross Amount Outstanding	Loan to Value Ratio <sup>(2)</sup>	Loan Fee
2018	3	4	7	\$ 8,249	\$ 6,367	\$ 5,915	72%	\$ 1,000
2017	1	1	3	4,997	4,600	2,811	56%	1,000

<sup>(1)</sup> The value is determined by the appraised value adjusted for remaining costs to be paid. A portion of this collateral is \$1,280 and \$1,240 as of June 30, 2018 and December 31, 2017, respectively of preferred equity in our Company. In the event of a foreclosure on the property securing these loans, the portion of our collateral that is preferred equity might be difficult to sell, which may impact our ability to recover the loan balance. In addition, a portion of the collateral value is estimated based on the selling prices anticipated for the homes.

<sup>(2)</sup> The loan to value ratio is calculated by taking the outstanding amount and dividing by the appraised value calculated as described above.

<sup>(3)</sup> The commitment amount does not include letters of credit and cash bonds.

<sup>(4)</sup> As of December 31, 2017, our development loans consisted of borrowings which originated in December 2011 and to which we refer throughout this report as the “Pennsylvania Loans”. During the first six months of 2018, the Company originated one additional development loan to the Pennsylvania Loans.

## Credit Quality Information

The following tables present credit-related information at the “class” level in accordance with FASB ASC 310-10-50, “*Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*.” See our Form 10-K for the year ended December 31, 2017, as filed with the SEC, for more information.

Gross finance receivables – By risk rating:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Pass	\$ 39,327	\$ 25,656
Special mention	5,476	6,719
Total	<u>\$ 44,803</u>	<u>\$ 32,375</u>

Gross finance receivables – Method of impairment calculation:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Performing loans evaluated individually	\$ 18,409	\$ 14,992
Performing loans evaluated collectively	26,394	17,383
Total	<u>\$ 44,803</u>	<u>\$ 32,375</u>

As of June 30, 2018 and December 31, 2017, there were no loans acquired with deteriorated credit quality.

## Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of loans receivable. Our concentration risks for individual borrowers are summarized in the table below:

	<u>June 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Borrower City</u>	<u>Percent of Loan Commitments</u>	<u>Borrower City</u>	<u>Percent of Loan Commitments</u>
Highest concentration risk	Pittsburgh, PA	23%	Pittsburgh, PA	22%
Second highest concentration risk	Cape Coral, FL	4%	Sarasota, FL	7%
Third highest concentration risk	Orlando, FL	4%	Savannah, GA	5%

#### 4. Foreclosed Assets

The following table is a roll forward of foreclosed assets:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017	Six Months Ended June 30, 2017
Beginning balance	\$ 1,036	\$ 2,798	\$ 2,798
Additions from loans	4,140	-	-
Additions for construction/development	545	317	265
Sale proceeds	-	(1,890)	(1,890)
Gain on sale	-	77	77
Impairment loss on foreclosed assets	(85)	(266)	(155)
Ending balance	<u>\$ 5,636</u>	<u>\$ 1,036</u>	<u>\$ 1,095</u>

During April 2018, we entered into a Deed in Lieu of Foreclosure Agreement with a certain borrower who defaulted on a loan by failing to make an interest payment that was due. The Company reclassified \$4,140, consisting of \$3,897 of principal from Loan receivable, net and \$243 of interest from Accrued interest receivable, to Foreclosed assets on the balance sheet as of June 30, 2018.

#### 5. Borrowings

The following table displays our borrowings and a ranking of priority:

	Priority Rank	June 30, 2018	December 31, 2017
Borrowing Source			
Purchase and sale agreements	1	\$ 19,186	\$ 11,644
Secured line of credit from affiliates	2	1,877	-
Unsecured line of credit (senior)	3	500	-
Other unsecured borrowings (senior subordinated)	4	1,008	279
Unsecured Notes through our public offering, gross	5	15,274	14,121
Other unsecured borrowings (subordinated)	5	3,649	2,617
Other unsecured borrowings (junior subordinated)	6	590	173
Total		<u>\$ 42,084</u>	<u>\$ 28,834</u>

The following table shows the maturity of outstanding borrowings as of June 30, 2018:

Year Maturing	Total Amount Maturing	Public Offering	Other Unsecured	Purchase and Sale Agreements and Other Secured Borrowings
2018	\$ 25,728	\$ 2,306	\$ 3,007	\$ 20,415
2019	7,556	6,499	1,043	14
2020	2,270	2,155	100	15
2021	3,788	3,773	-	15
2022 and thereafter	2,742	541	1,597	604
Total	<u>\$ 42,084</u>	<u>\$ 15,274</u>	<u>\$ 5,747</u>	<u>\$ 21,063</u>

## Secured Borrowings

### *Purchase and Sale Agreements*

In March 2018, we entered into the Seventh Amendment (the “Seventh Amendment”) to our Loan Purchase and Sale Agreement (the “S.K. Funding LPSA”) with S.K. Funding, LLC (“S.K. Funding”).

The purpose of the Seventh Amendment was to allow S.K. Funding to purchase a portion of the Pennsylvania Loans for a purchase price of \$649.

The timing of the Company’s principal and interest payments to S.K. Funding under the Seventh Amendment, and S.K. Funding’s obligation to fund the Pennsylvania Loans, vary depending on the total principal amount of the Pennsylvania Loans outstanding at any time, as follows:

- If the total principal amount exceeds \$1,000, S.K. Funding must fund the amount between \$1,000 and less than or equal to \$3,500.
- If the total principal amount is less than \$4,500 then the Company will also repay S.K. Funding’s principal as principal payments are received on the Pennsylvania Loans from the underlying borrowers in the amount by which the total principal amount is less than \$4,500 until S.K. Funding’s principal has been repaid in full.
- The interest rate accruing to S.K. Funding under the Seventh Amendment is 10.5% calculated on a 365/366-day basis.

The Seventh Amendment has a term of 24 months and will automatically renew for an additional six-month term unless either party gives written notice of its intent not to renew at least six months prior to the end of a term. S.K. Funding will have a priority position as compared to the Company in the case of a default by any of the borrowers.

### *Lines of Credit*

#### *Amendments to the Lines of Credit with Mr. Wallach and His Affiliates*

During June 2018, we entered into a First Amendment to the line of credit with our Chief Executive Officer and his wife (the “Wallach LOC”) which modified the interest rate to generally equal the prime rate plus 3%. The interest rate for the Wallach LOC was 6.8% and 4.4% as of June 30, 2018 and 2017, respectively. We borrowed \$877 and \$0 against the Wallach LOC as of June 30, 2018 and 2017, respectively. Interest was \$6 and \$10 for the quarter and six months ended June 30, 2018, respectively. As of June 30, 2018, there was \$373 remaining availability on the Wallach LOC.

During June 2018, we entered into a First Amendment to the line of credit with the 2007 Daniel M. Wallach Legacy Trust, which our Chief Executive Officer’s trust (the “Wallach Trust LOC”) which modified the interest rate to generally equal the prime rate plus 3%. The interest rate for this borrowing was 6.8% and 4.4% as of June 30, 2018 and 2017, respectively. As of June 30, 2018, we borrowed \$0 against the Wallach Trust LOC. As of June 30, 2018, there the was \$250 remaining availability on the Wallach Trust LOC.

#### *Line of Credit (Shuman)*

During July 2017, we entered into a line of credit agreement (the “Shuman LOC Agreement”) with a group of lenders (collectively, “Shuman”). Pursuant to the Shuman LOC Agreement, Shuman provides us with a revolving line of credit (the “Shuman LOC”) with the following terms:

- Principal not to exceed \$1,325;
- Secured with assignments of certain notes and mortgages;
- Cost of funds to us of 10%; and
- Due in July 2019 unless extended by Shuman for one or more additional 12-month periods.

The Shuman LOC was fully borrowed as of June 30, 2018. Interest expense was \$33 and \$67 for the quarter and six months ended June 30, 2018, respectively.

#### *Modification to the Line of Credit with Paul Swanson*

During April 2018, we entered into a Master Loan Modification Agreement (the “Swanson Modification Agreement”) with Paul Swanson which modified the Line of Credit Agreement between us and Mr. Swanson dated October 23, 2017. Pursuant to the Swanson Modification Agreement, Mr. Swanson provides us with a revolving line of credit (the “Swanson LOC”) with the following terms:

- Principal not to exceed \$7,000;
- Secured with assignments of certain notes and mortgages;
- Cost of funds to us of 10%; and
- Due in January 2019 unless extended by Mr. Swanson for one or more additional 15-month periods.

The Swanson LOC was fully borrowed as of June 30, 2018. Interest expense was \$165 and \$265 for the quarter and six months ended June 30, 2018, respectively.

*New Line of Credit with William Myrick*

During June 2018, we entered into a line of credit agreement (the “Myrick LOC Agreement”) with our Executive Vice President of Sales, William Myrick. Pursuant to the Myrick LOC Agreement, Mr. Myrick provides us with a line of credit (the “Myrick LOC”) with the following terms:

- Principal not to exceed \$1,000;
- Secured by a lien against all of our assets;
- Cost of funds to us generally equal to the prime rate plus 3%; and
- Due upon demand.

The Myrick LOC was fully borrowed as of June 30, 2018. Interest expense was \$3 for both the quarter and six months ended June 30, 2018.

*Mortgage Payable*

During the first six months of 2018, we entered into a commercial mortgage on our office building with the following terms:

- Principal not to exceed \$660;
- Interest rate at 5.07% per annum based on a year of 360 days; and
- Due in January 2033.

The principal amount of the Company’s commercial mortgage was \$654 as of June 30, 2018. Interest expense was \$7 and \$18 for the quarter and six months ended June 30, 2018.

