
**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 September 30, 2019

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 333-224557

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
None	None	None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 checked="" 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

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, 2018, 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 Annual Report on Form 10-K for the year ended December 31, 2018 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>	September 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 2,488	\$ 1,401
Accrued interest receivable	684	568
Loans receivable, net	51,924	46,490
Foreclosed assets	3,675	5,973
Premises and equipment	989	1,051
Other assets	104	327
Total assets	<u>\$ 59,864</u>	<u>\$ 55,810</u>
Liabilities and Members’ Capital		
Customer interest escrow	\$ 914	\$ 939
Accounts payable and accrued expenses	412	724
Accrued interest payable	2,384	2,140
Notes payable secured, net of deferred financing costs	24,753	23,258
Notes payable unsecured, net of deferred financing costs	24,623	22,635
Due to preferred equity member	36	32
Total liabilities	<u>\$ 53,122</u>	<u>\$ 49,728</u>
Commitments and Contingencies (Note 9)		
Redeemable Preferred Equity		
Series C preferred equity	\$ 2,784	\$ 2,385
Members’ Capital		
Series B preferred equity	1,450	1,320
Class A common equity	2,508	2,377
Members’ capital	<u>\$ 3,958</u>	<u>\$ 3,697</u>
Total liabilities, redeemable preferred equity and members’ capital	<u>\$ 59,864</u>	<u>\$ 55,810</u>

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 Nine Months Ended September 30, 2019 and 2018

<i>(in thousands of dollars)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest Income				
Interest and fee income on loans	\$ 2,600	\$ 1,924	\$ 7,486	\$ 5,556
Interest expense:				
Interest related to secured borrowings	746	552	2,196	1,480
Interest related to unsecured borrowings	736	587	2,077	1,550
Interest expense	1,482	1,139	4,273	3,030
Net interest income	1,118	785	3,213	2,526
Less: Loan loss provision	3	2	201	61
Net interest income after loan loss provision	1,115	783	3,012	2,465
Non-Interest Income				
Gain on foreclosure of assets	86	20	181	20
Total non-interest income	86	20	181	20
Income	1,201	803	3,193	2,485
Non-Interest Expense				
Selling, general and administrative	703	559	1,947	1,627
Depreciation and amortization	21	23	66	61
Loss on sale of foreclosed assets	274	3	274	3
Loss on foreclosure of assets	-	-	169	-
Impairment loss on foreclosed assets	-	51	107	136
Total non-interest expense	998	636	2,563	1,827
Net Income	\$ 203	\$ 167	\$ 630	\$ 658
Earned distribution to preferred equity holders	118	69	333	199
Net income attributable to common equity holders	\$ 85	\$ 98	\$ 297	\$ 459

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 Nine and Three Months Ended September 30, 2019 and 2018

For the Nine Months Ended September 30, 2019 and 2018

<i>(in thousands of dollars)</i>	2019	2018
Members' capital, beginning balance, December 31	\$ 3,697	\$ 3,686
Net income less distributions to Series C preferred equity holders of \$229 and \$105	401	553
Contributions from Series B preferred equity holders	130	80
Earned distributions to Series B preferred equity holders	(104)	(94)
Distributions to common equity holders	(166)	(349)
Members' capital, ending balance September 30	<u>\$ 3,958</u>	<u>\$ 3,876</u>

For the Three Months Ended September 30, 2019 and 2018

<i>(in thousands of dollars)</i>	2019	2018
Members' capital, beginning balance, June 30	\$ 3,844	\$ 3,873
Net income less distributions to Series C preferred equity holders of \$85 and \$37	118	130
Contributions from Series B preferred equity holders	30	40
Earned distributions to Series B preferred equity holders	(34)	(30)
Distributions to common equity holders	-	(137)
Members' capital, ending balance September 30	<u>\$ 3,958</u>	<u>\$ 3,876</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 Nine Months Ended September 30, 2019 and 2018

<i>(in thousands of dollars)</i>	Nine Months Ended September 30,	
	2019	2018
Cash flows from operations		
Net income	\$ 630	\$ 658
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred financing costs	197	142
Provision for loan losses	201	61
Net loan origination fees deferred	352	375
Change in deferred origination expense	88	(31)
Impairment of foreclosed assets	107	89
Depreciation and amortization	66	61
Gain on foreclosed assets	(181)	(20)
Loss on foreclosed assets	169	47
Loss on sale of foreclosed assets	274	3
Net change in operating assets and liabilities:		
Other assets	(107)	(216)
Accrued interest receivable	(116)	(143)
Customer interest escrow	(125)	(58)
Accounts payable and accrued expenses	(68)	672
Net cash provided by operating activities	<u>1,487</u>	<u>1,640</u>
Cash flows from investing activities		
Loan originations and principal collections, net	(8,491)	(18,072)
Proceeds from sale of loans	-	198
Investment in foreclosed assets	(608)	(1,039)
Proceeds from sale of foreclosed assets	4,543	370
Premises and equipment additions	(4)	(64)
Net cash used in investing activities	<u>(4,560)</u>	<u>(18,607)</u>
Cash flows from financing activities		
Contributions from preferred equity holders	330	1,480
Distributions to redeemable preferred equity holders	(30)	(1,269)
Distributions to common equity holders	(166)	(349)
Proceeds from secured note payable	13,954	19,181
Repayments of secured note payable	(13,137)	(9,905)
Proceeds from unsecured notes payable	9,570	12,149
Redemptions/repayments of unsecured notes payable	(6,356)	(4,258)
Deferred financing costs paid	(5)	(195)
Net cash provided by financing activities	<u>4,160</u>	<u>16,834</u>
Net increase (decrease) in cash and cash equivalents	1,087	(133)
Cash and cash equivalents		
Beginning of period	1,401	3,478
End of period	<u>\$ 2,488</u>	<u>\$ 3,345</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 4,029	\$ 2,466
Non-cash investing and financing activities		
Reinvested earnings of Series B preferred equity held in interest escrow	\$ 100	\$ 93
Change in accumulated Series B preferred equity	\$ 4	\$ 1
Foreclosure of assets transferred from loans receivable, net	\$ 2,006	\$ 4,494
Accrued interest reduction due to foreclosure	\$ -	\$ 243
Earned but not paid distributions of Series C preferred equity holders	\$ 229	\$ 105
Unsecured transferred to secured notes payable	\$ 1,014	\$ -
Construction loans repaid through the reduction of Secured LOC Principal Balance (See Note 8)	\$ 410	\$ 477
Reclassification of deferred financing costs from other assets	\$ 330	\$ -

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 the sole member of a consolidating subsidiary, 84 REPA, LLC. The Company operates pursuant to its Second Amended and Restated Operating Agreement, as amended, by and among Daniel M. Wallach and the other members of the Company effective as of March 16, 2017.

The Company extends commercial loans to residential homebuilders (in 21 states as of September 30, 2019) 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 September 30, 2019, 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, the instructions to Form 10-Q and Article 8 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, 2019. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2018 consolidated financial statements and notes thereto (the "2018 Financial Statements") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"). The accounting policies followed by the Company are set forth in Note 2 – *Summary of Significant Accounting Policies* in the 2018 Financial 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 2016-13, "*Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*". The amendments in ASU 2016-13 introduce a new current expected credit loss ("CECL") model for certain financial assets, including mortgage loans and reinsurance receivables. The new model will not apply to debt securities classified as available-for-sale. For assets within the scope of the new model, an entity will recognize as an allowance against earnings its estimate of the contractual cash flows not expected to be collected on day one of the asset's acquisition. The allowance may be reversed through earnings if a security recovers in value. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred and recognizes a security's subsequent recovery in value in other comprehensive income. ASU 2016-13 also makes targeted changes to the current impairment model for available-for-sale debt securities, which comprise the majority of the Company's invested assets. Similar to the CECL model, credit loss impairments will be recorded in an allowance against earnings that may be reversed for subsequent recoveries in value. The amendments in ASU 2016-13, along with related amendments in ASU No. 2018-19 - Codification Improvements to Topic 326, Financial Instruments-Credit Losses, are effective for annual and interim periods beginning after December 15, 2019 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in ASU 2016-13.

ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*." This ASU amends the disclosure requirements of Topic 820, Fair Value Measurement, to remove disclosure of transfers between Level 1 and Level 2 of the fair value hierarchy and to include disclosure of the range and weighted average used in Level 3 fair value measurements, among other amendments. The ASU applies to all entities that are required to provide disclosures about recurring or non-recurring fair value measurements. Amendments should be applied retrospectively to all periods presented, except for certain amendments, which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The effective date for the additional disclosures for calendar year-end public companies is January 1, 2020.

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 September 30, 2019 and December 31, 2018.

The following tables present the balances of non-financial instruments measured at fair value on a non-recurring basis as of September 30, 2019 and December 31, 2018.

	September 30, 2019		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Amount	Estimated Fair Value			
Foreclosed assets	\$ 3,675	\$ 3,675	\$ –	\$ –	\$ 3,675
Impaired assets	2,407	2,407	–	–	2,407
Total	<u>\$ 6,082</u>	<u>\$ 6,082</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 6,082</u>

	December 31, 2018		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Amount	Estimated Fair Value			
Foreclosed assets	\$ 5,973	\$ 5,973	\$ –	\$ –	\$ 5,973
Impaired assets	2,503	2,503	–	–	2,503
Total	<u>\$ 8,476</u>	<u>\$ 8,476</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 8,476</u>

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:

	September 30, 2019		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Amount	Estimated Fair Value			
Financial Assets					
Cash and cash equivalents	\$ 2,488	\$ 2,488	\$ 2,488	\$ –	\$ –
Loans receivable, net	51,924	51,924	–	–	51,924
Accrued interest on loans	684	684	–	–	684
Financial Liabilities					
Customer interest escrow	914	914	–	–	914
Notes payable secured, net	24,753	24,753	–	–	24,753
Notes payable unsecured, net	24,623	24,623	–	–	24,623
Accrued interest payable	2,384	2,384	–	–	2,384

	December 31, 2018		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Amount	Estimated Fair Value			
Financial Assets					
Cash and cash equivalents	\$ 1,401	\$ 1,401	\$ 1,401	\$ –	\$ –
Loans receivable, net	46,490	46,490	–	–	46,490
Accrued interest on loans	568	568	–	–	568
Financial Liabilities					
Customer interest escrow	939	939	–	–	939
Notes payable secured, net	23,258	23,258	–	–	23,258
Notes payable unsecured, net	22,635	22,635	–	–	22,635
Accrued interest payable	2,140	2,140	–	–	2,140

3. Financing Receivables

Financing receivables are comprised of the following as of September 30, 2019 and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Loans receivable, gross	\$ 54,305	\$ 49,127
Less: Deferred loan fees	(897)	(1,249)
Less: Deposits	(1,485)	(1,510)
Plus: Deferred origination costs	220	308
Less: Allowance for loan losses	(219)	(186)
Loans receivable, net	<u>\$ 51,924</u>	<u>\$ 46,490</u>

Commercial Construction and Development Loans

Commercial Loans – Construction Loan Portfolio Summary

As of September 30, 2019, the Company's portfolio consisted of 252 commercial construction loans with 68 borrowers in 21 states and eight development loans with five borrowers in three states.

The following is a summary of the loan portfolio to builders for home construction loans as of September 30, 2019 and December 31, 2018:

Year	Number of States	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
2019	21	68	252	\$ 97,622	\$ 66,879	\$ 46,369	69% ⁽³⁾	5%
2018	18	75	259	102,808	68,364	43,107	67% ⁽³⁾	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.

Commercial Loans – Real Estate Development Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for land development as of September 30, 2019 and December 31, 2018:

Year	Number of States	Number of Borrowers	Number of Loans	Gross Value of Collateral ⁽¹⁾	Commitment Amount ⁽²⁾	Gross Amount Outstanding	Loan to Value Ratio ⁽³⁾	Loan Fee
2019	3	5	8	\$ 11,790	\$ 8,410	\$ 7,936	67%	\$ 1,000
2018	3	4	9	10,134	7,456	6,020	59%	1,000

- (1) The value is determined by the appraised value adjusted for remaining costs to be paid. A portion of this collateral is \$1,450 and \$1,320 as of September 30, 2019 and December 31, 2018, 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.
- (2) The commitment amount does not include letters of credit and cash bonds.
- (3) The loan to value ratio is calculated by taking the outstanding amount and dividing by the appraised value calculated as described above.

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 2018 Form 10-K, as filed with the SEC, for more information.

Gross finance receivables – By risk rating:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Pass	\$ 50,603	\$ 43,402
Special mention	1,295	3,222
Classified – accruing	–	–
Classified – nonaccrual	2,407	2,503
Total	<u>\$ 54,305</u>	<u>\$ 49,127</u>

Gross finance receivables – Method of impairment calculation:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Performing loans evaluated individually	\$ 23,646	\$ 19,037
Performing loans evaluated collectively	28,252	27,587
Non-performing loans without a specific reserve	2,407	2,204
Non-performing loans with a specific reserve	–	299
Total evaluated collectively for loan losses	<u>\$ 54,305</u>	<u>\$ 49,127</u>

As September 30, 2019 and December 31, 2018, there were no loans acquired with deteriorated credit quality.

Impaired Loans

The following is a summary of our impaired nonaccrual commercial construction loans as of September 30, 2019 and December 31, 2018.

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Unpaid principal balance (contractual obligation from customer)	\$ 2,407	\$ 2,503
Charge-offs and payments applied	–	–
Gross value before related allowance	2,407	2,503
Related allowance	(10)	(20)
Value after allowance	<u>\$ 2,397</u>	<u>\$ 2,483</u>

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of loans receivable. Our concentration risks for our top three customers listed by geographic real estate market are summarized in the table below:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Borrower</u>	<u>Percent of</u>	<u>Borrower</u>	<u>Percent of</u>
	<u>City</u>	<u>Loan</u>	<u>City</u>	<u>Loan</u>
		<u>Commitments</u>		<u>Commitments</u>
Highest concentration risk	Pittsburgh, PA	24%	Pittsburgh, PA	23%
Second highest concentration risk	Orlando, FL	15%	Orlando, FL	13%
Third highest concentration risk	Cape Coral, FL	4%	Cape Coral, FL	4%

4. Foreclosed Assets

The following table is a roll forward of foreclosed assets:

	<u>Nine Months</u>	<u>Year</u>	<u>Nine Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>
	<u>2019</u>	<u>2018</u>	<u>2018</u>
Beginning balance	\$ 5,973	\$ 1,036	\$ 1,036
Additions from loans	2,006	4,737	4,737
Additions for construction/development	608	1,608	1,039
Sale proceeds	(4,543)	(809)	(370)
Loss on sale	(274)	(103)	(3)
Gain on foreclosure	181	19	20
Loss on foreclosure	(169)	(47)	(47)
Impairment loss on foreclosed assets	(107)	(468)	(89)
Ending balance	<u>\$ 3,675</u>	<u>\$ 5,973</u>	<u>\$ 6,323</u>

5. Borrowings

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

	<u>Priority Rank</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Borrowing Source			
Purchase and sale agreements and other secured borrowings	1	\$ 24,423	\$ 22,521
Secured lines of credit from affiliates	2	335	816
Unsecured line of credit (senior)	3	500	500
Other unsecured debt (senior subordinated)	4	1,008	1,008
Unsecured notes through our public offering, gross	5	20,756	17,348
Other unsecured debt (subordinated)	5	2,194	3,401
Other unsecured debt (junior subordinated)	6	590	590
Total		<u>\$ 49,806</u>	<u>\$ 46,184</u>

The following table shows the maturity of outstanding debt as of September 30, 2019:

Year Maturing	Total Amount Maturing	Public Offering	Other Unsecured	Secured Borrowings
2019	\$ 27,020	\$ 2,134	\$ 763	\$ 24,123
2020	6,458	4,829	1,614	15
2021	11,056	11,040	-	16
2022	3,842	2,080	1,746	16
2023 and thereafter	1,430	673	169	588
Total	<u>\$ 49,806</u>	<u>\$ 20,756</u>	<u>\$ 4,292</u>	<u>\$ 24,758</u>

Secured Borrowings

New Lines of Credit

During the nine months ended September 30, 2019, we entered into three line of credit agreements (the “New LOC Agreements”). Pursuant to the New LOC Agreements, the lenders provide us with revolving lines of credit with the following terms:

- Principal not to exceed \$2,250;
- Secured with assignments of certain notes and mortgages; and
- Terms allow the lenders to give one month notice after which the principal balance of a New LOC Agreement will reduce to a zero over the next six months.

