
**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, 2023

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 333-263759

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. These risks and uncertainties include, but are not limited to: uncertainties relating to the effects of COVID-19; the length of the COVID-19 pandemic and severity of such outbreak nationally and across the globe; the pace of recovery following the COVID-19 pandemic; the impact of inflation and rising interest rates on the economy and housing markets; general economic uncertainty in key global markets and a worsening of global economic conditions or low levels of economic growth; the rate and the pace of economic recovery following economic downturns; and those other risks described in other risk factors as outlined in our Registration Statement on Form S-1, as amended, and our Annual Report on Form 10-K. 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 Registration Statement on Form S-1, as amended, and our Annual Report on Form 10-K. For further information regarding risks and uncertainties associated with our business, and important factors that could cause our actual results to vary materially from those expressed or implied in such forward-looking statements, please refer to the factors set forth in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" sections of the documents we file from time to time with the U.S. Securities and Exchange Commission, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2022.

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, 2022 in mind. You should not place undue reliance on any forward-looking statement. We are not obligated to update forward-looking statements.

Shepherd's Finance, LLC
Interim Condensed Consolidated Balance Sheets

<i>(in thousands of dollars)</i>	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and cash equivalents	\$ 3,552	\$ 2,996
Restricted cash	-	1,200
Accrued interest receivable	756	670
Loans receivable, net of allowance for credit losses of \$2,863 and \$2,527 as of September 30, 2023 and December 31, 2022, respectively	58,628	56,650
Real estate investments	-	660
Foreclosed assets, net	139	1,582
Premises and equipment	834	852
Other assets	286	862
Total assets	<u>\$ 64,195</u>	<u>\$ 65,472</u>
Liabilities, redeemable preferred equity and Members' Capital		
Customer interest escrow	\$ 424	\$ 766
Accounts payable and accrued expenses	453	650
Accrued interest payable	3,359	2,921
Notes payable secured, net of deferred financing costs	22,009	23,173
Notes payable unsecured, net of deferred financing costs	30,848	30,110
Due to preferred equity member	-	47
Total liabilities	<u>\$ 57,093</u>	<u>\$ 57,667</u>
Commitments and Contingencies (Note 10)		
Redeemable Preferred Equity		
Series C preferred equity	\$ 4,882	\$ 5,725
Members' Capital		
Series B preferred equity	-	1,900
Class A common equity	2,220	180
Members' capital	<u>\$ 2,220</u>	<u>\$ 2,080</u>
Total liabilities, redeemable preferred equity and members' capital	<u>\$ 64,195</u>	<u>\$ 65,472</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, 2023 and 2022

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(in thousands of dollars)</i>				
Interest Income				
Interest and fee income on loans	\$ 2,763	\$ 2,711	\$ 8,494	\$ 7,493
Interest expense:				
Interest related to secured borrowings	473	541	1,651	1,584
Interest related to unsecured borrowings	826	746	2,419	2,201
Interest expense	1,299	1,287	4,070	3,785
Net interest income	1,464	1,424	4,424	3,708
Less: Loan loss provision	131	271	294	479
Net interest income after loan loss provision	1,333	1,184	4,130	3,229
Non-Interest Income				
Other income	16	31	56	126
Gain on sale of real estate investments	-	-	10	-
Gain on impairment of foreclosed assets	-	-	7	-
Gain on sale of foreclosed assets	-	-	8	101
Total non-interest income	16	31	81	227
Income	1,349	1,215	4,211	3,456
Non-Interest Expense				
Selling, general and administrative	591	603	2,034	2,012
Depreciation and amortization	21	12	61	36
Impairment loss on foreclosed assets	-	35	-	35
Loss on sale of foreclosed assets	-	-	34	-
Total non-interest expense	612	650	2,129	2,083
Net Income	<u>\$ 737</u>	<u>\$ 534</u>	<u>\$ 2,082</u>	<u>\$ 1,373</u>
Earned distribution to preferred equity holders	144	211	445	610
Net income attributable to common equity holders	<u>\$ 593</u>	<u>\$ 323</u>	<u>\$ 1,637</u>	<u>\$ 763</u>

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

Shepherd's Finance, LLC
Interim Condensed Consolidated Statements of Changes in Members' Capital – Unaudited
For the Three and Nine Months Ended September 30, 2023 and 2022

For the Three Months Ended September 30, 2023 and 2022

<i>(in thousands of dollars)</i>	September 30, 2023	September 30, 2022
Members' capital, beginning balance, July 1, 2023 and 2022	\$ 2,117	\$ 1,947
Net income less distributions to Series C preferred equity holders of \$144 and \$164	593	370
Contributions from Common A equity holders	-	-
Contributions from Series B preferred equity holders	-	10
Distributions to Series B preferred equity holders	-	(47)
Distributions to common equity holders	(490)	(197)
Members' capital, as of September 30, 2023 and 2022	<u>\$ 2,220</u>	<u>\$ 2,083</u>

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

For the Nine Months Ended September 30, 2023 and 2022

<i>(in thousands of dollars)</i>	September 30, 2023	September 30, 2022
Members' capital, January 1, 2023 and 2022	\$ 2,080	\$ 1,590
Cumulative effect adjustment due to the adoption of ASU 2016-13	(178)	-
Net income less distributions to Series C preferred equity holders of \$445 and \$473	1,637	900
Contributions from Common A equity holders	1,460	-
Contributions from Series B preferred equity holders	-	150
Distributions to Series B preferred equity holders	(1,900)	(137)
Distributions to common equity holders	(879)	(420)
Members' capital, as of September 30, 2023 and 2022	<u>\$ 2,220</u>	<u>\$ 2,083</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, 2023 and 2022

(in thousands of dollars)	September 30,	
	2023	2022
Cash flows from operations		
Net income	\$ 2,082	\$ 1,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	179	175
Provision for loan losses	294	479
Change in loan origination fees, net	166	187
Depreciation and amortization	61	35
Loss on sale of foreclosed assets	34	-
Gain on sale of foreclosed assets	(8)	(101)
Impairment of foreclosed assets	(7)	35
Gain on the sale of real estate investments	(10)	-
Net change in operating assets and liabilities:		
Other assets	533	118
Accrued interest receivable	(86)	(35)
Customer interest escrow	(389)	221
Accrued interest payable	1,228	610
Accounts payable and accrued expenses	(197)	211
Net cash provided by operating activities	3,880	3,308
Cash flows from investing activities		
Loan originations and principal collections, net	(2,616)	(9,126)
Investment in foreclosed assets	(125)	(210)
Additions for construction in real estate investments	(1,461)	(1,901)
Deposits for construction in real estate investments	-	970
Proceeds from the sale of real estate investments	2,131	1,017
Proceeds from the sale of foreclosed assets	1,549	1,096
Net cash used in investing activities	(522)	(8,154)
Cash flows from financing activities		
Contributions from Common A equity holders	1,460	-
Contributions from preferred B equity holders	-	150
Contributions from preferred C equity holders	-	200
Distributions to preferred B equity holders	(1,900)	-
Distributions to preferred C equity holders	(1,288)	(94)
Distributions to common equity holders	(879)	(420)
Proceeds from secured notes payable	9,252	11,380
Repayments of secured notes payable	(10,050)	(7,844)
Proceeds from unsecured notes payable	799	5,263
Redemptions/repayments of unsecured notes payable	(1,307)	(5,618)
Deferred financing costs paid	(89)	(187)
Net cash (used in) provided by financing activities	(4,002)	2,830
Net change in cash, cash equivalents and restricted cash	(644)	(2,016)
Cash and cash equivalents		
Beginning of period	4,196	3,735
End of period	\$ 3,552	\$ 1,719
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 3,632	\$ 3,748
Non-cash investing and financing activities		
Earned by Series B preferred equity holders but not distributed to customer interest escrow	\$ -	\$ 47
Earned by Series B preferred equity holders and distributed to customer interest escrow	\$ 47	\$ 133
Earned but not paid distributions of Series C preferred equity holders	\$ 336	\$ 473
Secured and unsecured notes payable transfers	\$ 387	\$ 159
Accrued interest payable transferred to notes payable	\$ 790	\$ 573
Foreclosure of assets transferred from loans receivable, net	\$ -	\$ 556
Foreclosure of assets transferred to loans receivable, net	\$ -	\$ 1,017