Summary

The purchase and sale agreements and lines of credit are summarized below:

	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>Book Value of Loans which Served as Collateral</b>	<b>Due From Shepherd’s Finance to Loan Purchaser or Lender</b>	<b>Book Value of Loans which Served as Collateral</b>	<b>Due From Shepherd’s Finance to Loan Purchaser or Lender</b>
<b>Loan Purchaser</b>				
Builder Finance, Inc.	\$ 8,538	\$ 4,843	\$ 7,483	\$ 4,089
S.K. Funding	10,108	6,625	9,128	4,134
<b>Lender</b>				
Shuman	2,160	1,325	1,747	1,325
Paul Swanson	8,214	5,738	2,518	2,096
<b>Total</b>	<b>\$ 29,020</b>	<b>\$ 18,531</b>	<b>\$ 20,876</b>	<b>\$ 11,644</b>

## Unsecured Borrowings

### *Other Unsecured Debts*

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate <sup>(1)</sup>	Principal Amount Outstanding as of	
			June 30, 2018	December 31, 2017
Unsecured Note with Seven Kings Holdings, Inc.	August 2018	7.5%	500	500
Unsecured Line of Credit from Builder Finance, Inc.	January 2019	10.0%	500	-
Unsecured Line of Credit from Paul Swanson	December 2018 <sup>(2)</sup>	10.0%	1,262	1,904
Subordinated Promissory Note	Demand <sup>(3)</sup>	7.5%	1,125	-
Subordinated Promissory Note	December 2019	10.5%	263	113
Subordinated Promissory Note	April 2020	10.0%	100	100
Senior Subordinated Promissory Note	March 2022 <sup>(4)</sup>	10.0%	400	-
Senior Subordinated Promissory Note	March 2022 <sup>(5)</sup>	1.0%	728	-
Junior Subordinated Promissory Note	March 2022 <sup>(5)</sup>	22.5%	417	-
Senior Subordinated Promissory Note	October 2022 <sup>(6)</sup>	1.0%	279	279
Junior Subordinated Promissory Note	October 2022 <sup>(6)</sup>	20.0%	173	173
			<u>\$ 5,747</u>	<u>\$ 3,069</u>

<sup>(1)</sup> Interest rate per annum, based upon actual days outstanding and a 365/366 day year.

<sup>(2)</sup> Due in December 2018 unless extended by Mr. Swanson for one or more additional 15-month periods.

<sup>(3)</sup> Principal due six months after lender gives notice. This note may be prepaid without fee, premium, or penalty.

<sup>(4)</sup> This note may be prepaid upon lender's request at least 10 days prior to an interest payment and up to \$20 of principal.

<sup>(5)</sup> These notes were issued to the same holder and, when calculated together, yield a blended return of 11% per annum.

<sup>(6)</sup> These notes were issued to the same holder and, when calculated together, yield a blended return of 10% per annum.



*Unsecured Notes through the Public Offering (“Notes Program”)*

The effective interest rate on the Notes (“Notes”) offered pursuant to the Notes Program at June 30, 2018 and December 31, 2017 was 9.39% and 9.21%, respectively, not including the amortization of deferred financing costs. There are limited rights of early redemption. The following table shows the roll forward of the Notes Program:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Gross Notes outstanding, beginning of period	\$ 14,121	\$ 11,221	\$ 11,221
Notes issued	3,350	8,375	8,105
Note repayments / redemptions	(2,197)	(5,475)	(5,087)
Gross Notes outstanding, end of period	\$ 15,274	\$ 14,121	\$ 14,239
Less deferred financing costs, net	252	286	330
Notes outstanding, net	\$ 15,022	\$ 13,835	\$ 13,909

The following is a roll forward of deferred financing costs:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Deferred financing costs, beginning balance	\$ 1,102	\$ 1,014	\$ 1,014
Additions	61	88	40
Deferred financing costs, ending balance	\$ 1,163	\$ 1,102	\$ 1,054
Less accumulated amortization	(911)	(816)	(724)
Deferred financing costs, net	\$ 252	\$ 286	\$ 330

The following is a roll forward of the accumulated amortization of deferred financing costs:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Accumulated amortization, beginning balance	\$ 816	\$ 603	\$ 603
Additions	95	213	121
Accumulated amortization, ending balance	\$ 911	\$ 816	\$ 724

## 6. Redeemable Preferred Equity

The following is a roll forward of Series C cumulative preferred equity (“Series C Preferred Units”):

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Beginning balance	\$ 1,097	\$ —	\$ —
Additions from new investment	—	1,004	1,004
Additions from reinvestment	68	93	29
Ending balance	\$ 1,165	\$ 1,097	\$ 1,033

The following table shows the earliest redemption options for investors in our Series C Preferred Units as of June 30, 2018:

<b>Year of Available Redemption</b>	<b>Total Amount Redeemable</b>
2023	\$ 1,165
Total	\$ 1,165

## **7. Members' Capital**

There are currently two classes of equity units outstanding that the Company classifies as Members' Capital: Class A common units ("Class A Common Units") and Series B cumulative preferred units ("Series B Preferred Units"). As of June 30, 2018, the Class A Common Units are held by nine members, all of whom have no personal liability. All Class A common members have voting rights in proportion to their capital account. There were 2,629 Class A Common Units outstanding at both June 30, 2018 and December 31, 2017.

In January 2018, our Chief Financial Officer and Executive Vice President of Operations purchased 2% and 1% of our outstanding Class A Common Units, respectively, from our CEO. In March 2018, our Executive Vice President of Sales purchased 14.3% of our outstanding Class A Common Units from our CEO.

## **8. Related Party Transactions**

As of June 30, 2018, each of the Company's two independent managers own 1% of our Class A Common Units. As of June 30, 2018, our CFO, Executive Vice President of Operations, and Executive Vice President of Sales each own 2%, 2%, and 15.3% of our Class A Common Units, respectively.

As of June 30, 2018, the Company borrowed \$877 against the Wallach LOC, which is a line of credit with our CEO and his wife. A more detailed description is included in Note 5 above. This borrowing is included in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

As of June 30, 2018, the Company borrowed \$1,000 against the Myrick LOC, which is a line of credit with our Executive Vice President of Sales. A more detailed description is included in Note 5 above. This borrowing is included in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

In February 2018, the Company issued a Subordinated Promissory Note in the principal amount of \$1,125 to a trust affiliated with Seven Kings Holdings, Inc. One of our independent managers, Kenneth R. Summers, is the trustee of that trust. This borrowing is included in notes payable unsecured, net of deferred financing costs on the interim condensed consolidated balance sheet.

In March 2018, the Company issued a Senior Subordinated Promissory Note in the principal amount of \$400 to family members of our CEO. This borrowing is included in the notes payable unsecured, net of deferred financing costs on the interim condensed consolidated balance sheet.

## **9. Commitments and Contingencies**

Unfunded commitments to extend credit, which have similar collateral, credit risk, and market risk to our outstanding loans, were \$21,676 and \$19,312 at June 30, 2018 and December 31, 2017, respectively.

## 10. Selected Quarterly Condensed Consolidated Financial Data (Unaudited)

Summarized unaudited quarterly condensed consolidated financial data for the two quarters of 2018 and four quarters of 2017 are as follows:

	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017	Quarter 3 2017	Quarter 2 2017	Quarter 1 2017
Net Interest Income after Loan Loss Provision	\$ 996	\$ 926	\$ 802	\$ 917	\$ 725	\$ 617
Non-Interest Income	—	—	—	—	—	77
SG&A expense	691	617	643	537	456	454
Depreciation and Amortization	21	17	—	—	—	6
Impairment loss on foreclosed assets	80	5	64	47	106	49
Net Income	<u>\$ 204</u>	<u>\$ 287</u>	<u>\$ 95</u>	<u>\$ 333</u>	<u>\$ 163</u>	<u>\$ 191</u>

## 11. Non-Interest expense detail

The following table displays our selling, general and administrative (“SG&A”) expenses:

	For the Six Months Ended June 30,	
	2018	2017
<b>Selling, general and administrative expenses</b>		
Legal and accounting	\$ 223	\$ 125
Salaries and related expenses	833	583
Board related expenses	37	55
Advertising	35	25
Rent and utilities	20	14
Loan and foreclosed asset expenses	38	26
Travel	51	32
Other	71	38
Total SG&A	<u>\$ 1,308</u>	<u>\$ 898</u>

## 12. Subsequent Events

Management of the Company has evaluated subsequent events through August 8, 2018, the date these consolidated financial statements were issued.

On July 31, 2018, we redeemed all of our outstanding Series C Cumulative Preferred Units (the “Preferred Units”), which were held by two investors. On August 1, 2018, we sold 12 of our Preferred Units to Daniel M. Wallach, our Chief Executive Officer and Chairman of our board of managers, and his wife, Joyce S. Wallach, for the total price of \$1,200.

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

(All dollar [\$] amounts shown in thousands.)

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our interim condensed consolidated financial statements and the notes thereto contained elsewhere in this report. The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should also be read in conjunction with our audited annual consolidated financial statements and related notes and other consolidated financial data included in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2017. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I.

## Overview

We had \$41,819 and \$30,043 in loan assets as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, we have 245 construction loans in 17 states with 68 borrowers and seven development loans in three states with 4 borrowers. As of June 30, 2018, and December 31, 2017, we had four and three development loans, respectively, in Pittsburgh, Pennsylvania (the “Pennsylvania Loans”).

We have various sources of capital, detailed below:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Capital Source		
Purchase and sale agreements and other secured borrowings	\$ 19,186	\$ 11,644
Secured line of credit from affiliates	1,877	–
Unsecured senior line of credit from a bank	500	–
Unsecured Notes through our Notes Program	15,274	14,121
Other unsecured debt	5,247	3,069
Preferred equity, Series B units	1,280	1,240
Preferred equity, Series C units	1,165	1,097
Common equity	<u>2,593</u>	<u>2,446</u>
Total	<u>\$ 47,122</u>	<u>\$ 33,617</u>

Our net income increased for the second quarter and six months ended June 30, 2018 as compared to the same period in 2017 due primarily to increased loan originations which was partially offset by payroll cost increases due to an increase the number of employees, and an increase in our loan loss reserve.

Cash provided by operations was \$425 as of June 30, 2018 as compared to \$742 for the same period of 2017. Our decrease in operating cash flow in 2018 compared to the same period of 2017 was due to a decrease in customer interest escrow of \$408 offset by an increase in net loan origination fee deferred of \$97.

## Critical Accounting Estimates

To assist in evaluating our consolidated financial statements, we describe below the critical accounting estimates that we use. We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used, would have a material impact on our consolidated financial condition or results of operations. See our Form 10-K as of and for the year ended December 31, 2017, as filed with the SEC, for more information on our critical accounting estimates. No material changes to our critical accounting estimates have occurred since December 31, 2017 unless listed below.

### *Loan Losses*

Fair value of collateral has the potential to impact the calculation of the loan loss provision (the amount we have expensed over time in anticipation of loan losses we have not yet realized). Specifically, relevant to the allowance for loan loss reserve is the fair value of the underlying collateral supporting the outstanding loan balances. Fair value measurements are an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Due to a rapidly changing economic market, an erratic housing market, the various methods that could be used to develop fair value estimates, and the various assumptions that could be used, determining the collateral’s fair value requires significant judgment.

	<b>June 30, 2018</b>
	<b>Loan Loss</b>
	<b>Provision</b>
<b>Change in Fair Value Assumption</b>	<b>Higher/(Lower)</b>
Increasing fair value of the real estate collateral by 35%*	\$ —
Decreasing fair value of the real estate collateral by 35%**	\$ (2,092)

\* Increases in the fair value of the real estate collateral do not impact the loan loss provision, as the value generally is not “written up.”

\*\* Assumes the loans were nonperforming and a book amount of the loans outstanding of \$42,153.