Interest expense was \$60 and \$90 for the quarter and nine months ended September 30, 2019, respectively.

Repayment of London Loan

During September 2018, we entered into a Master Loan Agreement (“London Loan”) with London Financial Company, LLC (“London Financial”). The London Loan had a principal balance of \$3,250 and came due in September 2019.

In August 2019 we sold our largest foreclosed asset with sales proceeds of \$4,543 which resulted in a loss on sale of \$274. A portion of the proceeds were used to pay off the London Loan which reduced notes payable secured by \$3,250. For more information on foreclosed assets, see Note 4 – Foreclosed Assets.

Lines of Credit from Affiliates

As of September 30, 2019, the Company had borrowed \$336 on its lines of credit from affiliates, which have a total limit of \$2,500.

Deferred Financing Cost

The following is a roll forward of secured deferred financing costs:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Deferred financing costs, beginning balance	\$ 104	\$ –	\$ –
Additions	–	104	–
Deferred financing costs, ending balance	\$ 104	\$ 104	\$ –
Less accumulated amortization	(100)	(25)	–
Deferred financing costs, net	<u>\$ 4</u>	<u>\$ 79</u>	<u>\$ –</u>

Summary

Borrowings secured by loan assets are summarized below:

	September 30, 2019		December 31, 2018	
	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.	\$ 9,795	\$ 6,287	\$ 8,742	\$ 5,294
S.K. Funding, LLC	11,360	6,922	11,788	6,408
Lender				
Stephen K. Shuman	2,228	1,325	2,051	1,325
Jeff Eppinger	1,709	1,000	-	-
Hardy Enterprises, Inc.	2,223	1,000	-	-
Gary Zentner	607	250	-	-
Paul Swanson	10,210	7,000	8,079	5,986
Total	\$ 38,132	\$ 23,784	\$ 30,660	\$ 19,013

Unsecured Borrowings

Unsecured Notes through the Public Offering ("Notes Program")

On March 22, 2019, the Company terminated its second public offering and commenced its third public offering of fixed rate subordinated notes (the "Notes"). The effective interest rate on borrowings through our Notes Program at September 30, 2019 and December 31, 2018 was 10.11% and 10.07%, respectively, not including the amortization of deferred financing costs. There are limited rights of early redemption. We generally offer four durations at any given time, ranging from 12 to 48 months from the date of issuance. The following table shows the roll forward of our Notes Program:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Gross Notes outstanding, beginning of period	\$ 17,348	\$ 14,121	\$ 14,121
Notes issued	9,201	9,645	6,357
Note repayments / redemptions	(5,793)	(6,418)	(2,503)
Gross Notes outstanding, end of period	\$ 20,756	\$ 17,348	\$ 17,975
Less deferred financing costs, net	425	212	233
Notes outstanding, net	<u>\$ 20,331</u>	<u>\$ 17,136</u>	<u>\$ 17,742</u>

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Deferred financing costs, beginning balance	\$ 1,212	\$ 1,102	\$ 1,102
Additions	336	117	89
Disposals	-	(7)	-
Deferred financing costs, ending balance	1,548	1,212	1,191
Less accumulated amortization	(1,123)	(1,000)	(958)
Deferred financing costs, net	<u>\$ 425</u>	<u>\$ 212</u>	<u>\$ 233</u>

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

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Accumulated amortization, beginning balance	\$ 1,000	\$ 816	\$ 816
Additions	123	184	142
Accumulated amortization, ending balance	<u>\$ 1,123</u>	<u>\$ 1,000</u>	<u>\$ 958</u>

Other Unsecured Debts, net

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate ⁽¹⁾	Principal Amount Outstanding as of	
			September 30, 2019	December 31, 2018
Unsecured Note with Seven Kings Holdings, Inc.	Demand ⁽²⁾	9.5%	\$ 500	\$ 500
Unsecured Line of Credit from Builder Finance, Inc.	January 2020	10.0%	500	500
Unsecured Line of Credit from Paul Swanson	July 2019	10.0%	-	1,014
Subordinated Promissory Note	September 2020	9.5%	563	1,125
Subordinated Promissory Note	December 2019	10.5%	113	113
Subordinated Promissory Note	April 2020	10.0%	100	100
Subordinated Promissory Notes	October 2019	10.0%	150	150
Subordinated Promissory Note	August 2022	11.0%	200	-
Subordinated Promissory Note	September 2023 ⁽⁶⁾	11.0%	169	-
Senior Subordinated Promissory Note	March 2022 ⁽³⁾	10.0%	400	400
Senior Subordinated Promissory Note	March 2022 ⁽⁴⁾	1.0%	728	728
Junior Subordinated Promissory Note	March 2022 ⁽⁴⁾	22.5%	417	417
Senior Subordinated Promissory Note	October 2020 ⁽⁵⁾	1.0%	279	279
Junior Subordinated Promissory Note	October 2020 ⁽⁵⁾	20.0%	173	173
			<u>\$ 4,292</u>	<u>\$ 5,499</u>

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

⁽²⁾ Due six months after lender gives notice.

⁽³⁾ Lender may require us to repay \$20 of principal and all unpaid interest with 10 days' notice.

⁽⁴⁾ These notes were issued to the same holder and, when calculated together, yield a blended return of 11% per annum.

⁽⁵⁾ These notes were issued to the same holder and, when calculated together, yield a blended return of 10% per annum.

⁽⁶⁾ Due one month after lender gives notice, which notice may not be given prior to August 1, 2020.

6. Redeemable Preferred Equity

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

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Beginning balance	\$ 2,385	\$ 1,097	\$ 1,097
Additions from new investment	200	2,300	1,400
Redemptions	(30)	(1,177)	(1,176)
Additions from reinvestment	229	165	105
Ending balance	<u>\$ 2,784</u>	<u>\$ 2,385</u>	<u>\$ 1,426</u>

The following table shows the earliest redemption options for investors in our Series C Preferred Units as of September 30, 2019:

Year of Available Redemption	Total Amount Redeemable
2024	\$ 2,577
2025	207
Total	<u>\$ 2,784</u>

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 September 30, 2019, the Class A Common Units are held by six 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 September 30, 2019 and December 31, 2018.

The Series B Preferred Units were issued to the Hoskins Group through a reduction in a loan issued by the Hoskins Group to the Company. In December 2015, the Hoskins Group agreed to purchase 0.1 Series B Preferred Units for \$10 at each closing of a lot to a third party in the Hamlet's and Tuscany subdivisions. As of September 30, 2019, the Hoskins Group owns a total of 14.5 Series B Preferred Units, which were issued for a total of \$1,450.

8. Related Party Transactions

As of September 30, 2019, the Company had \$1,245, \$250, and \$669 available to borrow against the line of credit from Daniel M. Wallach (our Chief Executive Officer (“CEO”) and chairman of the board of managers) and his wife, the line of credit from the 2007 Daniel M. Wallach Legacy Trust, and the line of credit from William Myrick (our Executive Vice President (“EVP”) of Sales), respectively. A more detailed description is included in Note 6 of our 2018 Financial Statements. These borrowings are in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

As of September 30, 2019, the Company serviced four loans sold to our CEO and EVP of Sales at their gross loans receivable balance of \$1,465, and as such, no gain or loss was recognized on the sale. Purchases were funded through a \$410 reduction in the principal balance of the line of credit extended by the CEO and EVP of Sales to the Company. The Company continues to service these loans. As of September 30, 2019, we had \$68 in builder deposits related to these loans, and the principal balance being serviced was \$475.