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, Shepherd's Stable Investments, LLC. The Company operates pursuant to its Second Amended and Restated Limited Liability Company Agreement, as amended, by and among Daniel M. Wallach and the other members of the Company effective as of March 16, 2017, and as subsequently amended.

The Company extends commercial loans to residential homebuilders (in 20 states as of September 30, 2023) to:

- construct single family homes,
- develop undeveloped land into residential building lots, and
- purchase older homes and then rehabilitate the home for sale.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements for the period ended September 30, 2023 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. The accompanying condensed consolidated balance sheet as of December 31, 2022 has been derived from audited consolidated financial statements. 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, 2023. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2022 consolidated financial statements and notes thereto (the "2022 Financial Statements") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K"). The accounting policies followed by the Company are set forth in Note 2 – *Summary of Significant Accounting Policies* in the 2022 Financial Statements.

Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). This update to Accounting Standards Codification Topic ("ASC") 326, *Financial Instruments - Credit Losses* ("ASC 326"), significantly changed the way entities recognize impairment on many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. FASB describes this impairment recognition model as the current expected credit loss ("CECL") model and believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The scope of FASB's CECL model includes loans, held-to-maturity debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value.

In the remainder of these Notes to Interim Condensed Consolidated Financial Statements, references to CECL or to ASC 326 shall mean the accounting standards and principles set forth in ASC 326 after giving effect to ASU 2016-13. The new guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022.

The Company adopted ASU 2016-13 on January 1, 2023 and recorded a one-time cumulative-effect adjustment of \$178 as disclosed in the Statement of Changes in Members' Capital.

2. Fair Value

The Company had no financial instruments measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022.

The following tables present the balances of non-financial instruments measured at fair value on a non-recurring basis as of September 30, 2023 and December 31, 2022.

	September 30, 2023		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, net	\$ 139	\$ 139	\$ —	\$ —	\$ 139
Impaired loans due to COVID-19, net	560	560	—	—	560
Other impaired loans, net	5,215	5,215	—	—	5,215
Total	<u>\$ 5,914</u>	<u>\$ 5,914</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,914</u>
	December 31, 2022		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, net	\$ 1,582	\$ 1,582	\$ —	\$ —	\$ 1,582
Impaired loans due to COVID-19, net	1,348	1,348	—	—	1,348
Other impaired loans, net	3,596	3,596	—	—	3,596
Total	<u>\$ 6,526</u>	<u>\$ 6,526</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,526</u>

The table below is a summary of fair value estimates for financial instruments:

	September 30, 2023		December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash, cash equivalents and restricted cash	\$ 3,552	\$ 3,552	\$ 4,196	\$ 4,196
Loan receivable, net	58,628	58,628	56,650	56,650
Accrued interest on loans receivables, net	756	756	670	670
Financial Liabilities				
Customer interest escrow	424	424	766	766
Notes payable secured, net	22,009	21,961	23,173	23,173
Notes payable unsecured, net	30,848	30,848	30,110	30,110
Accrued interest payable	3,359	3,407	650	650

3. Loan Receivables, net

Financing receivables are comprised of the following as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Loans receivable, gross	\$ 63,543	\$ 60,974
Less: Deferred loan fees	(1,441)	(1,264)
Less: Deposits	(928)	(839)
Plus: Deferred origination costs	317	306
Less: Allowance for credit losses	(2,863)	(2,527)
Loans receivable, net	\$ 58,628	\$ 56,650

Commercial Construction and Development Loans

Construction Loan Portfolio Summary

As of September 30, 2023, the Company's portfolio consisted of 209 construction and 13 development loans with 60 borrowers in 21 states.

The following is a summary of the loan portfolio to builders for home construction loans as of September 30, 2023 and December 31, 2022:

Year	Number of States	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio ⁽²⁾⁽³⁾	Loan Fee
2023	20	59	209	\$ 113,144	\$ 75,618	\$ 54,630	67%	5%
2022	21	66	230	\$ 104,993	\$ 72,526	\$ 52,796	69%	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.

Real Estate Development Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for land development as of September 30, 2023 and December 31, 2022:

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⁾⁽⁴⁾	Interest Spread
2023	5	8	13	\$ 19,765	\$ 11,042	\$ 8,913	45%	varies
2022	8	14	20	\$ 19,718	\$ 12,110	\$ 8,178	41%	varies

(1) The value is determined by the appraised value adjusted for remaining costs to be paid. As of September 30, 2023 and December 31, 2022, a portion of this collateral is \$0 and \$1,900, 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.

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

The following is a roll forward of our construction and development loan portfolio or loans receivables, net:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022
Beginning balance	\$ 56,650	\$ 46,943
Originations and modifications	45,199	59,408
Principal collections	(44,631)	(49,658)
Transferred from loans receivable, net	-	(556)
Transferred to loans receivable, net	-	1,017
Change in builder deposit	(88)	95
Change in the allowance for credit losses	(336)	(479)
Change in loan fees, net	(166)	(120)
Ending balance	<u>\$ 58,628</u>	<u>\$ 56,650</u>

Credit Quality Information

Effective January 1, 2023, we adopted ASC 326, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology for determining out provision for credit losses and allowance for credit losses with current expected credit loss (“CECL”) model. Upon the adoption of ASC 326 the total amount of the allowance for credit losses (“ACL”) on loans estimated using the CECL methodology increased \$178 compared to the total amount of the allowance recorded using the prior incurred loss model.

Based on the Company’s size, complexity and historical data the aggregate method or loss-rate method was selected to estimate expected credit losses. An expected loss ratio is applied based on internal historical losses and originations. The aggregate method relies upon the performance of an entire segment of the loan portfolio to best represent the behavior of these specific segments over time. In addition, modified open pool approach was used which utilizes our borrowers credit rankings for both construction and development loans. Internal risk-rating grades are assigned by the Company’s management based on an analysis of financial and collateral strength and other credit attributes underlying each loan. Loan grades are A, B and C and Unsecured for both construction and development loans where A and C defines the highest and lowest scores, respectively. Unsecured loans in our portfolio do not hold underlying collateral.

Each loan pool is adjusted for qualitative factors not inherently considered in the quantitative analysis. The qualitative adjustments either increase or decrease the quantitative model estimation. We consider factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of non-performing loans, trends in underlying collateral values, quality of our loan review system and other economic conditions, including inflation.

The following table presents the Company's gross loans receivable, commitment value and ACL for each respective credit rank loan pool category as of September 30, 2023.