#### *Foreclosed Assets*

The fair value of real estate will impact our foreclosed asset value, which is recorded at 100% of fair value (after selling costs are deducted).

	<b>June 30, 2018</b>
	<b>Foreclosed</b>
	<b>Assets</b>
<b>Change in Fair Value Assumption</b>	<b>Higher/(Lower)</b>
Increasing fair value of the foreclosed asset by 35%*	\$ —
Decreasing fair value of the foreclosed asset by 35%	\$ (1,973)

\* Increases in the fair value of the foreclosed assets do not impact the carrying value, as the value generally is not “written up.” Those gains would be recognized at the sale of the asset.

\*\* Assumes a book amount of the foreclosed assets of \$5,636.

#### **Consolidated Results of Operations**

Key financial and operating data for the three and six months ended June 30, 2018 and 2017 are set forth below. For a more complete understanding of our industry, the drivers of our business, and our current period results, this discussion should be read in conjunction with our consolidated financial statements, including the related notes and the other information contained in this document.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Interest Income</b>				
Interest and fee income on loans	\$ 2,045	\$ 1,356	\$ 3,872	\$ 2,530
Interest expense:				
Interest related to secured borrowings	517	215	928	394
Interest related to unsecured borrowings	513	401	963	768
Interest expense	1,030	616	1,891	1,162
Net interest income	1,015	740	1,981	1,368
Less: Loan loss provision	19	15	59	26
Net interest income after loan loss provision	996	725	1,922	1,342
<b>Non-Interest Income</b>				
Gain from foreclosure of assets	—	—	—	—
Gain from sale of foreclosed assets	—	—	—	77
Total non-interest income	—	—	—	77
Income	996	725	1,922	1,419
<b>Non-Interest Expense</b>				
Selling, general and administrative	691	450	1,308	898
Depreciation and amortization	21	6	38	12
Impairment loss on foreclosed assets	80	106	85	155
Total non-interest expense	792	562	1,431	1,065
<b>Net Income</b>	\$ 204	\$ 163	\$ 491	\$ 354
<b>Earned distribution to preferred equity holders</b>	67	57	130	88
<b>Net income attributable to common equity holders</b>	\$ 137	\$ 106	\$ 361	\$ 266

## Interest Spread

The following table displays a comparison of our interest income, expense, fees, and spread:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
		*		*		*		*
<b>Interest Income</b>								
Interest income on loans	\$ 1,416	13%	\$ 851	12%	\$ 2,708	13%	\$ 1,631	12%
Fee income on loans	629	6%	505	7%	1,164	6%	899	7%
Interest and fee income on loans	2,045	19%	1,356	19%	3,872	19%	2,530	19%
Interest expense unsecured	467	4%	344	5%	868	4%	647	5%
Interest expense secured	513	4%	215	3%	928	4%	394	3%
Amortization offering costs	50	1%	57	1%	95	1%	121	1%
Interest expense	1,030	10%	616	9%	1,891	9%	1,162	9%
Net interest income (spread)	<u>1,015</u>	<u>9%</u>	<u>740</u>	<u>10%</u>	<u>1,981</u>	<u>10%</u>	<u>1,368</u>	<u>10%</u>
Weighted average outstanding loan asset balance	<u>\$ 42,439</u>		<u>\$ 28,211</u>		<u>\$ 40,135</u>		<u>\$ 25,983</u>	

\*annualized amount as percentage of weighted average outstanding gross loan balance

There are three main components that can impact our interest spread:

- **Difference between the interest rate received (on our loan assets) and the interest rate paid (on our borrowings).** The loans we have originated have interest rates which are based on our cost of funds, with a minimum cost of funds of 5%. For most loans, the margin is fixed at 2%; however, for our development loans the margin is fixed at 7%. Future loans are anticipated to be originated at an increase of 1% to approximately 3% margin. This component is also impacted by the lending of money with no interest cost (our equity). For the six months ended June 30, 2018, the difference between interest income and interest expense was 4% compared to 3% for the same period of 2017. The increase relates to an increase in default interest rate for the classified accruing loan during the first quarter of 2018.

For the quarter ended June 30, 2018 and quarter and six months ended June 30, 2017 the difference between interest income and interest expense was 3%. We currently anticipate that the difference between our interest income and interest expense will continue to be 3% for the remainder of 2018.

- **Fee income.** Our construction loans have a 5% fee on the amount we commit to lend, which is amortized over the expected life of each of those loans; however, we do not recognize a loan fee on our development loans. When loans terminate quicker than their expected life, the remaining unrecognized fee is recognized upon the termination of the loan. When loans exceed their expected life, no additional fee income is recognized. In 2018 our fee income decreased 1% due to an increase in loans that exceeded their expected life. We currently anticipate that fee income will continue at the same 6% rate for the remainder of 2018.

• **Amount of nonperforming assets.** Generally, we can have three types of nonperforming assets that negatively affect interest spread: loans not paying interest, foreclosed assets, and cash. All of our loans were paying interest in the quarter ended June 30, 2018 and quarter and six months ended June 30, 2017. One loan was not paying interest in the six months ended June 30, 2018.

Foreclosed assets do not provide a monthly interest return. In April 2018, we recorded \$3,897 from Loan receivables, net to Foreclosed assets on the balance sheet as of June 30, 2018, which resulted in a negative impact on our interest spread.

The amount of nonperforming assets is expected to rise over the next twelve months, due to expected development costs related to foreclosed assets, anticipated foreclosure of assets, and idle cash increases related to anticipated large borrowing inflows.

#### *Non-Interest Income*

For the three and six months ended June 30, 2018, we did not recognize non-interest income compared to the same period of 2017. In the first six months of 2017, we sold a foreclosed asset and recognized a gain of \$77. We do not anticipate Non-interest income for 2018.

#### *SG&A Expenses*

The following table displays our SG&A expenses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Selling, general and administrative expenses</b>				
Legal and accounting	\$ 80	\$ 29	\$ 223	\$ 125
Salaries and related expenses	477	329	833	583
Board related expenses	15	26	37	55
Advertising	18	8	35	25
Rent and utilities	10	9	20	14
Loan foreclosed asset expenses	30	19	38	26
Travel	28	17	51	32
Other	33	13	71	38
Total SG&A	<u>\$ 691</u>	<u>\$ 450</u>	<u>\$ 1,308</u>	<u>\$ 898</u>

Legal and accounting expenses increased due to additional work performed related to the growth of the Company. Salaries and related expenses increased due to our hiring of 11 new employees, which was partially offset by a reduction in our CEO's salary.

#### *Impairment Loss on Foreclosed Assets*

We owned five foreclosed assets as of June 30, 2018, compared four as of December 31, 2017. Three of the foreclosed assets are lots under construction and the remaining two have completed homes on the lots. We do not anticipate losses on the sale of foreclosed assets in the future; however, this may be subject to change based on the final selling price of the foreclosed assets.

#### *Loan Loss Provision*

Our loan loss provision increased \$19 and \$59 for the quarter and six month ended June 30, 2018 compared to \$15 and \$26 for the same periods of 2017 due to an increase in loan balances and qualitative reserve percentage as a result of the change in housing values.

## Consolidated Financial Position

### Loans Receivable

#### Commercial Loans – Construction Loan Portfolio Summary

We anticipate that the aggregate balance of our construction loan portfolio will increase as loans near maturity and as we have new loan originations.

The following is a summary of our loan portfolio to builders for home construction loans as of June 30, 2018.

State	Number of Borrowers	Number of Loans	Value of Collateral <sup>(1)</sup>	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio <sup>(2)</sup>	Loan Fee
Arizona	1	4	\$ 1,071	\$ 750	\$ 218	70%	5%
Colorado	3	7	3,878	2,621	1,729	68%	5%
Florida	17	73	22,652	15,143	9,392	67%	5%
Georgia	8	12	8,246	5,594	3,929	68%	5%
Indiana	2	3	932	652	273	70%	5%
Michigan	5	30	7,754	4,697	2,723	61%	5%
New Jersey	4	14	5,188	3,494	2,233	67%	5%
New York	1	7	2,567	1,496	1,375	58%	5%
North Carolina	5	9	2,656	1,859	925	70%	5%
North Dakota	1	1	375	263	205	70%	5%
Ohio	1	3	2,331	1,497	1,145	64%	5%
Oregon	1	1	607	348	280	57%	5%
Pennsylvania	3	29	21,708	12,424	8,860	57%	5%
South Carolina	11	40	10,357	7,188	4,349	69%	5%
Tennessee	1	2	640	426	262	67%	5%
Utah	1	2	920	634	264	69%	5%
Virginia	3	8	2,094	1,465	726	70%	5%
Total	68	245	\$ 93,976	\$ 60,551	\$ 38,888	64% <sup>(3)</sup>	5%

<sup>(1)</sup> The value is determined by the appraised value.

<sup>(2)</sup> The loan to value ratio is calculated by taking the commitment amount and dividing by the appraised value.

<sup>(3)</sup> Represents the weighted average loan to value ratio of the loans.



The following is a summary of our loan portfolio to builders for home construction loans as of December 31, 2017.

State	Number of Borrowers	Number of Loans	Value of Collateral <sup>(1)</sup>	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio <sup>(2)</sup>	Loan Fee
Colorado	3	6	\$ 3,224	\$ 2,196	\$ 925	68%	5%
Delaware	1	1	244	171	147	70%	5%
Florida	15	54	25,368	16,555	10,673	65%	5%
Georgia	7	13	8,932	5,415	3,535	61%	5%
Indiana	2	2	895	566	356	63%	5%
Michigan	4	25	7,570	4,717	2,611	62%	5%
New Jersey	2	11	3,635	2,471	1,227	68%	5%
New York	1	5	1,756	929	863	53%	5%
North Carolina	3	6	1,650	1,155	567	70%	5%
Ohio	1	1	711	498	316	70%	5%
Oregon	1	1	607	425	76	70%	5%
Pennsylvania	2	20	15,023	7,649	5,834	51%	5%
South Carolina	7	18	4,501	3,058	1,445	68%	5%
Tennessee	1	2	690	494	494	72%	5%
Utah	1	2	790	553	344	70%	5%
Virginia	1	1	335	235	150	70%	5%
Total	52 <sup>(4)</sup>	168	\$ 75,931	\$ 47,087	\$ 29,564	62% <sup>(3)</sup>	5%

(1) The value is determined by the appraised value.

(2) The loan to value ratio is calculated by taking the commitment amount and dividing by the appraised value.

(3) Represents the weighted average loan to value ratio of the loans.

(4) One builder in multiple states.

*Commercial Loans – Real Estate Development Loan Portfolio Summary*

The following is a summary of our loan portfolio to builders for land development as of June 30, 2018 and December 31, 2017. A significant portion of our development loans consist of the Pennsylvania Loans. Our additional development loans are in South Carolina and Florida.