9. Commitments and Contingencies

Unfunded commitments to extend credit, which have similar collateral, credit risk, and market risk to our outstanding loans, were \$20,511 and \$25,258 at September 30, 2019 and December 31, 2018, respectively.

10. Selected Quarterly Condensed Consolidated Financial Data (Unaudited)

Summarized unaudited quarterly condensed consolidated financial data for the quarters of 2019 and 2018 are as follows:

	<u>Quarter 3</u> <u>2019</u>	<u>Quarter 2</u> <u>2019</u>	<u>Quarter 1</u> <u>2019</u>	<u>Quarter 4</u> <u>2018</u>	<u>Quarter 3</u> <u>2018</u>	<u>Quarter 2</u> <u>2018</u>	<u>Quarter 1</u> <u>2018</u>
Net Interest Income after Loan Loss Provision	\$ 1,115	\$ 818	\$ 1,079	\$ 914	\$ 783	\$ 876	\$ 806
Non-Interest Income	86	95	–	(1)	20	–	–
SG&A Expense	703	620	624	403	559	571	497
Depreciation and Amortization	21	22	23	21	23	21	17
Loss on Sale of Foreclosed Assets	274	–	–	100	3	–	–
Loss on Foreclosure of Assets	–	169	–	–	–	–	–
Impairment Loss on Foreclosed Assets	–	27	80	379	51	80	5
Net Income	<u>\$ 203</u>	<u>\$ 75</u>	<u>\$ 352</u>	<u>\$ 10</u>	<u>\$ 167</u>	<u>\$ 204</u>	<u>\$ 287</u>

11. Non-Interest Expense Detail

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

	<u>For the Nine Months Ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
Selling, general and administrative expenses		
Legal and accounting	\$ 211	\$ 277
Salaries and related expenses	1,143	945
Board related expenses	66	54
Advertising	102	58
Rent and utilities	36	38
Loan and foreclosed asset expenses	179	80
Travel	101	73
Other	109	102
Total SG&A	<u>\$ 1,947</u>	<u>\$ 1,627</u>

12. Subsequent Events

Management of the Company has evaluated subsequent events through November 7, 2019, the date these interim condensed consolidated financial statements were issued.

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 (the "2018 Financial Statements") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"). See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I.

Overview

Net income for the quarter and nine months ended September 30, 2019 increased \$36 and decreased \$28, respectively, when compared to the same periods of 2018. The increase in net income for the quarter ended September 30, 2019 was primarily due to higher net interest income of \$333, which is directly related to construction loan balances and an increase in gain on foreclosure of assets of \$66. Both amounts were offset by an increase in non-interest expense of \$362.

The decrease in net income for the nine months ended September 30, 2019 was primarily due to an increase in loan loss provision of \$140 and non-interest expense of \$736, which was offset by net interest income of \$687 directly related to construction loan balances and an increase in gain on foreclosure of assets of \$161.

We reclassified one construction loan from loan assets, net to foreclosed assets during the quarter ended September 30, 2019, which resulted in a gain of \$86 and an outstanding loan balance of \$290. During the nine months ended September 30, 2019, we reclassified an additional 18 construction loans from loan assets, net to foreclosed assets which resulted in a gain of \$95 on five of such loans and a loss of \$169 on 13 of such loans. The 18 loans had total outstanding balances of \$1,432 and the borrower was one customer who died.

During the quarter ended September 30, 2019, we sold our largest foreclosed asset for net proceeds of \$4,543, which resulted in a loss on sale of \$274. Part of the proceeds were used to reduce notes payable secured by \$3,250. For more information on foreclosed assets, see Note 4 – Foreclosed Assets.

In addition, our loan loss provision increased \$1 and \$140 for the quarter and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. The increase in loan loss provision was primarily due to the sale of an impaired asset which resulted in a loss of \$124.

We had \$51,924 and \$46,490 in loan assets as of September 30, 2019 and December 31, 2018, respectively. In addition, as of September 30, 2019, we had 252 construction loans in 21 states with 68 borrowers and eight development loans in three states with five borrowers.

Cash provided by operations decreased \$153 for nine months ended September 30, 2019 as compared to the same period of 2018. Our decrease in operating cash flow was due primarily to the increase in gain on foreclosed assets.

Critical Accounting Estimates

To assist in evaluating our interim condensed 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 2018 Form 10-K, 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, 2018 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.

Change in Fair Value Assumption	September 30, 2019 Loan Loss Provision Higher/(Lower)
Increasing fair value of the real estate collateral by 35%*	\$ -
Decreasing fair value of the real estate collateral by 35%**	\$ (2,737)

* 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 \$51,789.

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).

Change in Fair Value Assumption	September 30, 2019 Foreclosed Assets Higher/(Lower)
Increasing fair value of the foreclosed asset by 35%*	\$ -
Decreasing fair value of the foreclosed asset by 35%**	\$ (1,286)

* 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 \$3,675.

Consolidated Results of Operations

Key financial and operating data for the three and nine months ended September 30, 2019 and 2018 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 interim condensed consolidated financial statements, including the related notes and the other information contained in this document.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest Income				
Interest and fee income on loans	\$ 2,600	\$ 1,924	\$ 7,486	\$ 5,556
Interest expense:				
Interest related to secured borrowings	746	552	2,196	1,480
Interest related to unsecured borrowings	736	587	2,077	1,550
Interest expense	1,482	1,139	4,273	3,030
Net interest income	1,118	785	3,213	2,526
Less: Loan loss provision	3	2	201	61
Net interest income after loan loss provision	1,115	783	3,012	2,465
Non-Interest Income				
Gain on foreclosure of assets	86	20	181	20
Total non-interest income	86	20	181	20
Income	1,201	803	3,193	2,485
Non-Interest Expense				
Selling, general and administrative	703	559	1,947	1,627
Depreciation and amortization	21	23	66	61
Loss on sale of foreclosed assets	274	3	274	3
Loss on foreclosure of assets	-	-	169	-
Impairment loss on foreclosed assets	-	51	107	136
Total non-interest expense	998	636	2,563	1,827
Net Income	<u>\$ 203</u>	<u>\$ 167</u>	<u>\$ 630</u>	<u>\$ 658</u>
Earned distribution to preferred equity holders	<u>118</u>	<u>69</u>	<u>333</u>	<u>199</u>
Net income attributable to common equity holders	<u>\$ 85</u>	<u>\$ 98</u>	<u>\$ 297</u>	<u>\$ 459</u>

Interest Spread

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

	Three Months Ended September,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
		*		*		*		*
Interest Income								
Interest income on loans	\$ 1,927	14%	\$ 1,400	13%	\$ 5,488	14%	\$ 4,108	13%
Fee income on loans	673	5%	524	4%	1,998	5%	1,448	4%
Interest and fee income on loans	2,600	19%	1,924	17%	7,486	19%	5,556	17%
Interest expense unsecured	696	4%	540	5%	1,954	4%	1,408	5%
Interest expense secured	746	4%	552	5%	2,196	4%	1,480	5%
Amortization of offering costs	40	-%	47	-%	123	-%	142	-%
Interest expense	1,482	11%	1,139	10%	4,273	11%	3,030	10%
Net interest income (spread)	1,118	8%	785	7%	3,213	8%	2,526	7%
Weighted average outstanding loan asset balance	\$ 54,029		\$ 43,732		\$ 52,389		\$ 40,566	

*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 7%. For construction loans, the margin is fixed at 3%; however, for our development loans the margin is fixed at 7%. Construction loans originated after September 30, 2018 have an increased margin of 1% to approximately 3%, while older loans have an increased margin of 2%.

For both the quarter and nine months ended September 30, 2019, the interest income on construction loans increased by 1% compared to the same period of 2018 due primarily to our increase in interest rates from 2% to 3% starting with new loans created in the third quarter of 2018.

The difference between the interest rate received on our loans and the interest we paid was 3% for both the quarter and nine months ended September 30, 2019 and 2018. While our stated margin is 3%, our actual margin may differ primarily due to the following: 1) some loans pay higher than the stated margin, 2) some loans are not paying interest, and 3) the dollar amount of loans may be different than the dollar amount of debt. Another factor that impacts this margin is the percentage of loans which are development loans paying the 7% margin.