	Loans Receivable Gross	Commitment Value	ACL
Construction Loans Collectively Evaluated:			
A Credit Risk	\$ 40,293	\$ 57,363	\$ 235
B Credit Risk	4,966	8,656	33
C Credit Risk	1,145	1,366	16
Development Loans Collectively Evaluated:			
A Credit Risk	\$ 8,315	\$ 10,038	\$ 6
B Credit Risk	-	-	-
C Credit Risk	504	506	27
Unsecured Loans	\$ 2,863	\$ 2,768	\$ 2,367
Secured loans individually evaluated	\$ 5,457	\$ 5,963	\$ 179
Total	\$ 63,543	\$ 86,660	\$ 2,863

For loans greater than 12 months in age that are individually evaluated, appraisals are ordered and prepared if the current appraisal is greater than 13 months old and construction is greater than 90% complete. If construction is less than 90% complete the Company uses the latest appraisal on file. At certain times the Company may choose to use a broker's opinions of value ("BOV") as a replacement for an appraisal if deemed more efficient by management. Appraised values are adjusted down for estimated costs associated with asset disposal. Broker's opinion of selling price, use currently valid sales contracts on the subject property, or representative recent actual closings by the builder on similar properties may be used in place of a broker's opinion of value.

Appraisers are state certified, and are selected by first attempting to utilize the appraiser who completed the original appraisal report. If that appraiser is unavailable or unreasonably expensive, we use another appraiser who appraises routinely in that geographic area. BOVs are created by real estate agents. We try to first select an agent we have worked with, and then, if that fails, we select another agent who works in that geographic area.

In addition, our loan portfolio includes performing, forbearance and non-accrual loans. The Company's policies with respect to placing loans on non-accrual and individually evaluated if they are past due greater than 90 days unless management deems the loan an exception. A fair market value analysis is performed and an allowance for credit loss is established based on the results of the analysis.

The following is an aging of our gross loan portfolio as of September 30, 2023:

	Gross Loan Value	Current 0 - 59	Past Due 60 - 89	Past Due 90 - 179	Past Due 180 - 269	Past Due >270	ACL
Performing Loans							
A Credit Risk	\$ 48,608	\$ 48,608	\$ -	\$ -	\$ -	\$ -	\$ 241
B Credit Risk	4,966	4,966	-	-	-	-	33
C Credit Risk	1,649	1,649	-	-	-	-	43
Forbearance Loans							
B Credit Risk	-	-	-	-	-	-	-
C Credit Risk	-	-	-	-	-	-	-
Unsecured Loans	2,863	-	-	-	81	2,782	2,367
Loans individually evaluated	5,457	-	1,453	1,561	852	1,591	179
Total	\$ 63,543	\$ 55,223	\$ 1,453	\$ 1,561	\$ 933	\$ 4,373	\$ 2,863

Below is an aging schedule of loans receivable as of September 30, 2023, 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)	206	\$ 55,223	86.8%
60-89 days	3	1,453	6.1%
90-179 days	4	1,561	—%
180-269 days	3	933	0.2%
>270 days	6	4,373	6.9%
Subtotal	222	\$ 63,543	100.0%
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	222	\$ 63,543	100.0%

Below is an aging schedule of loans receivable as of September 30, 2023, 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.	206	\$ 55,223	86.8%
60-89 days	3	1,453	6.1%
90-179 days	4	1,561	—%
180-269 days	3	933	0.2%
>270 days	6	4,373	6.9%
Subtotal	222	\$ 63,543	100.0%
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	222	\$ 63,543	100.0%

Allowance for Credit Losses on Loans

The following table provides a roll forward of the allowance for credit losses:

Allowance for credit losses as of December 31, 2022	\$	(2,527)
Impact of the adoption of ASC 326		(178)
Charge-offs		136
Loan loss provision		(294)
Allowance for credit losses as of September 30, 2023	\$	(2,863)

Allowance for Credit Losses on Unfunded Loan Commitments

Unfunded commitments to extend credit, which have similar collateral, credit and market risk to our outstanding loans, were \$20,988 and \$19,730 as of September 30, 2023 and December 31, 2022, respectively. The allowance for credit losses is calculated at an estimated loss rate and the total commitment value for loans in our portfolio. Therefore, for off-balance-sheet credit exposures, the estimate of expected credit losses has been presented as a liability on the balance sheet as of September 30, 2023. Other than unfunded commitments, we had no off-balance sheet transactions, nor do we currently have any such arrangements or obligations.

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:

	September 30, 2023		December 31, 2022	
	Borrower City	Percent of Loan Commitments	Borrower City	Percent of Loan Commitments
Highest concentration risk	Pittsburgh, PA	32%	Pittsburgh, PA	27%
Second highest concentration risk	Cape Coral, FL	8%	Orlando, FL	9%
Third highest concentration risk	Orlando, FL	6%	Spokane, WA	7%

The following disclosures are presented under GAAP in effect prior to the adoption of CECL. The Company has included these disclosures to address the applicable prior periods.

Finance Receivables – By risk rating:

	December 31, 2022
Pass	\$ 49,955
Special mention	3,842
Classified – accruing	–
Classified – non-accrual	7,177
Total	\$ 60,974

Finance Receivables – Method of impairment calculation:

	December 31, 2022
Performing loans evaluated individually	\$ 15,984
Performing loans evaluated collectively	37,813
Non-performing loans without a specific reserve	1,096
Non-performing loans with a specific reserve	6,081
Total evaluated collectively for loan losses	\$ 60,974

The following is a summary of our impaired non-accrual construction and development loans as of December 31, 2022.

	December 31, 2022
Unpaid principal balance (contractual obligation from customer)	\$ 7,628
Charge-offs and payments applied	(451)
Gross value before related allowance	7,177
Related allowance	(2,233)
Value after allowance	<u>\$ 4,944</u>

Below is an aging schedule of loans receivable as of December 31, 2022, 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)	236	\$ 53,797	88.2%
60-89 days	4	2,570	4.2%
90-179 days	—	—	—%
180-269 days	3	528	0.9%
>270 days	7	4,079	6.7%
Subtotal	<u>250</u>	<u>\$ 60,974</u>	<u>100.0%</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>250</u>	<u>\$ 60,974</u>	<u>100.0%</u>

Below is an aging schedule of loans receivable as of December 31, 2022, 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.	236	\$ 53,797	88.2%
60-89 days	4	2,570	4.2%
90-179 days	—	—	—%
180-269 days	3	528	0.9%
>270 days	7	4,079	6.7%
Subtotal	<u>250</u>	<u>\$ 60,974</u>	<u>100.0%</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>250</u>	<u>\$ 60,974</u>	<u>100.0%</u>

4. Real Estate Investment Assets

The following table is a roll forward of real estate investment assets:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Beginning balance	\$ 660	\$ 1,651	\$ 1,651
Deposits from real estate investments	-	(1,570)	(970)
Gain on sale of real estate investments	10	-	-
Proceeds from the sale of real estate investments	(2,131)	(1,647)	(1,017)
Additions for construction/development	1,461	2,226	1,901
Ending balance	<u>\$ -</u>	<u>\$ 660</u>	<u>\$ 1,565</u>

During June 2020, we acquired four lots from a borrower in exchange for the transfer of loans secured by those lots. We extinguished the principal balance for the loans on the lots in the amount of \$640 and in addition, paid a \$500 management fee for the development of homes on the lots. The management fee was paid through reducing the principal balance on a current loan receivable with the borrower. Two of the four homes sold during 2022.