Year	Number of States	Number of Borrowers	Number of Loans	Value of Collateral <sup>(1)</sup>	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio <sup>(2)</sup>	Loan Fee
2018	3	4	7	\$ 8,249	\$ 6,367 <sup>(3)</sup>	\$ 5,915	72%	\$ 1,000
2017	1	1	3	4,997	4,600 <sup>(3)</sup>	2,811	56%	1,000

(1) The value is determined by the appraised value adjusted for remaining costs to be paid. Part of this collateral is \$1,280 as of June 30, 2018 and \$1,240 as of December 31, 2017 of preferred equity in our Company. In the event of a foreclosure on the property securing these loans, the portion of our collateral that is preferred equity might be difficult to sell, which may impact our ability to eliminate the loan balance. Part of the collateral value is estimated based on the selling prices anticipated for the homes. Appraised values will replace these estimates in the third quarter of 2018.

(2) The loan to value ratio is calculated by taking the outstanding amount and dividing by the appraised value calculated as described above.

(3) The commitment amount does not include letters of credit and cash bonds.

*Combined Loan Portfolio Summary*

Financing receivables are comprised of the following as of June 30, 2018 and December 31, 2017:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Loans receivable, gross	\$ 44,803	\$ 32,375
Less: Deferred loan fees	(1,197)	(847)
Less: Deposits	(1,827)	(1,497)
Plus: Deferred origination expense	196	109
Less: Allowance for loan losses	(156)	(97)
Loans receivable, net	<u>\$ 41,819</u>	<u>\$ 30,043</u>

The following is a roll forward of combined loans:

	<u>Six Months Ended June 30, 2018</u>	<u>Year Ended December 31, 2017</u>	<u>Six Months Ended June 30, 2017</u>
Beginning balance	\$ 30,043	\$ 20,091	\$ 20,091
Additions	19,870	33,451	16,081
Payoffs/sales	(11,337)	(22,645)	(6,229)
Moved to foreclosed assets	3,897	-	-
Change in deferred origination expense	87	55	71
Change in builder deposit	(331)	(636)	(762)
Change in loan loss provision	(59)	(44)	(26)
New loan fees	(1,528)	(2,127)	(1,153)
Earned loan fees	1,177	1,898	899
Ending balance	<u>\$ 41,819</u>	<u>\$ 30,043</u>	<u>\$ 28,972</u>

Finance Receivables – By risk rating:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Pass	\$ 39,327	\$ 25,656
Special mention	5,476	6,719
Classified – accruing	-	-
Classified – nonaccrual	-	-
Total	<u>\$ 44,803</u>	<u>\$ 32,375</u>

Finance Receivables – Method of impairment calculation:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Performing loans evaluated individually	\$ 18,409	\$ 14,992
Performing loans evaluated collectively	26,394	17,383
Non-performing loans without a specific reserve	-	-
Non-performing loans with a specific reserve	-	-
Total	<u>\$ 44,803</u>	<u>\$ 32,375</u>

At June 30, 2018 and December 31, 2017, there were no loans acquired with deteriorated credit quality.

Below is an aging schedule of gross loans receivable as of June 30, 2018, on a recency basis:

	<b>No. Accts.</b>	<b>Unpaid Balances</b>	<b>%</b>
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	252	\$ 44,803	100%
60-89 days	—	—	0%
90-179 days	—	—	0%
180-269 days	—	—	0%
Subtotal	252	\$ 44,803	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	—	\$ —	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. “Total received” to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	—	\$ —	0%
Total	252	\$ 44,803	100%

Below is an aging schedule of gross loans receivable as of June 30, 2018, on a contractual basis:

	<b>No. Accts.</b>	<b>Unpaid Balances</b>	<b>%</b>
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	252	\$ 44,803	100%
60-89 days	—	—	0%
90-179 days	—	—	0%
180-269 days	—	—	0%
Subtotal	252	\$ 44,803	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	—	\$ —	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. “Total received” to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	—	\$ —	0%
Total	252	\$ 44,803	100%

Below is an aging schedule of gross loans receivable as of December 31, 2017, on a recency basis:

	<b>No. Accts.</b>	<b>Unpaid Balances</b>	<b>%</b>
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	153	\$ 26,421	82%
60-89 days	18	5,954	18%
90-179 days	—	—	0%
180-269 days	—	—	0%
<b>Subtotal</b>	<b>171</b>	<b>\$ 32,375</b>	<b>100%</b>
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	—	\$ —	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. “Total received” to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	—	\$ —	0%
<b>Total</b>	<b>171</b>	<b>\$ 32,375</b>	<b>100%</b>

Below is an aging schedule of gross loans receivable as of December 31, 2017, on a contractual basis:

	<b>No. Accts.</b>	<b>Unpaid Balances</b>	<b>%</b>
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	153	\$ 26,421	82%
60-89 days	18	5,954	18%
90-179 days	—	—	0%
180-269 days	—	—	0%
<b>Subtotal</b>	<b>171</b>	<b>\$ 32,375</b>	<b>100%</b>
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	—	\$ —	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. “Total received” to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	—	\$ —	0%
<b>Total</b>	<b>171</b>	<b>\$ 32,375</b>	<b>100%</b>

### *Foreclosed Assets*

Below is a roll forward of foreclosed assets:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Beginning balance	\$ 1,036	\$ 2,798	\$ 2,798
Additions from loans	4,140	-	-
Additions for construction/development	545	317	265
Sale proceeds	-	(1,890)	(1,890)
Gain on sale	-	77	77
Impairment loss on foreclosed assets	(85)	(266)	(155)
Ending balance	<u>\$ 5,636</u>	<u>\$ 1,036</u>	<u>\$ 1,095</u>

During April 2018, we entered into a Deed in Lieu of Foreclosure Agreement (the “Deed Agreement”) with a certain borrower who defaulted on a loan by failing to make an interest payment that was due. As a result, the Company reclassified \$4,140, consisting of \$3,897 of principal from Loan receivable, net and \$243 of interest from Accrued interest receivable, to Foreclosed assets on the balance sheet as of June 30, 2018.

### *Customer Interest Escrow*

Below is a roll forward of interest escrow:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Beginning balance	\$ 935	\$ 812	\$ 812
Preferred equity dividends	62	115	57
Additions from Pennsylvania Loans	101	480	51
Additions from other loans	160	1,163	901
Interest, fees, principal or repaid to borrower	(714)	(1,635)	(992)
Ending balance	<u>\$ 544</u>	<u>\$ 935</u>	<u>\$ 829</u>

### **Related Party Borrowings**

During June 2018, we entered into a First Amendment to the line of credit with our Chief Executive Officer and his wife (the “Wallach LOC”) which modified the interest rate to generally equal the prime rate plus 3%. The interest rate for this borrowing was 6.8% and 4.4% as of June 30, 2018 and 2017, respectively. We borrowed \$877 and \$0 against the Wallach LOC as of June 30, 2018 and 2017, respectively. Interest expense was \$6 and \$10 for the quarter and six months ended June 30, 2018, respectively, and \$0 for the quarter and six months ended June 30, 2017.

During June 2018, we entered into a First Amendment to the line of credit with the 2007 Daniel M. Wallach Legacy Trust, which our Chief Executive Officer’s trust (the “Wallach Trust LOC”) which modified the interest rate to generally equal the prime rate plus 3%. The interest rate for this borrowing was 6.8% and 4.4% as of June 30, 2018 and 2017, respectively. We borrowed \$0 against the Wallach Trust LOC as of June 30, 2018 and 2017.

During June 2018, we entered into a line of credit agreement (the “Myrick LOC Agreement”) with our Executive Vice President of Sales, William Myrick. Pursuant to the Myrick LOC Agreement, Mr. Myrick provides us with a line of credit (the “Myrick LOC”) with the following terms:

- Principal not to exceed \$1,000;
- Secured by a lien against all of our assets;
- Cost of funds to us generally equal to the prime rate plus 3%; and
- Due upon demand.

The Myrick LOC was fully borrowed as of June 30, 2018. The interest rate for the Myrick LOC was 6.8% as of June 30, 2018. Interest expense on the Myrick LOC was \$3 for both the quarter and six months ended June 30, 2018.

## **Secured Borrowings**

### *Purchase and Sale Agreements*

In March 2018, we entered into the Seventh Amendment (the “Seventh Amendment”) to our Loan Purchase and Sale Agreement (the “S.K. Funding LPSA”) with S.K. Funding, LLC (“S.K. Funding”).

The purpose of the Seventh Amendment was to allow S.K. Funding to purchase a portion of the Pennsylvania Loans for a purchase price of \$649 under parameters different from those specified in the S.K. Funding LPSA.

The timing of the Company’s principal and interest payments to S.K. Funding under the Seventh Amendment, and S.K. Funding’s obligation to fund the Pennsylvania Loans, vary depending on the total principal amount of the Pennsylvania Loans outstanding at any time, as follows:

- If the total principal amount exceeds \$1,000, S.K. Funding must fund the amount between \$1,000 and less than or equal to \$3,500.
- If the total principal amount is less than \$4,500 the Company will also repay S.K. Funding’s principal as principal payments are received on the Pennsylvania Loans from the underlying borrowers in the amount by which the total principal amount is less than \$4,500 until S.K. Funding’s principal has been repaid in full.
- The interest rate accruing to S.K. Funding under the Seventh Amendment is 10.5% calculated on a 365/366-day basis.

The Seventh Amendment has a term of 24 months and will automatically renew for an additional six-month term unless either party gives written notice of its intent not to renew at least six months prior to the end of a term. S.K. Funding will have a priority position as compared to the Company in the case of a default by any of the borrowers.

### *Lines of Credit*

During July 2017, we entered into a line of credit agreement (the “Shuman LOC Agreement”) with a group of lenders (collectively, “Shuman”). Pursuant to the Shuman LOC Agreement, Shuman provides us with a revolving line of credit (the “Shuman LOC”) with the following terms:

- Principal not to exceed \$1,325;
- Secured with assignments of certain notes and mortgages;
- Cost of funds to us of 10%; and
- Due in July 2019 unless extended by Shuman for one or more additional 12-month periods.

The Shuman LOC was fully borrowed as of June 30, 2018. Interest expense was \$33 and \$67 for the quarter and six months ended June 30, 2018, respectively.

During April 2018, we entered into a Master Loan Modification Agreement (the “Swanson Modification Agreement”) with Paul Swanson which modified the Line of Credit Agreement between us and Mr. Swanson dated October 23, 2017. Pursuant to the Swanson Modification Agreement, Mr. Swanson provides us with a revolving line of credit (the “Swanson LOC”) with the following terms:

- Principal not to exceed \$7,000;
- Secured with assignments of certain notes and mortgages;
- Cost of funds to us of 10%; and
- Due in January 2018 unless extended by Mr. Swanson for one or more additional 15-month periods.