We currently anticipate that the difference between our interest income and interest expense will continue to be 3% for the remainder of 2019. Due to the increase in our pricing which started with loans created in the third quarter of 2018, we anticipate our standard margin to be 3% on all future construction loans and 7% on all development loans, which yields a blended margin of approximately 3.4%. These factors should yield us a spread in the low 3%'s until the foreclosed asset balance is reduced significantly, and then in the low 4%'s thereafter, assuming no other significant changes to our business.

• **Fee income.** Our construction loans have a 5% fee on the amount that 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.

We currently anticipate that fee income will be 5% for the remainder of 2019.

• **Amount of nonperforming assets.** Generally, we can have two types of nonperforming assets that negatively affect interest spread: loans not paying interest and foreclosed assets. As of September 30, 2019, \$2,407 of loans were not paying interest. As of September 30, 2018, all loans were paying interest.

Foreclosed assets do not provide a monthly interest return. As of September 30, 2019, and 2018, we had \$3,675 and \$6,323, respectively, in foreclosed assets, which resulted in a negative impact on our interest spread.

During August 2019, we sold our largest foreclosed asset. For more information on foreclosed assets, see Note 4 – Foreclosed Assets.

SG&A Expenses

The following table displays our SG&A expenses:

	Three Months Ended September 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Selling, general and administrative expenses				
Legal and accounting	\$ 37	\$ 54	\$ 211	\$ 277
Salaries and related expenses	359	352	1,143	945
Board related expenses	25	17	66	54
Advertising	52	23	102	58
Rent and utilities	11	18	36	38
Loan and foreclosed asset expenses	132	42	179	80
Travel	55	22	101	73
Other	32	31	109	102
Total SG&A	\$ 703	\$ 559	\$ 1,947	\$ 1,627

Our SG&A expenses increased \$144 and \$320 for the quarter and nine months ended September 30, 2019, respectively, due primarily to salaries and related expenses from hiring additional employees to support the Company's growth. In addition, loan and foreclosed asset expenses increased due to the taxes and utilities paid to maintain our foreclosed assets.

Impairment Loss on Foreclosed Assets

We owned 25 and seven foreclosed assets as of September 30, 2019 and 2018, respectively. Excluding the 18 recently taken from our deceased borrower, we have three properties with completed construction. In addition, two are under construction and two are vacant lots. During the nine months ended September 30, 2019, the Company acquired 18 foreclosed assets from a deceased borrow of which eight are partially built with various stages of construction. The Company plans to finalize construction on eight of the recently acquired foreclosed homes under construction and are analyzing the future progress of the remaining 10 vacant lots. In addition, we reclassified one construction loan from loan assets, net to foreclosed assets during the quarter ended September 30, 2019, which resulted in a gain of \$86 and an outstanding loan balance of \$290.

As of September 30, 2019, we do not anticipate losses on the sale of foreclosed assets; 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 \$1 and \$140 for both the quarter and nine months ended September 30, 2019, compared to the same periods of 2018. The increase in loan loss provision was primarily due to the sale of an impaired asset which resulted in a loss of \$124.

Consolidated Financial Position

Loans Receivable

Commercial Loans – Construction Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for home construction loans as of September 30, 2019:

State	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
Connecticut	1	1	340	204	204	60%	5%
Colorado	1	1	630	425	422	67%	5%
Florida	18	117	33,510	24,257	14,079	72%	5%
Georgia	1	5	1,879	1,423	1,192	76%	5%
Idaho	1	1	310	217	158	70%	5%
Indiana	1	1	347	243	182	70%	5%
Michigan	4	12	3,581	2,362	1,857	66%	5%
New Jersey	4	13	4,658	3,571	2,639	77%	5%
New York	2	2	920	644	621	70%	5%
North Carolina	5	13	3,814	2,597	1,425	68%	5%
Ohio	3	10	5,717	3,624	2,734	63%	5%
Oregon	1	3	1,704	1,193	922	70%	5%
Pennsylvania	3	26	21,710	13,318	11,016	61%	5%
South Carolina	12	26	9,593	6,699	4,884	70%	5%
Tennessee	2	3	1,120	784	447	70%	5%
Texas	3	5	2,169	1,399	872	65%	5%
Utah	2	5	2,289	1,688	1,196	74%	5%
Virginia	1	3	1,245	816	649	65%	5%
Washington	1	2	1,040	728	291	70%	5%
Wisconsin	1	1	539	332	249	62%	5%
Wyoming	1	2	507	355	330	70%	5%
Total	68	252	\$ 97,622	\$ 66,879	\$ 46,369	69%⁽³⁾	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.

The following is a summary of our loan portfolio to builders for home construction loans as of December 31, 2018:

State	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
Arizona	1	1	\$ 1,140	\$ 684	\$ 214	60%	5%
Colorado	2	4	2,549	1,739	1,433	68%	5%
Florida	18	104	32,381	22,855	12,430	71%	5%
Georgia	5	6	5,868	3,744	2,861	64%	5%
Idaho	1	2	605	424	77	70%	5%
Indiana	2	5	1,567	1,097	790	70%	5%
Michigan	4	26	5,899	3,981	2,495	67%	5%
New Jersey	5	15	4,999	3,742	2,820	75%	5%
New York	2	4	1,555	1,089	738	70%	5%
North Carolina	5	12	3,748	2,580	1,712	69%	5%
North Dakota	1	1	375	263	227	70%	5%
Ohio	2	3	3,220	1,960	1,543	61%	5%
Pennsylvania	3	34	24,808	14,441	10,087	58%	5%
South Carolina	15	29	9,702	6,738	4,015	69%	5%
Tennessee	1	2	750	525	347	70%	5%
Texas	1	1	179	125	26	70%	5%
Utah	4	4	1,788	1,206	486	67%	5%
Virginia	3	6	1,675	1,172	806	70%	5%
Total	75	259	\$ 102,808	\$ 68,365	\$ 43,107	67%⁽³⁾	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.

Commercial Loans – Real Estate Development Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for land development as of September 30, 2019 and December 31, 2018. A significant portion of our development loans consist of three development loans to a borrower in Pittsburgh, Pennsylvania (the “Pennsylvania Loans”). Our additional development loans are with borrowers in North Carolina, South Carolina and Florida.

Year	Number of States	Number of Borrowers	Number of Loans	Gross Value of Collateral ⁽¹⁾	Commitment Amount ⁽³⁾	Gross Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
2019	3	5	8	\$ 11,790	\$ 8,410	\$ 7,936	67%	\$1,000
2018	3	4	9	10,134	7,456	6,020	59%	1,000

(1) The value is determined by the appraised value adjusted for remaining costs to be paid. A portion of this collateral is \$1,450 and \$1,320 as of September 30, 2019 and December 31, 2018, 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.

(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 September 30, 2019 and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Loans receivable, gross	\$ 54,305	\$ 49,127
Less: Deferred loan fees	(897)	(1,249)
Less: Deposits	(1,485)	(1,510)
Plus: Deferred origination costs	220	308
Less: Allowance for loan losses	<u>(219)</u>	<u>(186)</u>
Loans receivable, net	<u>\$ 51,924</u>	<u>\$ 46,490</u>

The following is a roll forward of combined loans:

	<u>Nine Months Ended September 30, 2019</u>	<u>Year Ended December 31, 2018</u>	<u>Nine Months Ended September 30, 2018</u>
Beginning balance	\$ 46,490	\$ 30,043	\$ 30,043
Additions	41,902	54,145	30,606
Payoffs/sales	(34,551)	(32,899)	(22,260)
Transferred to foreclosed assets	(2,006)	(4,494)	4,494
Change in deferred origination expense	(88)	199	31
Change in builder deposit	25	(12)	64
Loan loss provision	(201)	(89)	(61)
New loan fees	(2,121)	(2,949)	(2,194)
Earned loan fees	2,474	2,546	1,818
Ending balance	<u>\$ 51,924</u>	<u>\$ 46,490</u>	<u>\$ 42,541</u>

Finance Receivables – By risk rating:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Pass	\$ 50,603	\$ 43,402
Special mention	1,295	3,222
Classified – accruing	–	–
Classified – nonaccrual	<u>2,407</u>	<u>2,503</u>
Total	<u>\$ 54,305</u>	<u>\$ 49,127</u>

Finance Receivables – Method of impairment calculation:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Performing loans evaluated individually	\$ 23,646	\$ 19,037
Performing loans evaluated collectively	28,252	27,587
Non-performing loans without a specific reserve	2,407	2,204
Non-performing loans with a specific reserve	<u>-</u>	<u>299</u>
Total evaluated collectively for loan losses	<u>\$ 54,305</u>	<u>\$ 49,127</u>

At September 30, 2019 and December 31, 2018, there were no loans acquired with deteriorated credit quality.