During the nine months ended September 30, 2023, the Company sold our final two real estate investment assets and recognized a gain on the sale of \$10.

5. Foreclosed Assets

The following table is a roll forward of foreclosed assets:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Beginning balance	\$ 1,582	\$ 2,724	\$ 2,724
Transfers from loan receivables, net	-	556	556
Transfers to loan receivables, net	-	(1,017)	(1,017)
Additions from construction/development	125	316	210
Sale proceeds	(1,549)	(1,096)	(1,096)
Loss on sale of foreclosed assets	(34)	-	-
Gain on sale of foreclosed assets	8	101	101
Impairment on foreclosed assets	7	(2)	(35)
Ending balance	<u>\$ 139</u>	<u>\$ 1,582</u>	<u>\$ 1,443</u>

6. Borrowings

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

	Priority Rank	September 30, 2023	December 31, 2022
Borrowing Source			
Purchase and sale agreements and other secured borrowings	1	\$ 21,491	\$ 23,142
Secured lines of credit from affiliates	2	522	35
Unsecured line of credit (senior)	3	500	1,250
Other unsecured debt (senior subordinated)	4	634	634
Unsecured Notes through our public offering, gross	5	20,759	21,576
Other unsecured debt (subordinated)	5	8,324	6,109
Other unsecured debt (junior subordinated)	6	907	907
Total gross secured and unsecured notes payable		<u>\$ 53,137</u>	<u>\$ 53,653</u>

The following table shows the maturity of outstanding debt as of September 30, 2023:

Year Maturing	Total Amount Maturing	Public Offering	Other Unsecured	Secured Borrowings
2023	\$ 25,158	\$ 1,582	\$ 2,134	\$ 21,442
2024	11,077	7,722	3,337	18
2025	8,674	7,557	1,098	19
2026	2,720	835	1,865	20
2027 and thereafter	5,508	3,063	1,931	514
Total	<u>\$ 53,137</u>	<u>\$ 20,759</u>	<u>\$ 10,365</u>	<u>\$ 22,013</u>

Secured Borrowings

Lines of Credit

As of September 30, 2023 and December 31, 2022, the Company had \$522 and \$35 borrowed against its lines of credit from affiliates, respectively, which have a total limit of \$2,500.

None of our lines of credit have given us notice of nonrenewal as of September 30, 2023. The lines will continue to automatically renew unless notice of nonrenewal is given by a lender.

Secured Deferred Financing Costs

The Company had secured deferred financing costs of \$3 and \$4 as of September 30, 2023 and December 31, 2022, respectively.

Borrowings secured by loan assets are summarized below:

	September 30, 2023		December 31, 2022	
	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	\$ 10,145	\$ 6,379	\$ 8,232	\$ 6,065
S.K. Funding	9,450	6,500	9,049	7,100
Lender				
Shuman	345	125	724	125
Jeff Eppinger	1,387	260	2,761	1,500
R. Scott Summers	2,073	1,003	1,334	728
John C. Solomon	1,054	563	1,172	563
Judith Y. Swanson	10,618	6,086	9,571	6,473
Total	\$ 35,072	\$ 20,916	\$ 32,843	\$ 22,554

Unsecured Borrowings

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

The effective interest rate on borrowings through our Notes Program at September 30, 2023 and December 31, 2022 was 9.01% and 8.60%, respectively, not including the amortization of deferred financing costs.

We generally offer four durations at any given time, ranging from 12 to 48 months from the date of issuance. Our fourth public notes offering, which was declared effective on September 16, 2022, includes a mandatory early redemption option on all Notes, provided that the proceeds are reinvested. In our historical offerings, there were limited rights of early redemption. Our 36-month Note sold in our third public notes offering had a mandatory early redemption option, subject to certain conditions.

The following table shows the roll forward of our Notes Program:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Gross Notes outstanding, beginning of period	\$ 21,576	\$ 20,636	\$ 20,636
Notes issued	685	7,245	3,243
Note repayments / redemptions	(1,502)	(6,305)	(3,368)
Gross Notes outstanding, end of period	\$ 20,759	\$ 21,576	\$ 20,511
Less deferred financing costs, net	(276)	(367)	(379)
Notes outstanding, net	<u>\$ 20,483</u>	<u>\$ 21,209</u>	<u>\$ 20,132</u>

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Deferred financing costs, beginning balance	\$ 835	\$ 1,061	\$ 1,061
Additions	89	223	187
Disposals	-	(449)	-
Deferred financing costs, ending balance	924	835	1,248
Less accumulated amortization	(648)	(468)	(869)
Deferred financing costs, net	<u>\$ 276</u>	<u>\$ 367</u>	<u>\$ 379</u>

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

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Accumulated amortization, beginning balance	\$ 468	\$ 694	\$ 694
Additions	180	223	175
Disposals	-	(449)	-
Accumulated amortization, ending balance	<u>\$ 648</u>	<u>\$ 468</u>	<u>\$ 869</u>

Other Unsecured Debts

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate ⁽¹⁾	September 30, 2023	December 31, 2022
Unsecured Note with Seven Kings Holdings, Inc. Senior Subordinated	Demand ⁽²⁾	9.5%	\$ 500	\$ 500
Unsecured Line of Credit from Swanson	October 2023	10.0%	914	527
Unsecured Line of Credit from Builder Finance, Inc. Senior Subordinated	January 2024	10.0%	-	750
Subordinated Promissory Note	April 2024	10.0%	100	100
Subordinated Promissory Note	February 2025	9.0%	600	600
Subordinated Promissory Note	October 2023	10.0%	400	400
Subordinated Promissory Note	March 2024	9.75%	500	500
Subordinated Promissory Note	December 2023	11.0%	20	20
Subordinated Promissory Note	February 2024	11.0%	20	20
Subordinated Promissory Note	January 2025	10.0%	15	15
Subordinated Promissory Note	January 2026	8.0%	-	10
Subordinated Promissory Note	March 2027	10.0%	26	-
Subordinated Promissory Note	November 2023	9.5%	200	200
Subordinated Promissory Note	October 2024	10.0%	700	700
Subordinated Promissory Note	December 2024	10.0%	100	100
Subordinated Promissory Note	April 2025	10.0%	202	202
Subordinated Promissory Note	July 2023	8.0%	-	100
Subordinated Promissory Note	July 2025	8.0%	100	-
Subordinated Promissory Note	September 2023	7.0%	-	94
Subordinated Promissory Note	September 2027	10%	108	-
Subordinated Promissory Note	October 2023	7.0%	100	100
Subordinated Promissory Note	December 2025	8.0%	180	180
Senior Subordinated Promissory Note	March 2026 ⁽³⁾	8.0%	374	374
Subordinated Promissory Note	August 2026	8.0%	291	291
Subordinated Promissory Note	July 2026 ⁽⁴⁾	1.0%	740	740
Junior Subordinated Promissory Note	July 2026 ⁽⁴⁾	20.0%	460	460
Senior Subordinated Promissory Note	October 2024 ⁽⁴⁾	1.0%	720	720
Junior Subordinated Promissory Note	October 2024 ⁽⁴⁾	20.0%	447	447
Subordinated Promissory Note	March 2029	10.0%	1,700	-
Subordinated Promissory Note	April 2024	10.0%	750	750
Subordinated Promissory Note	May 2027	10.0%	98	-
			<u>\$ 10,365</u>	<u>\$ 8,900</u>

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

(2) Due Nine 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 10% per annum.