The Swanson LOC was fully borrowed as of June 30, 2018. Interest expense was \$165 and \$265 for the quarter and six months ended June 30, 2018, respectively.

### Mortgage Payable

During January 2018, we entered into a commercial mortgage on our office building with the following terms:

- Principal not to exceed \$660;
- Interest rate at 5.07% per annum based on a year of 360 days; and
- Due in January 2033.

### Summary

The purchase and sale agreements and lines of credit are summarized below:

	June 30, 2018		December 31, 2017	
	Book Value of Loans which Served as Collateral	Due From Shepherd's Finance to Loan Purchaser or Lender	Book Value of Loans which Served as Collateral	Due From Shepherd's Finance to Loan Purchaser or Lender
Loan Purchaser				
Builder Finance, Inc.	\$ 8,538	\$ 4,843	\$ 7,483	\$ 4,089
S.K. Funding	10,108	6,625	9,128	4,134
Lender				
Shuman	2,160	1,325	1,747	1,325
Paul Swanson	8,214	5,738	2,518	2,096
Total	\$ 29,020	\$ 18,531	\$ 20,876	\$ 11,644
	Year Initiated	Typical Current Advance Rate On New Loans	Does Buyer Portion Have Priority?	Rate
Loan Purchaser				
				The rate our customer pays us
Builder Finance, Inc.	2014	70%	Yes	9–9.5%
S.K. Funding	2015	55%	Varies	
Lender				
Shuman	2017	67%	Yes	10%
Paul Swanson	2017	67%	Yes	10%

## Unsecured Borrowings

### *Other Unsecured Debts*

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate <sup>(1)</sup>	Principal Amount Outstanding as of	
			June 30, 2018	December 31, 2017
Unsecured Note with Seven Kings Holdings, Inc.	August 2018	7.5%	500	500
Unsecured Line of Credit from Builder Finance, Inc.	January 2019	10.0%	500	-
Unsecured Line of Credit from Paul Swanson	December 2018 <sup>(2)</sup>	10.0%	1,262	1,904
Subordinated Promissory Note	Demand <sup>(3)</sup>	7.5%	1,125	-
Subordinated Promissory Note	December 2019	10.5%	263	113
Subordinated Promissory Note	April 2020	10.0%	100	100
Senior Subordinated Promissory Note	March 2022 <sup>(4)</sup>	10.0%	400	-
Senior Subordinated Promissory Note	March 2022 <sup>(5)</sup>	1.0%	728	-
Junior Subordinated Promissory Note	March 2022 <sup>(5)</sup>	22.5%	417	-
Senior Subordinated Promissory Note	October 2022 <sup>(6)</sup>	1.0%	279	279
Junior Subordinated Promissory Note	October 2022 <sup>(6)</sup>	20.0%	173	173
			<u>\$ 5,747</u>	<u>\$ 3,069</u>

<sup>(1)</sup> Interest rate per annum, based upon actual days outstanding and a 365/366 day year.

<sup>(2)</sup> Due in December 2018 unless extended by Mr. Swanson for one or more additional 15-month periods.

<sup>(3)</sup> Principal due six months after lender gives notice. This note may be prepaid without fee, premium, or penalty.

<sup>(4)</sup> This note may be prepaid upon lender's request at least 10 days prior to an interest payment and up to \$20 of principal.

<sup>(5)</sup> These notes were issued to the same holder and, when calculated together, yield a blended return of 11% per annum.

<sup>(6)</sup> These notes were issued to the same holder and, when calculated together, yield a blended return of 10% per annum.



*Unsecured Notes through the Public Offering (“Notes Program”)*

The effective interest rate on the Notes offered pursuant to the Notes Program at June 30, 2018 and December 31, 2017 was 9.39% and 9.21%, respectively, not including the amortization of deferred financing costs. There are limited rights of early redemption. The following table shows the roll forward of our Notes Program:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Gross Notes outstanding, beginning of period	\$ 14,121	\$ 11,221	\$ 11,221
Notes issued	3,350	8,375	8,105
Note repayments / redemptions	<u>(2,197)</u>	<u>(5,475)</u>	<u>(5,087)</u>
Gross Notes outstanding, end of period	\$ 15,274	\$ 14,121	\$ 14,239
Less deferred financing costs, net	<u>252</u>	<u>286</u>	<u>330</u>
Notes outstanding, net	<u>\$ 15,022</u>	<u>\$ 13,835</u>	<u>\$ 13,909</u>

The following is a roll forward of deferred financing costs:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Deferred financing costs, beginning balance	\$ 1,102	\$ 1,014	\$ 1,014
Additions	61	88	40
Deferred financing costs, ending balance	\$ 1,163	\$ 1,102	\$ 1,054
Less accumulated amortization	<u>(95)</u>	<u>(816)</u>	<u>(724)</u>
Deferred financing costs, net	<u>\$ 911</u>	<u>\$ 286</u>	<u>\$ 330</u>

The following is a roll forward of the accumulated amortization of deferred financing costs:

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Accumulated amortization, beginning balance	\$ 816	\$ 603	\$ 603
Additions	95	213	121
Accumulated amortization, ending balance	<u>\$ 911</u>	<u>\$ 816</u>	<u>\$ 724</u>

*Redeemable Preferred Equity and Members’ Capital*

We strive to maintain a reasonable (about 15%) balance between (1) redeemable preferred equity plus members’ capital and (2) total assets. The ratio of redeemable preferred equity plus members’ capital to assets was 10% as of June 30, 2018 and 13% as of December 31, 2017. We anticipate this ratio dropping until more preferred equity is added. We are currently exploring potential increases in preferred equity.

In January 2018, our Chief Financial Officer and Executive Vice President of Operations purchased 2% and 1% of our Class A common units; respectively, from our CEO. In March 2018, our Executive Vice President of Sales purchased 14.3% of our Class A common units from our CEO.

## Priority of Borrowings

The following table displays our borrowings and a ranking of priority. The lower the number, the higher the priority.

	Priority Rank	June 30, 2018	December 31, 2017
Borrowing Source			
Purchase and sale agreements	1	\$ 19,186	\$ 11,644
Secured line of credit from affiliates	2	1,877	-
Unsecured line of credit (senior)	3	500	-
Other unsecured borrowings (senior subordinated)	4	1,008	279
Unsecured Notes through our Notes Program, gross	5	15,274	14,121
Other unsecured borrowings (subordinated)	5	3,649	2,617
Other unsecured borrowings (junior subordinated)	6	590	173
Total		<u>\$ 42,084</u>	<u>\$ 28,834</u>

## Liquidity and Capital Resources

Our primary liquidity management objective is to meet expected cash flow needs while continuing to service our business and customers. As of June 30, 2018, and December 31, 2017, we had 252 and 171, respectively, in combined loans outstanding, which totaled \$44,803 and \$32,375, respectively, in gross loan receivables outstanding. Unfunded commitments to extend credit, which have similar collateral, credit and market risk to our outstanding loans, were \$21,676 and \$19,312 as of June 30, 2018 and December 31, 2017, respectively. We anticipate a significant increase in our gross loans receivables over the 12 months subsequent to June 30, 2018 by directly increasing originations through new and existing customers.

To fund our combined loans, we rely on secured debt, unsecured debt and equity, which are described in the following table:

Source of Liquidity	As of June 30, 2018	As of December 31, 2017
Secured debt	\$ 21,058	\$ 11,644
Unsecured debt	20,769	16,904
Equity	5,038	4,783

Secured debt, net of deferred financing costs increased \$9,414 during the six months ended June 30, 2018, which consisted of an increase in loan purchase and sale agreements, balances on lines of credits with affiliates and mortgage payable of \$6,887, \$1,877 and \$650, respectively. We anticipate increasing our secured debt by roughly half of the increase in loan asset balances over the 12 months subsequent to June 30, 2018 through our existing loan purchase and sale agreements.

The other half of the loan asset growth will come from a combination of increases in our unsecured debt and equity. Unsecured debt, net of deferred financing costs increased \$3,865 during the six months ended June 30, 2018, which consisted of an increase in our Notes Program of \$1,187 and an increase in the balances of unsecured lines of credit of \$2,678. We anticipate an increase in our unsecured debt through increased sales in the Notes Program to cover most of the increase in loan assets not covered by increases in our secured debt during the 12 months subsequent to June 30, 2018.

Equity increased \$255 during the six months ended June 30, 2018, which consisted of an increase in Series C cumulative preferred units ("Series C Units"), Series B cumulative preferred units, and Class A common equity of \$68, \$40 and \$147, respectively. We anticipate an increase in our equity during the 12 months subsequent to June 30, 2017 through the issuance of additional Series C Units. During the year ended December 31, 2017, we increased the amount of Series C Units outstanding by \$1,097. If we are not able to increase our equity through the issuance of additional Series C Units, we will look to our Notes Program for the increase. If we anticipate not being able to fund our projected increases in loan balances through the means listed above, we may reduce new loan originations to reduce need for additional funds.

Cash provided by operations was \$425 as of June 30, 2018 as compared to \$742 for the same period of 2017. Our decrease in operating cash flow in 2018 compared to the same period of 2017 was due to a decrease in customer interest escrow of \$408 offset by an increase in net loan origination fee deferred of \$97.

The following table shows the maturity of our outstanding debt as of June 30, 2018:

<b>Year Maturing</b>	<b>Total Amount Maturing</b>	<b>Public Offering</b>	<b>Other Unsecured</b>	<b>Secured Borrowings</b>
2018	\$ 25,728	\$ 2,306	\$ 3,007	\$ 20,415
2019	7,556	6,499	1,043	14
2020	2,270	2,155	100	15
2021	3,788	3,773	-	15
2022 and thereafter	2,742	541	1,597	604
Total	<u>\$ 42,084</u>	<u>\$ 15,274</u>	<u>\$ 5,747</u>	<u>\$ 21,063</u>

The total amount maturing through year ended December 31, 2019 is \$33,284, which consists of secured borrowings of \$20,429 and unsecured borrowings of \$12,855.

Secured borrowings maturing through year ended December 30, 2019 significantly consists of loan purchase and sale agreements with two loan purchasers (Builder Finance, Inc. and S. K. Funding) and two lenders (Stephen Shuman and Paul Swanson).

The purchasers under the loan purchase and sale agreements have an unconditional obligation to fund loans once agreed to purchase; however, Builder Finance, Inc. has put options that could require us to (a) buy back loans after 12 months and (b) buy back 10% of the portfolio commitment value in any 12 months.