Impaired Loans

The following is a summary of our impaired nonaccrual commercial construction loans as of September 30, 2019 and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Unpaid principal balance (contractual obligation from customer)	\$ 2,407	\$ 2,503
Charge-offs and payments applied	-	-
Gross value before related allowance	<u>2,407</u>	<u>2,503</u>
Related allowance	(10)	(20)
Value after allowance	<u>\$ 2,397</u>	<u>\$ 2,483</u>

Below is an aging schedule of loans receivable as of September 30, 2019, on a recency basis:

	<u>No. Loans</u>	<u>Unpaid Balances</u>	<u>%</u>
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	251	\$ 51,926	96%
60-89 days	2	998	2%
90-179 days	7	1,381	2%
180-269 days	-	-	-%
Subtotal	<u>260</u>	<u>\$ 54,305</u>	<u>100%</u>
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	-	\$ -	-%
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.)	-	\$ -	-%
Total	<u>260</u>	<u>\$ 54,305</u>	<u>100%</u>

Below is an aging schedule of loans receivable as of September 30, 2019, on a contractual basis:

	No. Loans	Unpaid Balances	%
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	251	\$ 51,926	96%
60-89 days	2	998	2%
90-179 days	7	1,381	2
180-269 days	-	-	-%
Subtotal	260	\$ 54,305	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	-	\$ -	-%
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.)	-	\$ -	-%
Total	260	\$ 54,305	100%

Below is an aging schedule of loans receivable as of December 31, 2018, on a recency basis:

	No. Loans	Unpaid Balances	%
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	265	\$ 48,144	98%
60-89 days	-	-	-%
90-179 days	1	299	1%
180-269 days	2	684	1%
Subtotal	268	\$ 49,127	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	-	\$ -	-%
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.)	-	\$ -	-%
Total	268	\$ 49,127	100%

Below is an aging schedule of loans receivable as of December 31, 2018, on a contractual basis:

	No. Loans	Unpaid Balances	%
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	265	\$ 48,144	98%
60-89 days	-	-	-%
90-179 days	1	299	1%
180-269 days	2	684	1%
Subtotal	268	\$ 49,127	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	-	\$ -	-%
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.)	-	\$ -	-%

Total	<u>268</u>	\$ <u>49,127</u>	<u>100%</u>
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Foreclosed Assets

Below is a roll forward of foreclosed assets:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Beginning balance	\$ 5,973	\$ 1,036	\$ 1,036
Additions from loans	2,006	4,737	4,737
Additions for construction/development	608	1,608	1,039
Sale proceeds	(4,543)	(809)	(370)
Loss on sale	(274)	(103)	(3)
Gain on foreclosure	181	19	20
Loss on foreclosure	(169)	(47)	(47)
Impairment loss on foreclosed assets	(107)	(468)	(89)
Ending balance	<u>\$ 3,675</u>	<u>\$ 5,973</u>	<u>\$ 6,323</u>

We reclassified one construction loan from loan assets, net to foreclosed assets during the quarter ended September 30, 2019, which resulted in a gain of \$86 and an outstanding loan balance of \$290. During the nine months ended September 30, 2019, we reclassified an additional 18 construction loans from loan assets, net to foreclosed assets which resulted in a gain of \$95 on five of such loans and a loss of \$169 on 13 of such loans. The 18 loans had total outstanding balances of \$1,432 and the borrower was one customer who died.

During the quarter ended September 30, 2019, we sold our largest foreclosed asset for proceeds of \$4,543, which resulted in a loss on sale of \$274. A portion of the proceeds were used to reduce notes payable secured by \$3,250. For more information on foreclosed assets, see Note 4 – Foreclosed Assets.

Customer Interest Escrow

Below is a roll forward of interest escrow:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Six Months Ended September 30, 2018
Beginning balance	\$ 939	\$ 935	\$ 935
Preferred equity dividends	100	125	93
Additions from Pennsylvania Loans	964	362	331
Additions from other loans	570	1,214	781
Interest, fees, principal or repaid to borrower	(1,659)	(1,697)	(1,263)
Ending balance	<u>\$ 914</u>	<u>\$ 939</u>	<u>\$ 877</u>

Related Party Borrowings

As of September 30, 2019, the Company had \$1,245, \$250, and \$669 available to borrow against the line of credit from Daniel M. Wallach (our Chief Executive Officer and chairman of the board of managers) and his wife, the line of credit from the 2007 Daniel M. Wallach Legacy Trust, and the line of credit from William Myrick (our Executive Vice President of Sales), respectively. A more detailed description is included in Note 6 to the 2018 Financial Statements. These borrowings are in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

As of September 30, 2019, the Company serviced four loans sold to our CEO and EVP of Sales at their gross loans receivable balance of \$1,465, and as such, no gain or loss was recognized on the sale. Purchases were funded through a \$410 reduction in the principal balance of the line of credit extended by the CEO and EVP of Sales to the Company. The Company continues to service these loans. As of September 30, 2019, we had \$68 in builder deposits related to these loans, and the principal balance being serviced was \$475.

Secured Borrowings

New Lines of Credit

During the nine months ended September 30, 2019, we entered into three line of credit agreements (the “New LOC Agreements”). Pursuant to the New LOC Agreements, the lenders provide us with revolving lines of credit with the following terms:

- Principal not to exceed \$2,250;
- Secured with assignments of certain notes and mortgages; and
- Terms allow the lenders to give one month notice after which the principal balance of a New LOC Agreement will reduce to zero over the next six months.

Interest expense was \$60 and \$90 for the quarter and nine months ended September 30, 2019, respectively.

Lines of Credit from Affiliates

As of September 30, 2019, the Company had borrowed \$336 on its lines of credit from affiliates, which have a total limit of \$2,500.

None of our lines of credit have given us notice of nonrenewal, and the lines will continue to automatically renew unless notice is given by a lender.

Deferred Financing Costs

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Deferred financing costs, beginning balance	\$ 104	\$ –	\$ –
Additions	–	104	–
Deferred financing costs, ending balance	\$ 104	\$ 104	\$ –
Less accumulated amortization	(100)	(25)	–
Deferred financing costs, net	\$ 4	\$ 79	\$ –

Summary

The borrowings secured by loan assets are summarized below:

	September 30, 2019		December 31, 2018	
	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.	\$ 9,795	\$ 6,287	\$ 8,742	\$ 5,294
S.K. Funding, LLC	11,360	6,922	11,788	6,408
Lender				
Stephen K. Shuman	2,228	1,325	2,051	1,325
Jeff Eppinger	1,709	1,000	-	-
Hardy Enterprises, Inc.	2,223	1,000	-	-
Gary Zentner	607	250	-	-
Paul Swanson	10,210	7,000	8,079	5,986
Total	\$ 38,132	\$ 23,784	\$ 30,660	\$ 19,013

	Year Initiated	Typical Current Advance Rate On New Loans	Does Buyer Portion Have Priority?
Builder Finance, Inc.	2014	75%	Yes
S.K. Funding, LLC	2015	55%	Varies
Lender			
Stephen K. Shuman	2017	67%	Yes
Jeff Eppinger	2019	67%	Yes
Hardy Enterprises, Inc.	2019	67%	Yes
Gary Zentner	2019	67%	Yes
Paul Swanson	2017	67%	Yes

Unsecured Borrowings

Unsecured Notes through the Public Offering ("Notes Program")