7. 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, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Beginning balance	\$ 5,725	\$ 5,014	\$ 5,014
Additions from new investment	-	200	200
Distributions and redemptions	(1,287)	(131)	(94)
Additions from reinvestments	444	642	473
Ending balance	<u>\$ 4,882</u>	<u>\$ 5,725</u>	<u>\$ 5,593</u>

The following table shows the earliest redemption options for investors in our Series C Preferred Units as of September 30, 2023:

Year Redeemable	Total Amount Redeemable
2024	\$ 2,638
2025	495
2026	309
2027	1,234
2028	206
Total	<u>\$ 4,882</u>

During March 2023, the Company redeemed 11.78109 of the Series C Preferred Units, held by our CEO and his wife, at a redemption price of \$1,178, all of which was reinvested in Common Units.

8. Members' Capital

The Company has two classes of equity units that it 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, 2023, the Class A Common Units are held by seven members, all of whom have no personal liability. In addition, as of September 30, 2023, the Series B Preferred Units was \$0 compared to \$1,900 as of December 31, 2022. All Class A common members have voting rights in proportion to their capital account.

During March 2023, the Company issued 17,371 Class A Common Units for \$1,460, and 20,000 Class A Common Units were outstanding as of September 30, 2023. As of December 31, 2022, there were 2,629 Class A Common Units outstanding.

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 land securing certain development loans.

On March 2023, the Company redeemed 100% of the outstanding Series B Preferred Units constituting 19 units, at a redemption price of \$1,900. As of December 31, 2022, the Hoskins Group owned a total of 19.0 Series B Preferred Units, which were issued for a total of \$1,900.

9. Related Party Transactions

As of September 30, 2023, the Company had \$889, \$89, and \$1,000 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), respectively. A more detailed description is included in Note 7 to the 2022 Financial Statements. These borrowings are included in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

During the nine months ended September 30, 2023, one loan originated by Mr. Myrick and serviced by the Company paid off for \$105.

10. Commitments and Contingencies

Unfunded commitments to extend credit, which have similar collateral, credit risk, and market risk to our outstanding loans, were \$20,988 and \$19,730 at September 30, 2023 and December 31, 2022, respectively.

11. Selected Quarterly Condensed Consolidated Financial Data (Unaudited)

Summarized unaudited quarterly condensed consolidated financial data for the quarters of 2023 and 2022 are as follows:

	Quarter 3 2023	Quarter 2 2023	Quarter 1 2023	Quarter 4 2022	Quarter 3 2022	Quarter 2 2022	Quarter 1 2022
Net interest and fee income	\$ 1,464	\$ 1,509	\$ 1,451	\$ 1,407	\$ 1,424	\$ 1,242	\$ 1,041
Loan loss provision	131	43	120	451	271	134	74
Net interest income after loan loss provision	1,333	1,466	1,331	956	1,153	1,108	967
Gain on sale of foreclosed assets	-	8	-	-	-	101	-
Gain on the sale of real estate assets	-	10	-	-	-	-	-
Dividend or other income	16	19	21	90	31	25	70
SG&A expense	591	617	826	672	603	713	695
Depreciation and amortization	21	20	20	20	12	12	12
Loss on sale of foreclosed assets	-	-	34	-	-	-	-
Impairment (gain) loss on foreclosed assets	-	(9)	2	(33)	35	-	-
Net income	<u>\$ 737</u>	<u>\$ 875</u>	<u>\$ 470</u>	<u>\$ 387</u>	<u>\$ 534</u>	<u>\$ 509</u>	<u>\$ 330</u>

12. Non-Interest Expense Detail

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

	For the Nine Months Ended September 30,	
	2023	2022
Selling, general and administrative expenses		
Legal and accounting	\$ 240	\$ 182
Salaries and related expenses	1,302	1,219
Board related expenses	81	77
Advertising	16	86
Rent and utilities	43	58
Loan and foreclosed asset expenses	71	151
Travel	118	105
Other	163	134
Total SG&A	<u>\$ 2,034</u>	<u>\$ 2,012</u>

13. Subsequent Events

Management of the Company has evaluated subsequent events through November 8, 2023, 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 "2022 Financial Statements") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K"). See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I.

Overview

During the quarter and nine months ended September 30, 2023, the Company continued to focus on the reduction of non-interest earning assets. As of September 30, 2023, gross loan values classified as non-accrual were 16 or \$8,320 compared to 14 or \$7,177 as of December 31, 2022. In addition, as of September 30, 2023, we had one foreclosed asset or \$139 compared to three or \$1,582 as of December 31, 2022.

The estimated loss on interest income resulting from non-interest earning assets for the quarter and nine months ended September 30, 2023 was \$296 and \$715 compared to \$257 and \$864, respectively, compared to the same periods of 2022. Looking ahead, we expect the balance of non-interest earning assets to remain somewhat constant.

While the Company continues to face risks as it relates to the economy and the homebuilding industry, management has decided to focus on the following during the remainder of 2023 and the beginning of 2024:

1. Continue to manage the balance of non-interest-bearing assets, which includes foreclosed real estate and non-accrual assets.
2. While we anticipate lower loan originations in 2024 as compared to 2023, we will increase our focus on fix and flips as a percentage of sales.
3. Control SG&A expenses.
4. Slightly increase margin, as compared to our current spread.
5. Maintain liquidity at a level sufficient for loan originations.
6. Reduce the Company's loan loss and impairment expenses.

The continued rise of long-term rates is making it challenging for our customers to sell built product. Housing starts bottomed in November of 2022 and have risen since, despite the increase in long-term rates. Despite the increase in starts, the Company anticipates a decrease in starts during 2024 and is planning accordingly. The rise in short term rates has likely benefited the Company as our competitors' rates have risen faster than ours making us more competitive, but an additional rise in long term interest rates would negatively impact the housing industry as a whole, and therefore us.

We had \$58,628 and \$56,650 in loan assets, net as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023, we had 209 commercial construction and 13 development loans with 60 borrowers in 21 states.

Net cash provided by operations increased \$572 to \$3,880 for the nine months ended September 30, 2023 compared to the same period of 2022. The increase in operating cash flow was due primarily to other 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 2022 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, 2022 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.

	September 30, 2023	
	Loan Loss Provision	
Change in Fair Value Assumption	Higher/(Lower)	
Increasing fair value of the real estate collateral by 35%*	\$	-
Decreasing fair value of the real estate collateral by 35%**	\$	3,555

* 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 non-performing and a book amount of the loans outstanding of \$58,628.

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).

	September 30, 2023	
	Foreclosed Assets	
Change in Fair Value Assumption	Higher/(Lower)	
Increasing fair value of the foreclosed asset by 35%*	\$	-
Decreasing fair value of the foreclosed asset by 35%**	\$	49

* 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 \$139.