Our lenders have lines of credit with the Company described as follows:

Stephen Shuman's line of credit ("Shuman LOC") is due July 2019 and unless terminated will automatically renew 60 days prior for an additional 12 months. If the Shuman LOC does not renew, \$1,325 will be due in July 2019, which we would expect to fund through loan payoffs.

Paul Swanson's line of credit ("Swanson LOC") is due on December 31, 2018 and unless terminated will automatically renew 120 days prior for an additional 15 months. If the Swanson LOC does not renew, \$4,000 will be due on December 31, 2018 and \$3,000 will be due 120 days after, and which we would expect to fund through loan payoffs used as collateral for the line.

Unsecured borrowings due on December 31, 2018 consist of Notes issued pursuant to the Notes Program and other unsecured debt of \$8,805 and \$4,050, respectively. To the extent that Notes issued pursuant to the Notes Program are not renewed upon maturity, we will be required to fund the maturities, which we anticipate funding through the issuance of new Notes in our Notes Program. Our other unsecured debt has historically renewed. For more information on other unsecured borrowings, see Note 5 – Borrowings. If other unsecured borrowings are not renewed in the future, we anticipate funding such maturities through investments in our Notes Program.

To help manage our liquidity, we:

- do not offer demand deposits (for instance, a checking account). We manage the duration of our Notes through the interest rates we offer at any time;
- fund loan requests with varying sources of capital, not just from proceeds of our Notes Program; and
- match our interest rate to our borrower to our cost of funds.

The following table contains our sources of liquidity for the six months ended June 30, 2018 and 2017:

<b>Source of Liquidity</b>	<b>Six Months Ended June 30, 2018</b>	<b>Six Months Ended June 30, 2017</b>	<b>Comment and Future Outlook</b>
Secured debt	\$ 13,538	\$ 5,775	We increased our related party debt and added a mortgage on our office building. We intend to continue to increase funds through bank participation during 2018 as needed.
Unsecured debt	8,784	9,218	Our unsecured debt outside of our Notes Program increased during 2018. We plan to increase our unsecured borrowings as needed.
Principal payments	11,337	6,229	Our loan volume increased in 2018 resulting in an increase in principal payments. We anticipate continued growth in payoffs as our volume increases.
Interest income	2,708	1,631	We anticipate interest income increasing as our loan balances grow. Our concentration in large borrowers adds risk to this source of liquidity.
Funds from the sale of foreclosed assets	–	1,890	We anticipate selling more foreclosed assets in the future.

The following table contains our uses of liquidity for the six months ended June 30, 2018 and 2017:

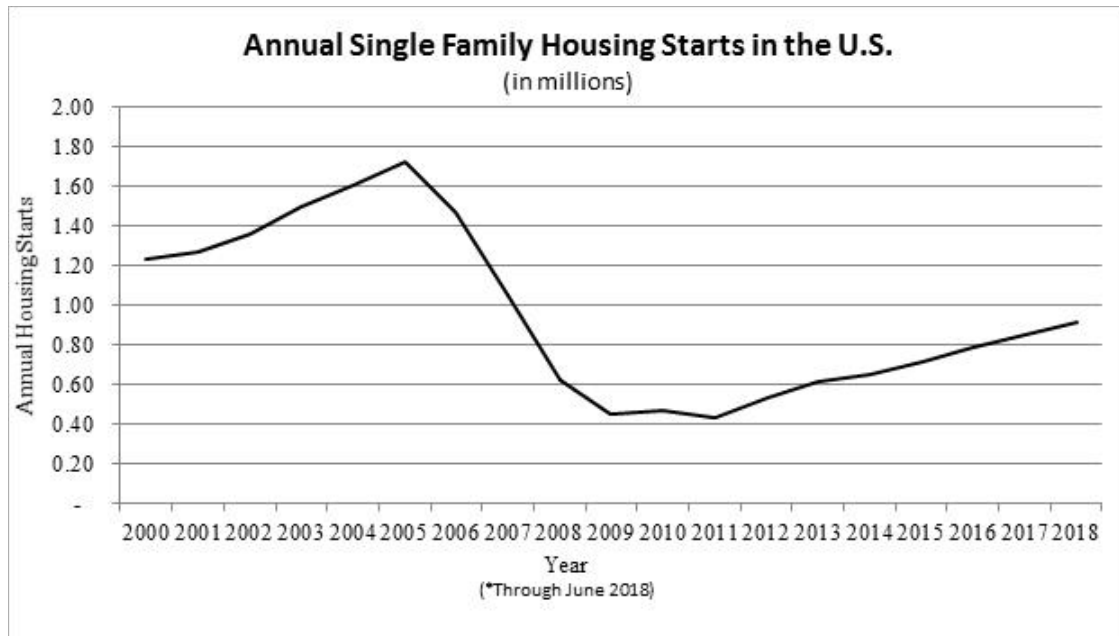
Use of Liquidity	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Comment and Future Outlook
Unfunded and new loans	\$ 21,676	\$ 17,797	We have loan commitments which are unfunded and will be funded as the collateral of these loans are built. As we create new loans, a portion will be funded at origination and the remaining balance will fund over time.
Payments on secured debt	4,118	4,277	These will continue to grow as loan payoffs continue to rise.
Payments on unsecured debt	4,953	5,687	Consists mostly of borrowings from our Notes program. We anticipate these payments to increase in 2018.
Interest expense	1,891	1,162	We anticipate interest expense increasing as we incur additional debt.
Distributions to owners	276	175	Distributions are based on income.

### Inflation, Interest Rates, and Housing Starts

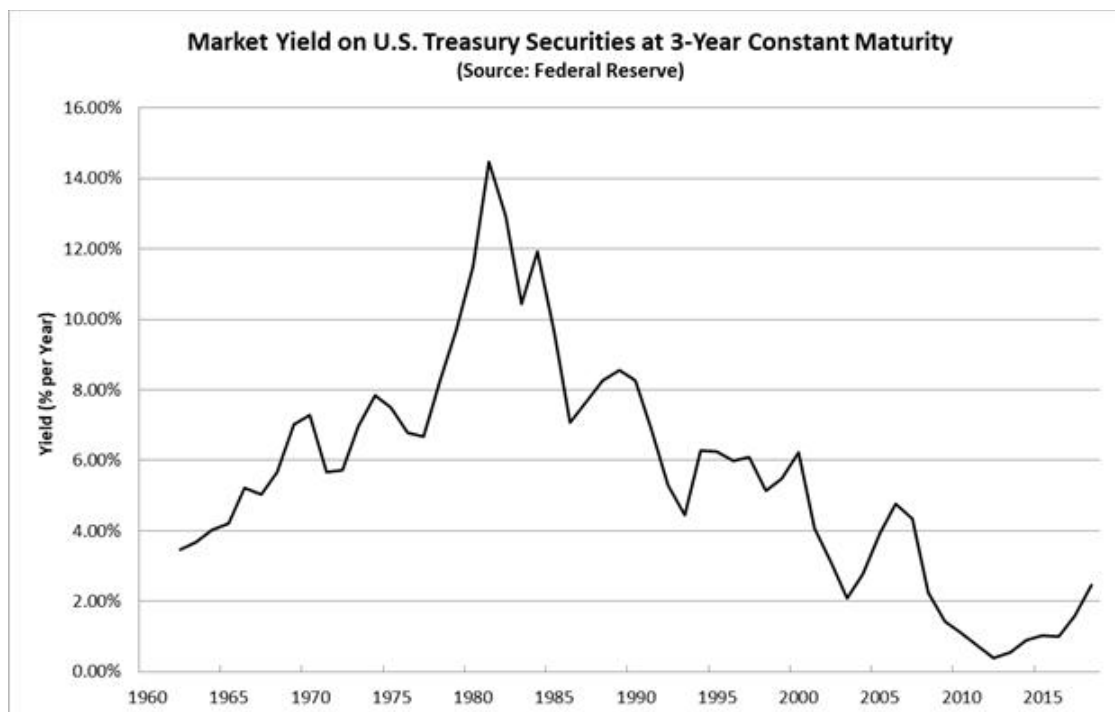
Since we are in the housing industry, we are affected by factors that impact that industry. Housing starts impact our customers' ability to sell their homes. Faster sales generally mean higher effective interest rates for us, as the recognition of fees we charge is spread over a shorter period. Slower sales generally mean lower effective interest rates for us. Slower sales also are likely to increase the default rate we experience.

Housing inflation generally has a positive impact on our operations. When we lend initially, we are lending a percentage of a home's expected value, based on historical sales. If those estimates prove to be low (in an inflationary market), the percentage we loaned of the value actually decreases, reducing potential losses on defaulted loans. The opposite is true in a deflationary housing price market. It is our opinion that values are average in many of the housing markets in the U.S. today, and our lending against these values is safer than loans made by financial institutions in 2006 to 2008.

Interest rates have several impacts on our business. First, rates affect housing (starts, home size, etc.). High long term interest rates may decrease housing starts, having the effects listed above. Higher interest rates will also affect our investors. We believe that there will be a spread between the rate our Notes yield to our investors and the rates the same investors could get on deposits at FDIC insured institutions. We also believe that the spread may need to widen if these rates rise. For instance, if we pay 7% above average CD rates when CDs are paying 0.5%, when CDs are paying 3%, we may have to have a larger than 7% difference. This may cause our lending rates, which are based on our cost of funds, to be uncompetitive. High interest rates may also increase builder defaults, as interest payments may become a higher portion of operating costs for the builder. Higher short term rates may increase the rates builders are charged by banks faster than our rates to the builder will grow, which might be a benefit for us. Below is a chart showing three year U.S. treasury rates, which are being used by us here to approximate CD rates. Short term interest rates have risen slightly but are generally low historically.



Housing prices are also generally correlated with housing starts, so that increases in housing starts usually coincide with increases in housing values, and the reverse is generally true. Below is a graph showing single family housing starts from 2000 through today.



Source: U.S. Census Bureau

To date, changes in housing starts, CD rates, and inflation have not had a material impact on our business.

#### **Off-Balance Sheet Arrangements**

As of June 30, 2018, and December 31, 2017, we had no off-balance sheet transactions, nor do we currently have any such arrangements or obligations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As of the end of the period covered by this report, management including our CEO (our principal executive officer) and CFO (our principal financial officer) evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our CEO (our principal executive officer) and CFO (our principal financial officer) concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our CEO (our principal executive officer) and CFO (our principal financial officer), as appropriate to allow timely decisions regarding required disclosure.