On March 22, 2019, the Company terminated its second public offering and commenced its third public offering of fixed rate subordinated notes (the "Notes"). The effective interest rate on borrowings through our Notes Program at September 30, 2019 and December 31, 2018 was 10.11% and 10.07%, respectively, not including the amortization of deferred financing costs. There are limited rights of early redemption. We generally offer four durations at any given time, ranging from 12 to 48 months from the date of issuance. The following table shows the roll forward of our Notes Program:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Gross Notes outstanding, beginning of period	\$ 17,348	\$ 14,121	\$ 14,121
Notes issued	9,201	9,645	6,357
Note repayments / redemptions	(5,793)	(6,418)	(2,503)
Gross Notes outstanding, end of period	\$ 20,756	\$ 17,348	\$ 17,975
Less deferred financing costs, net	425	212	233
Notes outstanding, net	<u>\$ 20,331</u>	<u>\$ 17,136</u>	<u>\$ 17,742</u>

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Deferred financing costs, beginning balance	\$ 1,212	\$ 1,102	\$ 1,102
Additions	336	117	89
Disposals	-	(7)	-
Deferred financing costs, ending balance	\$ 1,548	\$ 1,212	\$ 1,191
Less accumulated amortization	(1,123)	(1,000)	(958)
Deferred financing costs, net	\$ 425	\$ 212	\$ 233

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

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018	Nine Months Ended September 30, 2018
Accumulated amortization, beginning balance	\$ 1,000	\$ 816	\$ 816
Additions	123	184	142
Accumulated amortization, ending balance	\$ 1,123	\$ 1,000	\$ 958

Other Unsecured Debts, net

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate ⁽¹⁾	Principal Amount Outstanding as of	
			September 30, 2019	December 31, 2018
Unsecured Note with Seven Kings Holdings, Inc.	Demand ⁽²⁾	9.5%	\$ 500	\$ 500
Unsecured Line of Credit from Builder Finance, Inc.	January 2020	10.0%	500	500
Unsecured Line of Credit from Paul Swanson	July 2019	10.0%	-	1,014
Subordinated Promissory Note	September 2020	9.5%	563	1,125
Subordinated Promissory Note	December 2019	10.5%	113	113
Subordinated Promissory Note	April 2020	10.0%	100	100
Subordinated Promissory Notes	October 2019	10.0%	150	150
Subordinated Promissory Note	August 2022	11.0%	200	-
Subordinated Promissory Note	September 2023 ⁽⁶⁾	11.0%	169	-
Senior Subordinated Promissory Note	March 2022 ⁽³⁾	10.0%	400	400
Senior Subordinated Promissory Note	March 2022 ⁽⁴⁾	1.0%	728	728
Junior Subordinated Promissory Note	March 2022 ⁽⁴⁾	22.5%	417	417
Senior Subordinated Promissory Note	October 2020 ⁽⁵⁾	1.0%	279	279
Junior Subordinated Promissory Note	October 2020 ⁽⁵⁾	20.0%	173	173
			<u>\$ 4,292</u>	<u>\$ 5,499</u>

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

⁽²⁾ Due six months after lender gives notice.

⁽³⁾ Lender may require us to repay \$20 of principal and all unpaid interest with 10 days' notice.

⁽⁴⁾ These notes were issued to the same holder and, when calculated together, yield a blended return of 11% per annum.

⁽⁵⁾ These notes were issued to the same holder and, when calculated together, yield a blended return of 10% per annum.

⁽⁶⁾ Due one month after lender gives notice, which notice may not be given prior to August 1, 2020.

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 11% as of September 30, 2019 and December 31, 2018.

Priority of Borrowings

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

	Priority Rank	September 30, 2019	December 31, 2018
Borrowing Source			
Purchase and sale agreements and other secured borrowings	1	\$ 24,423	\$ 22,521
Secured lines of credit from affiliates	2	335	816
Unsecured line of credit (senior)	3	500	500
Other unsecured debt (senior subordinated)	4	1,008	1,008
Unsecured Notes through our public offering, gross	5	20,756	17,348
Other unsecured debt (subordinated)	5	2,194	3,401
Other unsecured debt (junior subordinated)	6	590	590
Total		\$ 49,806	\$ 46,184

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 September 30, 2019, and December 31, 2018, we had 260 and 268 of combined loans, respectively, which totaled \$54,305 and \$49,127, respectively, in gross loan receivables outstanding. Unfunded commitments to extend credit, which have similar collateral, credit, and market risk to our outstanding loans, were \$20,511 and \$25,258 as of September 30, 2019 and December 31, 2018, respectively.

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 September 30, 2019	As of December 31, 2018
Secured debt	\$ 24,753	\$ 23,258
Unsecured debt	24,623	22,635
Equity	6,742	6,082

Secured debt, net of deferred financing costs increased \$1,495 as of September 30, 2019, which consisted of lines of credit with certain new borrowers offset by the repayment of our London Loan. For more information on secured borrowings, see Note 5 – Borrowings. We anticipate higher secured debt balances through a direct increase in our construction loan balances over the 12 months subsequent to September 30, 2019. Our anticipated increase in secured debt would be through our existing loan purchase and sale agreements and lines of credit.

We anticipate partial asset growth may be funded by a combination of increases in unsecured debt and equity. Unsecured debt, net of deferred financing costs increased \$1,988 as of September 30, 2019, due primarily to an increase in our Notes Program of \$3,195, which was offset by a decrease in other unsecured debt of \$1,207. The change in other unsecured debt was due primarily to the elimination of the unsecured portion of the line of credit from Paul Swanson of \$1,014, which was offset by two new promissory notes which total \$369. In addition, a certain promissory note matured during the quarter ended September 30, 2019 and a portion was reinvested into our Notes Program. For more information on other unsecured borrowings, see Note 5 – Borrowings. 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 September 30, 2019.

As of September 30, 2019, both preferred equity and members' capital increased \$660 compared to the year ended December 31, 2018, which consisted of an increase in Series C cumulative preferred units ("Series C Preferred Units"), Series B cumulative preferred units ("Series B Preferred Units"), and Class A common equity of \$398, \$130, and \$132, respectively. We anticipate an increase in our preferred equity and members capital during the 12 months subsequent to September 30, 2019, through the issuance of additional Series B Preferred Units, Series C Preferred Units, and net income attributable to Class A common equity holders. If we anticipate an inability to fund our projected increases in loan balances as discussed above, we may reduce new loan originations to reduce need for additional capital.

Contractual Obligations

The following table shows the maturity of outstanding debt as of September 30, 2019:

Year Maturing	Total Amount Maturing	Public Offering	Other Unsecured	Secured Borrowings
2019	\$ 27,020	\$ 2,134	\$ 763	\$ 24,123
2020	6,458	4,829	1,614	15
2021	11,056	11,040	-	16
2022	3,842	2,080	1,746	16
2023 and thereafter	1,430	673	169	588
Total	\$ 49,806	\$ 20,756	\$ 4,292	\$ 24,758

The total amount maturing through year ending December 31, 2019 is \$27,020, which consists of secured borrowings of \$24,123 and unsecured borrowings of \$2,897.

Secured borrowings maturing through the year ending December 31, 2019 is comprised mostly of loan purchase and sale agreements with two loan purchasers (Builder Finance, Inc. and S. K. Funding, LLC) and two lenders (Stephen K. Shuman and Paul Swanson). Our secured borrowings are largely reported as due by 2019 because the related collateral is demand loans. The following lists our secured facilities with maturity and renewal dates:

- Swanson – \$7,000 due April 2020, will automatically renew unless notice is given;
- Shuman – \$1,325 due July 2020, will automatically renew unless notice is given;
- S. K. Funding, LLC – \$3,500 of the total due July 2020, will automatically renew unless notice is given;
- S. K. Funding, LLC – \$3,422 with no expiration date;
- Builder Finance, Inc. – \$6,287 with no expiration date;
- Hardy Enterprises, Inc. – \$1,000, will automatically renew monthly unless notice is given;
- Jeff Eppinger – \$1,000, will automatically renew monthly unless notice is given;
- Gary Zentner – \$250, will automatically renew monthly unless notice is given;
- Wallach LOC – \$5 with no expiration date;
- Myrick LOC – \$331 with no expiration date; and
- Mortgage payable – \$638 due in January 2033.