Results of Operations

Interest Spread

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	*	2022	*	2023	*	2022	*
Interest Income								
Estimated interest income	\$ 2,117	14%	\$ 2,198	15%	\$ 6,834	14%	\$ 5,978	14%
Estimated unearned interest income due to COVID-19	(100)	(1)%	(167)	(1)%	(340)	(1)%	(519)	(1)%
Interest income on loans	\$ 2,017	13%	\$ 2,031	14%	\$ 6,494	13%	\$ 5,459	13%
Fee income on loans	\$ 896	6%	\$ 874	6%	\$ 2,449	5%	\$ 2,662	6%
Deferred loan fees	(150)	(1)%	(163)	(1)%	(449)	(1)%	(502)	(1)%
Fee income on loans, net	\$ 746	5%	\$ 711	5%	\$ 2,000	4%	\$ 2,160	5%
Interest and fee income on loans	\$ 2,763	18%	\$ 2,742	19%	\$ 8,494	18%	\$ 7,619	18%
Interest expense unsecured	\$ 768	5%	\$ 694	5%	\$ 2,240	5%	\$ 2,026	5%
Interest expense secured	473	3%	541	4%	1,651	4%	1,584	4%
Amortization offering costs	58	-%	52	-%	179	-%	175	-%
Interest expense	\$ 1,299	8%	\$ 1,287	9%	\$ 4,070	9%	\$ 3,785	9%
Net interest income (spread)	\$ 1,464	10%	\$ 1,455	10%	\$ 4,424	9%	\$ 3,834	9%
Weighted average outstanding loan asset balance	\$ 61,552		\$ 59,095		\$ 63,191		\$ 56,773	

*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 10.25%. For most loans, the margin is fixed at 2.5%; however, for our development loans the margin is generally fixed at 7%. This component is also impacted by the lending of money with no interest cost (our equity).

Estimated interest income on loans decreased to 14% for the quarter ended September 30, 2023 compared to 15% for the same period of 2022. Interest income decreased \$511, due primarily to write offs related to two borrowers who were impaired during the third quarter of 2023 compared to the same period of the prior year.

We anticipate our standard margin to be 2.5% on all future construction loans and generally 7% on all development loans which yields a blended margin of approximately 3.5%. This 2.5% may increase because some customers run past the standard repayment time and pay a higher rate of interest after that. For the quarter and nine months ended September 30, 2023, margin not including fee income was 5% compared to 4% for the same period in the prior year.

- **Fee income.** Our construction loan fee is 5% on the amount we commit to lend, which is amortized over the expected life of each loan. When loans terminate before their expected life, the remaining fee is recognized at that time. During 2022, we started charging an annual fee on most of our development loans which varies.

Fee income on loans before deferred loan fee adjustments decreased 1% to 5% for the quarter and nine months ended September 30, 2023 compared to 6% for the same period of 2022 due primarily to fully funded loans taking longer to payoff due to the rise in long-term interest rates.

- **Amount of non-performing assets.** Generally, two types of non-performing assets negatively affect our interest spread which are loans not paying interest and foreclosed assets.

As of September 30, 2023 and December 31, 2022, foreclosed assets were \$139 and \$1,822, respectively, which resulted in a negative impact to our interest spread.

As of September 30, 2023 and December 31, 2022, gross loans receivables non-accrual loans or loans not earning interest was \$8,320 and \$7,178, respectively.

Loan Loss Provision

Loan loss provision was \$131 and \$294 for the quarter and nine months ended September 30, 2023 compared to \$271 and \$479 for the same periods of 2022, respectively.

The allowance for credit losses at September 30, 2023 was \$2,863 which consisted of \$2,316 for loans evaluated individually due to COVID-19, \$230 for other loans evaluated individually and \$317 for loans evaluated collectively.

The allowance for credit losses at December 31, 2022 was \$2,527 which primarily consisted of \$294 for loans without specific reserves, \$246 for loans with specific reserves and \$1,987 for specific reserves due to the impact of COVID-19.

Non-Interest Income

Other Income

During the quarters and nine months ended September 30, 2023 and 2022, we consulted for one of our construction and development loan customers which included accounting guidance. Other income related to our consulting fees was \$16 and \$56 for the quarter and nine months ended September 30, 2023 compared to \$31 and \$126 for the same periods of 2022, respectively. We anticipate to continue our consulting services to our customers on an as needed basis during 2023.

Gain on the Sale of Real Estate Investments

During the quarter and nine months ended September 30, 2023, we recognized \$0 and \$10, respectively, of non-interest income related to the sale of certain real estate investments. No gains were recognized for the same periods of 2022.

Gain on Impairment of Foreclosed Assets

During the quarter and nine months ended September 30, 2023, we recognized \$9 and \$7 of non-interest income related to impairments of certain foreclosed assets. No gains were recognized for the same periods of 2022.

Gain on Sale of Foreclosed Assets

During the quarter and nine months ended September 30, 2023, we sold one foreclosed asset and recognized a gain on the sale of \$8 compared to the sale of two foreclosed assets for a gain on the sale of \$101 during the same periods of 2022.

Non-Interest Expense

Selling, General and Administrative ("SG&A") Expenses

The following table displays our SG&A expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Legal and accounting	\$ 43	\$ 29	\$ 240	\$ 182
Salaries and related expenses	405	430	1,302	1,219
Board related expenses	27	27	81	77
Advertising	5	24	16	86
Rent and utilities	13	15	43	58
Loan and foreclosed asset expenses	14	9	71	151
Travel	37	27	118	105
Other	47	42	163	134
Total SG&A	\$ 591	\$ 603	\$ 2,034	\$ 2,012

Our SG&A expense decreased \$12 to \$591 during the quarter ended September 30, 2023 compared to the same period of 2022. The decrease was primarily due to lower salaries and related expenses, which was partially offset by an increase in legal and accounting fees. During the nine months ended September 30, 2023 SG&A expenses increased \$22 to \$2,034 compared to the same period of 2022. The increase was primarily due to salaries and related expenses, which was partially offset by a decrease in advertising.

Loss on the Sale of Foreclosed Assets

During the nine months ended September 30, 2023 we sold one foreclosed asset which incurred a loss on the sale of \$34. No foreclosed assets were sold for a loss during the same period of 2022.

Consolidated Financial Position

Loans Receivables, net

Commercial Loans – Construction Loan Portfolio Summary

We anticipate that the aggregate balance of our construction loan portfolio will increase as built homes take longer to sell.

The following is a summary of our loan portfolio to builders for home construction loans as of September 30, 2023

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

State	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
Arizona	1	2	\$ 928	\$ 650	\$ 460	70%	5%
California	1	1	2,551	1,530	1,468	60%	5%
Connecticut	1	2	930	605	477	65%	5%
Florida	12	80	41,743	25,164	18,342	60%	5%
Georgia	5	7	3,162	2,211	1,408	70%	5%
Illinois	1	1	1,600	992	763	62%	5%
Louisiana	2	3	820	589	569	72%	5%
Maryland	1	1	480	336	313	70%	5%
Missouri	1	1	250	175	130	70%	5%
New Jersey	3	4	1,829	1,600	1,638	88%	5%
North Carolina	8	16	5,925	3,693	1,982	62%	5%
Ohio	3	7	2,580	1,763	1,400	68%	5%
Pennsylvania	1	22	24,770	19,186	14,167	77%	5%
South Carolina	11	45	16,651	10,421	5,977	63%	5%
Tennessee	2	4	1,114	761	561	68%	5%
Texas	2	4	2,220	1,774	1,684	80%	5%
Utah	1	1	2,200	1,320	640	60%	5%
Virginia	2	2	602	421	400	70%	5%
Washington	1	6	2,789	2,427	2,251	87%	5%
Total	59	209	\$ 113,144	\$ 75,618	\$ 54,630	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.