## Internal Control over Financial Reporting

During 2018, we hired a Vice President of Administrative Operations and Product Development to further implement segregation of duties. In addition, we placed into service an internally developed proprietary software system to assist in the management of our Notes Program, which replaced an electronic spreadsheet system. The development of the proprietary software system was designed in part to enhance the overall system of internal controls over financial reporting through further automation of various business processes. Except for the above-mentioned items there has been no change in our internal controls over financial reporting during the quarter and six months ended June 30, 2018 that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

Not applicable.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### (a) *Reinvestments in Partial Series C Cumulative Preferred Units*

Investors in the Series C cumulative preferred units ("Series C Preferred Units") may elect to reinvest their distributions in additional Series C Preferred Units (the "Series C Reinvestment Program"). Pursuant to the Series C Reinvestment Program, on January 31, 2018, we issued approximately 0.0474022 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,740.22, and approximately 0.0601630 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,016.30. On February 28, 2018, we issued approximately 0.0478762 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,787.62, and approximately 0.0607647 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,076.47. On March 31, 2018, we issued approximately 0.0483550 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,835.50, and approximately 0.0613723 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,137.23. On April 30, 2018, we issued approximately 0.0488386 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,883.86, and approximately 0.06198.60 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,198.60. On May 31, 2018, we issued approximately 0.0493269 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,932.69, and approximately 0.0626059 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,260.59. On June 30, 2018, we issued approximately 0.0498202 of a Series C Preferred Unit to Margaret Rauscher IRA LLC in exchange for distribution proceeds of approximately \$4,982.02, and approximately 0.0632320 of a Series C Preferred Unit to an IRA owned by William Myrick in exchange for distribution proceeds of approximately \$6,323.20. The proceeds received from the sales of the partial Series C Preferred Units in those transactions were used for the funding of construction loans.

The transactions in Series C Preferred Units described above were effected in private transactions exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The transactions described above did not involve any public offering, were made without general solicitation or advertising, and the buyer represented to us that it is an "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, with access to all relevant information necessary to evaluate the investment in the Series C Preferred Units.

- (b) We registered up to \$70,000,000 in Fixed Rate Subordinated Notes in our public offering (SEC File No. 333-203707, effective September 29, 2015). As of June 30, 2018, we had issued \$18,435,000 in Notes pursuant to that public offering. From September 29, 2015 through June 30, 2018, we incurred expenses of \$246,000 in connection with the issuance and distribution of the Notes, which were paid to third parties. These expenses were not for underwriters or discounts, but were for advertising, printing, and professional services. Net offering proceeds as of June 30, 2018 were \$18,189,000, 100% of which was used to increase loan balances.

- (c) None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

- (a) During the quarter ended June 30, 2018, there was no information required to be disclosed in a report on Form 8-K which was not disclosed in a report on Form 8-K.
- (b) During the quarter ended June 30, 2018, there were no material changes to the procedures by which members may recommend nominees to our board of managers.

### ITEM 6. EXHIBITS

The exhibits required to be filed with this report are set forth on the Exhibit Index hereto and incorporated by reference herein.

#### EXHIBIT INDEX

The following exhibits are included in this report on Form 10-Q for the period ended June 30, 2018 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Name of Exhibit
3.1	<a href="#"><u>Certificate of Conversion, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, filed on May 11, 2012, Commission File No. 333-181360</u></a>
3.2	<a href="#"><u>Certificate of Formation, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, filed on May 11, 2012, Commission File No. 333-181360</u></a>
3.3	<a href="#"><u>Second Amended and Restated Operating Agreement, incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, filed on November 13, 2017, Commission File No. 333-203707</u></a>
4.1	<a href="#"><u>Indenture Agreement (including Form of Note) dated September 29, 2015, incorporated by reference to Exhibit 4.1 to the Company's Post-Effective Amendment No. 1, filed on September 29, 2015, Commission File No. 333-203707</u></a>
10.1	<a href="#"><u>Master Loan Modification Agreement to the Line of Credit Agreement between Shepherd's Finance, LLC and Paul Swanson, dated as of April 11, 2018, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, filed on April 18, 2018, Commission File No. 333-203707</u></a>
10.2	<a href="#"><u>Unsecured Promissory Note from Shepherd's Finance, LLC to Paul Swanson, dated as of October 23, 2017 and April 12, 2018, incorporated by reference to Exhibit 10.2 to the Company's Form 8-K, filed on April 18, 2018, Commission File No. 333-203707</u></a>
10.3	<a href="#"><u>Secured Promissory Note from Shepherd's Finance, LLC to Paul Swanson, dated as of October 23, 2017 and April 13, 2018, incorporated by reference to Exhibit 10.3 to the Company's Form 8-K, filed on April 18, 2018, Commission File No. 333-203707</u></a>
10.4	<a href="#"><u>Agreement between Shepherd's Finance, LLC and 1333 Vista Drive, LLC, dated April 27, 2018, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, filed on May 3, 2018, Commission File No. 333-203707</u></a>
10.5	<a href="#"><u>Deed in Lieu of Foreclosure Agreement between Shepherd's Finance, LLC and 1333 Vista Drive, LLC, dated April 27, 2018, incorporated by reference to Exhibit 10.2 to the Company's Form 8-K, filed on May 3, 2018, Commission File No. 333-203707</u></a>
10.6	<a href="#"><u>Warranty Deed in Lieu of Foreclosure Agreement between Shepherd's Finance, LLC and 1333 Vista Drive, LLC, dated April 27, 2018, incorporated by reference to Exhibit 10.3 to the Company's Form 8-K, filed on May 3, 2018, Commission File No. 333-203707</u></a>
10.7*	<a href="#"><u>First Amendment to Promissory Note between Shepherd's Finance, LLC and Daniel M. Wallach and Joyce S. Wallach, dated June 14, 2018</u></a>
10.8*	<a href="#"><u>First Amendment to Promissory Note between Shepherd's Finance, LLC and 2007 Daniel M. Wallach Legacy Trust, dated June 14, 2018</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
32.2*	<a href="#"><u>Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document



101.DEF\*\* XBRL Definition Linkbase Document

101.LAB\*\* XBRL Labels Linkbase Document

101.PRE\*\* XBRL Presentation Linkbase Document

\* Filed herewith.

\*\* Pursuant to Regulation 406T of Regulation S-T, these Interactive Data Files are deemed not filed or part of a registration statement or prospectus for purpose of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and are otherwise not subject to liability.

## 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.

**SHEPHERD'S FINANCE, LLC**  
(Registrant)

Dated: August 9, 2018

By: /s/ Catherine Loftin  
Catherine Loftin  
Chief Financial Officer

## FIRST AMENDMENT TO PROMISSORY NOTE

This **FIRST AMENDMENT TO PROMISSORY NOTE** (this "First Amendment") is made and entered into on June 14, 2018, by and among **SHEPHERD'S FINANCE, LLC** ("Borrower"), and **DANIEL M. WALLACH AND JOYCE S. WALLACH**, as tenants by the entirety (together, "Lender").

### WITNESSETH:

WHEREAS, Borrower and Lender have entered into that certain Promissory Note dated as of December 30, 2011 (the "Promissory Note"), pursuant to which Lender advanced to Borrower a loan in the maximum principal amount of One Million Two Hundred Fifty Thousand and No/100 Dollars (\$1,250,000.00) (the "Loan"), which is secured by that certain Commercial Pledge Agreement, dated as of December 30, 2011 (the "Wallach Commercial Pledge Agreement") and, collectively with the Promissory Note, the "Loan Documents") pursuant to which Lender is granted a first priority security interest in certain of Borrower's personal property;

WHEREAS, the interest rate to the Borrower on the Promissory Note equals the cost of funds, and management of the Borrower has recommended that the interest rate to the Borrower on the Promissory Note be changed to equal the cost of funds plus two percent;

NOW, THEREFORE, for and in consideration of the above premises, Ten Dollars in hand paid and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Recitals. The foregoing recitals are confirmed by the parties as true and correct and are incorporated herein by reference. The recitals are a substantive, contractual part of this First Amendment.

2. Capitalized Terms. Capitalized terms used herein but not otherwise defined herein shall have the respective meanings ascribed thereto in the Loan Documents.

3. Modification to Interest Calculation Method. As of the date hereof, the paragraph that begins "**INTEREST CALCULATION METHOD**" is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

**INTEREST CALCULATION METHOD.** The interest rate on this Note shall equal the "Lender's Cost of Funds," which shall mean a daily rate equal to the "Prime Rate" of interest published in The Wall Street Journal from time to time, plus three percent. If more than one "Prime Rate" is published in The Wall Street Journal for a day, the average of such "Prime Rates" shall be used, and such average shall be rounded up to the nearest 1/100th of one percent (0.01%).

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4. Modification to Governing Law. As of the date hereof, the paragraph that begins “**GOVERNING LAW**” is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

**GOVERNING LAW.** This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This Note has been accepted by each Lender in the State of Florida.

5. Modification to Choice of Venue. As of the date hereof, the paragraph that begins “**CHOICE OF VENUE**” is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

**CHOICE OF VENUE.** If there is a lawsuit, Borrower agrees upon Lender’s request to submit to the jurisdiction of the courts of the State of Florida, in the county in which Lender’s following address is located: 13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258.

6. Representations and Warranties. Borrower hereby represents and warrants as follows:

(a) after giving effect to this First Amendment each of the representations and warranties in the Wallach Commercial Pledge and in each of the other Loan Documents are true and correct in all material respects on and as of the date hereof as though made on and as of such date;

(b) no default or Event of Default has occurred and is continuing as of the date hereof;

(c) the execution, delivery and performance by the Borrower of this First Amendment has been duly authorized by all requisite company action on the part of the Borrower and will not violate any of its articles of organization, operating agreement, bylaws or other organizational documents;

(d) this First Amendment has been duly executed and delivered by Borrower, and this First Amendment constitutes the legal, valid and binding obligation of Borrower enforceable against it in accordance with its terms; and

(e) no action or proceeding, including, without limitation, a voluntary or involuntary petition for bankruptcy under any chapter of the Bankruptcy Code, has been instituted or threatened by or against Borrower under the Bankruptcy Code or any other federal or state insolvency laws.

7. Conditions to Effectiveness. This First Amendment shall become effective when the Lender shall have received, in form and substance satisfactory to the Lender:

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(a) counterparts of this First Amendment executed by the Borrower and the Lender; and

(b) all reasonable fees and expenses payable or reimbursable by the Borrower as of the date hereof, including, without limitation, all costs, fees and expenses of the Lender in connection with the preparation, execution and delivery of this First Amendment and the other instruments and documents to be delivered pursuant hereto (including the reasonable fees and out-of-pocket expenses of counsel for the Lender with respect thereto).

8. No Other Agreements; No Novation. Except as expressly modified and amended hereby, the Promissory Note shall be and remain in full force and effect and unchanged and is hereby ratified and confirmed. The execution, delivery and effectiveness of this First Amendment shall not, except as expressly provided herein, operate as an amendment, waiver or modification of any right, power or remedy of the Lender under any of the Loan Documents, nor constitute an amendment, waiver or modification of any other provisions of the Loan Documents. Neither the execution and delivery of this First Amendment, nor the consummation of any transaction contemplated hereunder, is intended to constitute a novation of the Promissory Note or of any of the other Loan Documents or any obligations thereunder. This First Amendment shall constitute a Loan Document for all purposes.