Unsecured borrowings due on December 31, 2019 consist of Notes issued pursuant to the Notes Program and other unsecured debt of \$2,134 and \$763, respectively. To the extent that Notes issued pursuant to the Notes Program are not reinvested upon maturity, we will be required to fund the maturities, which we anticipate funding through the issuance of new Notes in our Notes Program. Historically, approximately 82% of our Note holders reinvest upon maturity. 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.

Summary

We have the funding available to address the loans we have today, including our unfunded commitments. We anticipate growing our assets through the net sources and uses (12-month liquidity) listed above as well as future capital increases from debt, redeemable preferred equity, and members capital. Although our secured debt is almost entirely listed as currently due because of the underlying collateral being demand notes, the vast majority of our secured debt is either contractually set to automatically renew unless notice is given or, in the case of purchase and sale agreements, has no end date as to when the purchasers will not purchase new loans (although they are never required to purchase additional loans).

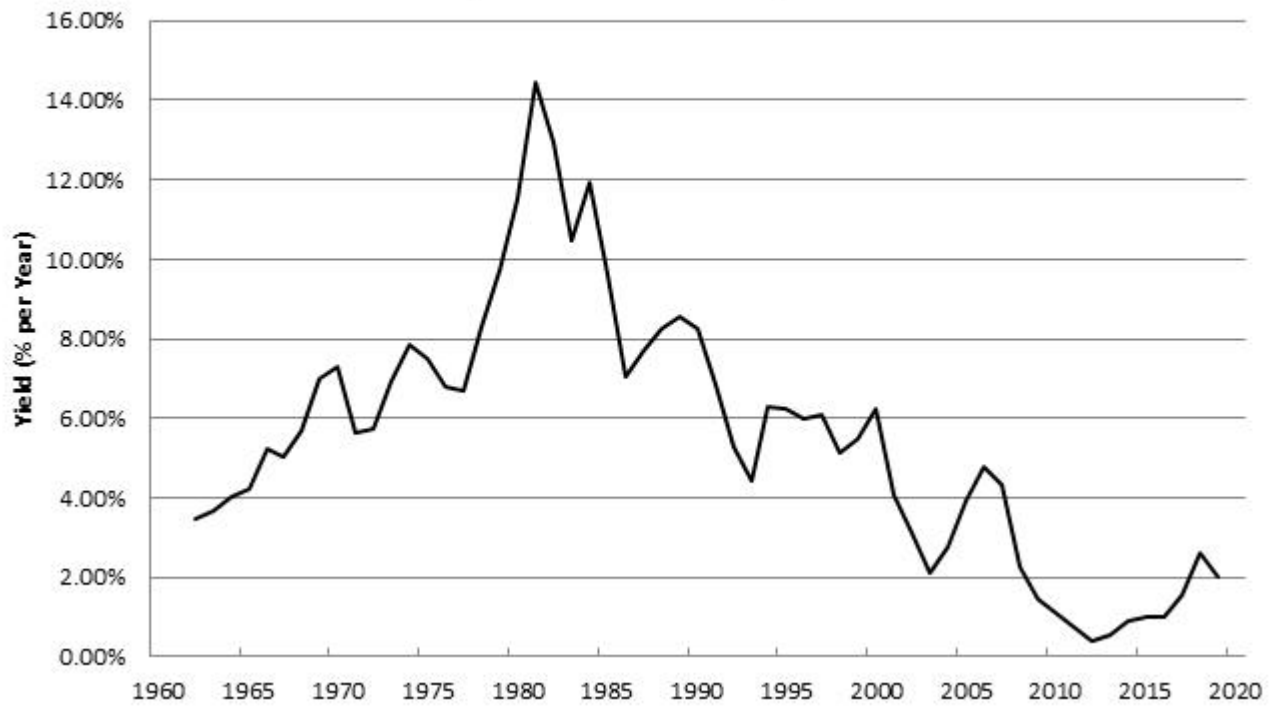
Inflation, Interest Rates, and Housing Starts

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. The U.S. may be entering into a housing slow down. Some markets seem to be slowing, although most of those markets are not markets in which we lend.

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 receive on deposits at FDIC insured institutions. We also believe that the spread may need to widen if these rates rise. 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.

Market Yield on U.S. Treasury Securities at 3-Year Constant Maturity (Source: Federal Reserve)



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 September 30, 2019, and December 31, 2018, 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 Chief Executive Officer (our principal executive officer) and Acting Chief Financial Officer (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 Acting 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 Acting CFO (our principal financial officer), as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during the quarter ended September 30, 2019 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, we issued the following Series C Preferred Units as of September 30, 2019:

Owner	Units	Amount
Daniel M. and Joyce S. Wallach	1.1815700	\$ 118,157.00
Gregory L. Sheldon	0.1949785	19,497.85
BLDR, LLC	0.3822734	38,227.34
Schultz Family Living Trust	0.0938575	9,382.75
Fernando and Lorraine Carol Ascencio	0.0770868	7,708.68

The proceeds received from the sales of the partial Series C Preferred Units in these 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 he/she/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.

Issuance of Partial Series B Cumulative Preferred Units

We previously entered into an agreement with the Hoskins Group (consisting of Benjamin Marcus Homes, LLC, Investor's Mark Acquisitions, LLC, and Mark L. Hoskins) pursuant to which we sell the Hoskins Group 0.1 Series B cumulative preferred units ("Series B Preferred Units") upon the closing of certain lots. We issued 0.5 Series B Preferred Units to the Hoskins Group on January 30, 2019 for \$50,000, 0.1 Series B Preferred Units to the Hoskins Group on January 31, 2019 for \$10,000, 0.1 Series B Preferred Units to the Hoskins Group on May 22, 2019 for \$10,000, 0.2 Series B Preferred Units to the Hoskins Group on May 30, 2019 for \$20,000, 0.1 Series B Preferred Units to the Hoskins Group on May 31, 2019 for \$10,000, 0.1 Series B Preferred Units to the Hoskins Group on July 3, 2019, 0.1 Series B Preferred Units to the Hoskins Group on August 30, 2019, and 0.1 Series B Preferred Units to the Hoskins Group on September 13, 2019.

The proceeds received from the sales of the Series B Preferred Units in those transactions were used for the funding of construction loans. The transactions in Series B 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 buyers represented to us that they are 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 B Preferred Units.

- (b) We registered up to \$70,000,000 in Fixed Rate Subordinated Notes ("Notes") in our current public offering, which is our third public offering of Notes (SEC File No. 333-224557, effective March 22, 2019). As of September 30, 2019, we had issued \$7,048,358 in Notes pursuant to our current public offering. From March 22, 2019 through September 30, 2019, we incurred expenses of \$99,198 in connection with the issuance and distribution of the Notes in our current public offering, 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 September 30, 2019 were \$6,949,160, all 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 September 30, 2019, 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 September 30, 2019, 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 September 30, 2019 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Name of Exhibit
3.1	<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>
3.2	<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>
3.3	<u>Second Amended and Restated Operating Agreement of the Company, 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>
3.4	<u>Amendment No. 1 to the Company's Second Amended and Restated Operating Agreement, dated as of March 21, 2019, incorporated by reference to Exhibit 3.4 to the Company's Form 10-Q for the Quarterly Period Ended March 31, 2019, filed on May 9, 2019, Commission File No. 333-203707</u>
4.1	<u>Indenture Agreement (including Form of Note) dated March 22, 2019, incorporated by reference to Exhibit 4.1 to the Company's Post-Effective Amendment No. 1, filed on March 22, 2019, Commission File No. 333-224557</u>
31.1*	<u>Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<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>
32.2*	<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>
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: November 7, 2019

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

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: November 7, 2019

By: */s/ Daniel M. Wallach*

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

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: November 7, 2019

By: */s/ Catherine Loftin*

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

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 September 30, 2019 (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: November 7, 2019

By: /s/ Daniel M. Wallach

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

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 September 30, 2019 (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: November 7, 2019

By: */s/ Catherine Loftin*

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