The following is a summary of our loan portfolio to builders for home construction loans as of December 31, 2022:

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

State	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount	Gross Amount Outstanding	Loan to Value Ratio ⁽²⁾	Loan Fee
Arizona	1	2	\$ 767	\$ 537	\$ 362	70%	5%
Connecticut	2	5	2,045	1,463	1,365	72%	5%
Delaware	1	3	1,035	725	523	70%	5%
Florida	19	113	42,605	30,573	21,155	72%	5%
Georgia	5	6	3,116	1,798	919	58%	5%
Illinois	1	1	1,245	747	586	60%	5%
Louisiana	2	4	975	628	457	64%	5%
Maryland	1	2	958	671	232	70%	5%
Michigan	3	5	1,437	1,003	979	70%	5%
New Jersey	1	5	3,127	2,259	2,769	72%	5%
New York	1	1	740	500	500	68%	5%
North Carolina	6	15	7,067	4,143	2,676	59%	5%
Ohio	2	4	1,178	831	775	71%	5%
Oregon	1	1	550	385	368	70%	5%
Pennsylvania	1	17	20,132	14,016	9,831	70%	5%
South Carolina	10	27	7,525	5,133	3,582	68%	5%
Tennessee	3	4	1,554	977	799	63%	5%
Texas	2	4	3,118	2,039	1,828	65%	5%
Utah	1	1	900	720	719	80%	5%
Virginia	2	3	924	646	213	70%	5%
Washington	1	7	3,995	2,732	2,158	54%	5%
Total	66	230	\$ 104,993	\$ 72,526	\$ 52,796	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.

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, 2023:

States	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount ⁽²⁾	Gross Amount Outstanding	Loan to Value Ratio ⁽³⁾	Interest Spread
Delaware	1	1	543	147	147	27%	7%
Florida	3	3	137	1,378	36	26%	7%
New Jersey	1	2	100	52	51	51%	7%
Pennsylvania	1	5	16,945	8,500	7,810	46%	varies
South Carolina	2	2	2,040	965	869	43%	7%
Total	8	13	19,765	\$ 11,042	\$ 8,913	\$ 45%⁽⁴⁾	7%

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third-party mortgage balances. In the event of a foreclosure on the property securing these loans, the portion of our collateral that is preferred equity in our Company might be difficult to sell, which could impact our ability to eliminate the loan balance.

(2) The commitment amount does not include unfunded letters of credit.

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

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

The following is a summary of our loan portfolio to builders for land development as of December 31, 2022:

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

States	Number of Borrowers	Number of Loans	Value of Collateral ⁽¹⁾	Commitment Amount ⁽²⁾	Gross Amount Outstanding ⁽⁵⁾	Loan to Value Ratio ⁽³⁾	Interest Spread
Connecticut	1	1	\$ 150	\$ 180	\$ 81	54%	7%
Delaware	1	1	543	147	147	27%	7%
Florida	4	4	175	1,196	(117)	(67)%	7%
Georgia	1	1	60	24	24	40%	7%
New Jersey	1	2	100	52	51	51%	7%
North Carolina	1	1	625	500	500	80%	7%
Pennsylvania	1	5	16,664	8,500	6,153	37%	varies
South Carolina	3	4	1,401	1,386	1,367	98%	7%
Texas	1	1	-	125	(28)	100%	7%
Total	14	20	\$ 19,718	\$ 12,110	\$ 8,178	41%⁽⁴⁾	7%

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third-party mortgage balances. Part of this collateral is \$1,900 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 in our Company might be difficult to sell, which could impact our ability to eliminate the loan balance.

(2) The commitment amount does not include unfunded letters of credit.

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

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

Loans receivables, net is comprised of the following as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Loans receivable, gross	\$ 63,543	\$ 60,974
Less: Deferred loan fees	(1,441)	(1,264)
Less: Deposits	(928)	(839)
Plus: Deferred origination costs	317	306
Less: Allowance for credit losses	(2,863)	(2,527)
Loans receivable, net	<u>\$ 58,628</u>	<u>\$ 56,650</u>

The following is a roll forward of our construction and development loan portfolio or loans receivables, net:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022
Beginning balance	\$ 56,650	\$ 46,943
Originations and modifications	45,199	59,408
Principal collections	(44,631)	(49,658)
Transferred from loans receivable, net	-	(556)
Transferred to loans receivable, net	-	1,017
Change in builder deposit	(88)	95
Change in the allowance for credit losses	(336)	(479)
Change in loan fees, net	(166)	(120)
Ending balance	<u>\$ 58,628</u>	<u>\$ 56,650</u>

Credit Quality Information

Effective January 1, 2023, we adopted ASC 326, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology for determining out provision for credit losses and allowance for credit losses with current expected credit Loss (“CECL”) model. Upon the adoption of ASC 326 the total amount of the allowance for credit losses (“ACL”) on loans estimated using the CECL methodology increased \$178 compared to the total amount of the allowance recorded using the prior incurred loss model.

Based on the Company's size, complexity and historical data the aggregate method or loss-rate method was selected to estimate expected credit losses. An expected loss ratio is applied based on internal historical losses and originations. The aggregate method relies upon the performance of an entire segment of the loan portfolio to best represent the behavior of these specific segments over time. In addition, modified open pool approach was used which utilizes our borrowers credit rankings for both construction and development loans. Internal risk-rating grades are assigned by the Company's management based on an analysis of financial and collateral strength and other credit attributes underlying each loan. Loan grades are A, B and C and Unsecured for both construction and development loans where A and C defines the highest and lowest scores, respectively. Unsecured loans in our portfolio do not hold underlying collateral.

Each loan pool is adjusted for qualitative factors not inherently considered in the quantitative analysis. The qualitative adjustments either increase or decrease the quantitative model estimation. We consider factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of non-performing loans, trends in underlying collateral values, quality of our loan review system and other economic conditions, including inflation.

The following table presents the Company's gross loans receivable, commitment value and ACL for each respective credit rank loan pool category as of September 30, 2023.

	Loans Receivable Gross	Commitment Value	ACL
Construction Loans Collectively Evaluated:			
A Credit Risk	\$ 40,293	\$ 57,363	\$ 235
B Credit Risk	4,966	8,656	33
C Credit Risk	1,145	1,366	16
Development Loans Collectively Evaluated:			
A Credit Risk	\$ 8,315	\$ 10,038	\$ 6
B Credit Risk	-	-	-
C Credit Risk	504	506	27
Unsecured Loans	\$ 2,863	\$ 2,768	\$ 2,367
Secured loans individually evaluated	\$ 5,457	\$ 5,963	\$ 179
Total	\$ 63,543	\$ 86,660	\$ 2,863

For loans greater than 12 months in age that are individually evaluated, appraisals are ordered and prepared if the current appraisal is greater than 13 months old and construction is greater than 90% complete. If construction is less than 90% complete the Company uses the latest appraisal on file. At certain times the Company may choose to use a broker's opinions of value ("BOV") as a replacement for an appraisal if deemed more efficient by management. Appraised values are adjusted down for estimated costs associated with asset disposal. Broker's opinion of selling price, use currently valid sales contracts on the subject property, or representative recent actual closings by the builder on similar properties may be used in place of a broker's opinion of value.