9. Reaffirmation and Ratification. Borrower acknowledges and agrees that the security interests and liens granted to the Lender pursuant to the Loan Documents shall remain outstanding and in full force and effect in accordance with the Loan Documents, and shall continue to secure the Obligations, and that the security and other interests granted to the Lender thereby are hereby ratified, confirmed and continued by execution and delivery of this First Amendment. The Loan Documents shall remain extant and in full force and effect following the execution and delivery of this First Amendment and any other Loan Documents executed in connection therewith.

10. Waiver of Claims. To induce the Lender to enter into this First Amendment, Borrower warrants and represents to the Lender that the Loan is not subject to any credits, charges, claims, or rights of offset or deduction of any kind or character whatsoever; and Borrower releases and discharges the Lender and its respective affiliates, officers, directors, shareholders, employees, attorneys and agents from any and all claims, defenses and causes of action, whether known or unknown and whether now existing or hereafter arising that have at any time been owned, or that are hereafter owned, in tort or in contract by Borrower, that arise out of any one or more circumstances or events that occurred prior to the date of this First Amendment and that relate to the Loan, the Promissory Note, the Loan Documents or the transactions described therein.

11. Strict Compliance Notice. Lender hereby notifies the Borrower that Lender intends to rely upon the strict terms and conditions of the Promissory Note and the other Loan Documents, and the Lender expects that the Borrower will strictly comply with the terms and conditions thereof from and after the date hereof.

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12. Governing Law. This First Amendment will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This First Amendment has been accepted by each Lender in the State of Florida.

13. Choice of Venue. If there is a lawsuit, Lender and Borrower agree to submit to the jurisdiction of the courts of the State of Florida, in the county in which Lender's following address is located: 13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258.

14. Counterparts and Headings. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. The headings of this First Amendment are for convenience of reference only, are not part of this First Amendment and are not to affect the construction of, or to be taken into consideration interpreting, this First Amendment.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE]

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IN WITNESS WHEREOF, Borrower and Lender have caused this First Amendment to be executed as of the day and year first above written.

**BORROWER:**

**SHEPHERD'S FINANCE, LLC**

By: /s/ Daniel M. Wallach

Name: Daniel M. Wallach

Title: Chief Executive Officer

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

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**LENDER:**

**DANIEL M. WALLACH AND JOYCE S. WALLACH,**  
as tenants by the entirety

By: /s/ Daniel M. Wallach

Name: Daniel M. Wallach

By: /s/ Joyce S. Wallach

Name: Joyce S. Wallach

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## **FIRST AMENDMENT TO PROMISSORY NOTE**

This **FIRST AMENDMENT TO PROMISSORY NOTE** (this "First Amendment") is made and entered into on June 14, 2018, by and among **SHEPHERD'S FINANCE, LLC** ("Borrower"), and **2007 DANIEL M. WALLACH LEGACY TRUST** ("Lender").

### **WITNESSETH:**

WHEREAS, Borrower and Lender have entered into that certain Promissory Note dated as of December 30, 2011 (the "Promissory Note"), pursuant to which Lender advanced to Borrower a loan in the maximum principal amount of Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) (the "Loan"), which is secured by that certain Commercial Pledge Agreement, dated as of December 30, 2011 (the "Wallach Commercial Pledge Agreement") and, collectively with the Promissory Note, the "Loan Documents") pursuant to which Lender is granted a first priority security interest in certain of Borrower's personal property;

WHEREAS, the interest rate to the Borrower on the Promissory Note equals the cost of funds, and management of the Borrower has recommended that the interest rate to the Borrower on the Promissory Note be changed to equal the cost of funds plus two percent;

NOW, THEREFORE, for and in consideration of the above premises, Ten Dollars in hand paid and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Recitals. The foregoing recitals are confirmed by the parties as true and correct and are incorporated herein by reference. The recitals are a substantive, contractual part of this First Amendment.

2. Capitalized Terms. Capitalized terms used herein but not otherwise defined herein shall have the respective meanings ascribed thereto in the Loan Documents.

3. Modification to Interest Calculation Method. As of the date hereof, the paragraph that begins "INTEREST CALCULATION METHOD" is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

**INTEREST CALCULATION METHOD.** The interest rate on this Note shall equal the "Lender's Cost of Funds," which shall mean a daily rate equal to the "Prime Rate" of interest published in The Wall Street Journal from time to time, *plus* three percent. If more than one "Prime Rate" is published in The Wall Street Journal for a day, the average of such "Prime Rates" shall be used, and such average shall be rounded up to the nearest 1/100th of one percent (0.01%).

4. Modification to Governing Law. As of the date hereof, the paragraph that begins "GOVERNING LAW" is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

---

**GOVERNING LAW.** This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This Note has been accepted by each Lender in the State of Florida.

5. Modification to Choice of Venue. As of the date hereof, the paragraph that begins “**CHOICE OF VENUE**” is deleted in its entirety and simultaneously substituted in lieu thereof by the following:

**CHOICE OF VENUE.** If there is a lawsuit, Borrower agrees upon Lender’s request to submit to the jurisdiction of the courts of the State of Florida, in the county in which Lender’s following address is located: 13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258.

6. Representations and Warranties. Borrower hereby represents and warrants as follows:

(a) after giving effect to this First Amendment each of the representations and warranties in the Wallach Commercial Pledge and in each of the other Loan Documents are true and correct in all material respects on and as of the date hereof as though made on and as of such date;

(b) no default or Event of Default has occurred and is continuing as of the date hereof;

(c) the execution, delivery and performance by the Borrower of this First Amendment has been duly authorized by all requisite company action on the part of the Borrower and will not violate any of its articles of organization, operating agreement, bylaws or other organizational documents;

(d) this First Amendment has been duly executed and delivered by Borrower, and this First Amendment constitutes the legal, valid and binding obligation of Borrower enforceable against it in accordance with its terms; and

(e) no action or proceeding, including, without limitation, a voluntary or involuntary petition for bankruptcy under any chapter of the Bankruptcy Code, has been instituted or threatened by or against Borrower under the Bankruptcy Code or any other federal or state insolvency laws.

7. Conditions to Effectiveness. This First Amendment shall become effective when the Lender shall have received, in form and substance satisfactory to the Lender:

(a) counterparts of this First Amendment executed by the Borrower and the Lender; and

(b) all reasonable fees and expenses payable or reimbursable by the Borrower as of the date hereof, including, without limitation, all costs, fees and expenses of the Lender in connection with the preparation, execution and delivery of this First Amendment and the other instruments and documents to be delivered pursuant hereto (including the reasonable fees and out-of-pocket expenses of counsel for the Lender with respect thereto).

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8. No Other Agreements; No Novation. Except as expressly modified and amended hereby, the Promissory Note shall be and remain in full force and effect and unchanged and is hereby ratified and confirmed. The execution, delivery and effectiveness of this First Amendment shall not, except as expressly provided herein, operate as an amendment, waiver or modification of any right, power or remedy of the Lender under any of the Loan Documents, nor constitute an amendment, waiver or modification of any other provisions of the Loan Documents. Neither the execution and delivery of this First Amendment, nor the consummation of any transaction contemplated hereunder, is intended to constitute a novation of the Promissory Note or of any of the other Loan Documents or any obligations thereunder. This First Amendment shall constitute a Loan Document for all purposes.

9. Reaffirmation and Ratification. Borrower acknowledges and agrees that the security interests and liens granted to the Lender pursuant to the Loan Documents shall remain outstanding and in full force and effect in accordance with the Loan Documents, and shall continue to secure the Obligations, and that the security and other interests granted to the Lender thereby are hereby ratified, confirmed and continued by execution and delivery of this First Amendment. The Loan Documents shall remain extant and in full force and effect following the execution and delivery of this First Amendment and any other Loan Documents executed in connection therewith.

10. Waiver of Claims. To induce the Lender to enter into this First Amendment, Borrower warrants and represents to the Lender that the Loan is not subject to any credits, charges, claims, or rights of offset or deduction of any kind or character whatsoever; and Borrower releases and discharges the Lender and its respective affiliates, officers, directors, shareholders, employees, attorneys and agents from any and all claims, defenses and causes of action, whether known or unknown and whether now existing or hereafter arising that have at any time been owned, or that are hereafter owned, in tort or in contract by Borrower, that arise out of any one or more circumstances or events that occurred prior to the date of this First Amendment and that relate to the Loan, the Promissory Note, the Loan Documents or the transactions described therein.

11. Strict Compliance Notice. Lender hereby notifies the Borrower that Lender intends to rely upon the strict terms and conditions of the Promissory Note and the other Loan Documents, and the Lender expects that the Borrower will strictly comply with the terms and conditions thereof from and after the date hereof.

12. Governing Law. This First Amendment will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This First Amendment has been accepted by the Lender in the State of Florida.

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13. Choice of Venue. If there is a lawsuit, Lender and Borrower agree to submit to the jurisdiction of the courts of the State of Florida, in the county in which Lender's following address is located: 13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258.

14. Counterparts and Headings. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. The headings of this First Amendment are for convenience of reference only, are not part of this First Amendment and are not to affect the construction of, or to be taken into consideration interpreting, this First Amendment.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE]

---

IN WITNESS WHEREOF, Borrower and Lender have caused this First Amendment to be executed as of the day and year first above written.

**BORROWER:**

**SHEPHERD'S FINANCE, LLC**

By: /s/ Daniel M. Wallach

Name: Daniel M. Wallach

Title: Chief Executive Officer

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

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**LENDER:**

**2007 DANIEL M. WALLACH LEGACY TRUST**

By: /s/ Daniel M. Wallach

Name: Daniel M. Wallach

Title: Trustee

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER****Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Daniel M. Wallach, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Shepherd's Finance, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2018

By: /s/ Daniel M. Wallach

Daniel M. Wallach  
Chief Executive Officer and Manager  
(Principal Executive Officer)

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER****Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Catherine Loftin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Shepherd's Finance, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2018

By: /s/ Catherine Loftin

Catherine Loftin  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Shepherd's Finance, LLC (the "Company"), in connection with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (the "Report") hereby certifies, to his knowledge, that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2018

By: /s/ Daniel M. Wallach

Daniel M. Wallach  
Chief Executive Officer and Manager  
(Principal Executive Officer)

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Shepherd's Finance, LLC (the "Company"), in connection with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (the "Report") hereby certifies, to her knowledge, that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2018

By: /s/ Catherine Loftin

Catherine Loftin  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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