Appraisers are state certified, and are selected by first attempting to utilize the appraiser who completed the original appraisal report. If that appraiser is unavailable or unreasonably expensive, we use another appraiser who appraises routinely in that geographic area. BOVs are created by real estate agents. We try to first select an agent we have worked with, and then, if that fails, we select another agent who works in that geographic area.

In addition, our loan portfolio includes performing, forbearance and non-accrual loans. The Company's policies with respect to placing loans on non-accrual and individually evaluated if they are past due greater than 90 days unless management deems the loan an exception. A fair market value analysis is performed and an allowance for credit loss is established based on the results of the analysis.

The following is an aging of our gross loan portfolio as of September 30, 2023:

	Gross Loan Value	Current 0 - 59	Past Due 60 - 89	Past Due 90 - 179	Past Due 180 - 269	Past Due >270	ACL
Performing Loans							
A Credit Risk	\$ 48,608	\$ 48,608	\$ —	\$ —	\$ —	\$ —	\$ 241
B Credit Risk	4,966	4,966	—	—	—	—	33
C Credit Risk	1,649	1,649	—	—	—	—	43
Forbearance Loans							
B Credit Risk	—	—	—	—	—	—	—
C Credit Risk	—	—	—	—	—	—	—
Unsecured Loans	2,863	—	—	—	81	2,782	2,367
Loans individually evaluated	5,457	—	1,453	1,561	852	1,591	179
Total	<u>\$ 63,543</u>	<u>\$ 55,223</u>	<u>\$ 1,453</u>	<u>\$ 1,561</u>	<u>\$ 933</u>	<u>\$ 4,373</u>	<u>\$ 2,863</u>

Below is an aging schedule of loans receivable as of September 30, 2023, 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)	206	\$ 55,223	86.8%
60-89 days	3	1,453	6.1%
90-179 days	4	1,561	—%
180-269 days	3	933	0.2%
>270 days	6	4,373	6.9%
Subtotal	<u>222</u>	<u>\$ 63,543</u>	<u>100.0%</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>222</u>	<u>\$ 63,543</u>	<u>100.0%</u>

Below is an aging schedule of loans receivable as of September 30, 2023, 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.	206	\$ 55,223	86.8%
60-89 days	3	1,453	6.1%
90-179 days	4	1,561	—%
180-269 days	3	933	0.2%
>270 days	6	4,373	6.9%
Subtotal	222	\$ 63,543	100.0%
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	222	\$ 63,543	100.0%

The following table provides a roll forward of the allowance for credit losses:

Allowance for credit losses as of December 31, 2022	\$ (2,527)
Impact of the adoption of ASC 326	(178)
Charge-offs	136
Loan loss provision	(294)
Allowance for credit losses as of September 30, 2023	<u>\$ (2,863)</u>

Allowance for Credit Losses on Unfunded Loan Commitments

Unfunded commitments to extend credit, which have similar collateral, credit and market risk to our outstanding loans, were \$20,988 and \$19,730 as of September 30, 2023 and December 31, 2022, respectively. The allowance for credit losses is calculated at an estimated loss rate and the total commitment value for loans in our portfolio. Therefore, for off-balance-sheet credit exposures, the estimate of expected credit losses has been presented as a liability on the balance sheet as of September 30, 2023. Other than unfunded commitments, we had no off-balance sheet transactions, nor do we currently have any such arrangements or obligations.

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:

	September 30, 2023		December 31, 2022	
	Borrower City	Percent of Loan Commitments	Borrower City	Percent of Loan Commitments
Highest concentration risk	Pittsburgh, PA	32%	Pittsburgh, PA	27%
Second highest concentration risk	Cape Coral, FL	8%	Orlando, FL	9%
Third highest concentration risk	Orlando, FL	6%	Spokane, WA	7%

The following disclosures are presented under GAAP in effect prior to the adoption of CECL. The Company has included these disclosures to address the applicable prior periods.

Finance Receivables – By risk rating:

	<u>December 31, 2022</u>
Pass	\$ 49,955
Special mention	3,842
Classified – accruing	–
Classified – non-accrual	7,177
Total	<u>\$ 60,974</u>

Finance Receivables – Method of impairment calculation:

	<u>December 31, 2022</u>
Performing loans evaluated individually	\$ 15,984
Performing loans evaluated collectively	37,813
Non-performing loans without a specific reserve	1,096
Non-performing loans with a specific reserve	6,081
Total evaluated collectively for loan losses	<u>\$ 60,974</u>

The following is a summary of our impaired non-accrual construction and development loans as of December 31, 2022.

	<u>December 31, 2022</u>
Unpaid principal balance (contractual obligation from customer)	\$ 7,628
Charge-offs and payments applied	(451)
Gross value before related allowance	7,177
Related allowance	(2,233)
Value after allowance	<u>\$ 4,944</u>

Below is an aging schedule of loans receivable as of December 31, 2022, 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)	236	\$ 53,797	88.2%
60-89 days	4	2,570	4.2%
90-179 days	–	–	–%
180-269 days	3	528	0.9%
>270 days	7	4,079	6.7%
Subtotal	<u>250</u>	<u>\$ 60,974</u>	<u>100.0%</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>250</u>	<u>\$ 60,974</u>	<u>100.0%</u>

Below is an aging schedule of loans receivable as of December 31, 2022, 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.	236	\$ 53,797	88.2%
60-89 days	4	2,570	4.2%
90-179 days	—	—	—%
180-269 days	3	528	0.9%
>270 days	7	4,079	6.7%
Subtotal	250	\$ 60,974	100.0%
	7		
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	250	\$ 60,974	100.0%

Foreclosed Assets

Below is a roll forward of foreclosed assets:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Beginning balance	\$ 1,582	\$ 2,724	\$ 2,724
Transfers from loan receivables, net	-	556	-
Transfers to loan receivables, net	-	(1,017)	(1,017)
Additions from construction/development	125	316	153
Sale proceeds	(1,549)	(1,096)	(1,096)
Loss on sale of foreclosed assets	(34)	-	-
Gain on sale of foreclosed assets	8	101	101
Impairment on foreclosed assets	7	(2)	-
Ending balance	\$ 139	\$ 1,582	\$ 865

During the both quarters and nine months ended September 30, 2023 and 2022 we sold 0 and two foreclosed assets.

Customer Interest Escrow

Below is a roll forward of interest escrow:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Beginning balance	\$ 766	\$ 479	\$ 479
Preferred equity dividends	47	180	133
Additions from Pennsylvania loans	408	1,218	1,124
Additions from other loans	434	301	240
Interest, fees, principal or repaid to borrower	(1,231)	(1,412)	(1,143)
Ending balance	<u>\$ 424</u>	<u>\$ 766</u>	<u>\$ 833</u>

Related Party Borrowings

As of September 30, 2023, the Company had \$889, \$89, and \$1,000 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), respectively. A more detailed description is included in Note 7 to the 2022 Financial Statements. These borrowings are included in notes payable secured, net of deferred financing costs on the interim condensed consolidated balance sheet.

During the nine months ended September 30, 2023, one loan originated by Mr. Myrick and serviced by the Company paid off for \$105.

Secured Borrowings

Lines of Credit

As of September 30, 2023 and December 31, 2022, the Company had \$522 and \$35 borrowed against its lines of credit from affiliates, respectively, which have a total limit of \$2,500.

None of our lines of credit have given us notice of nonrenewal during the nine months ended September 30, 2023 and 2022, and the lines will continue to automatically renew unless notice of nonrenewal is given by a lender.

Secured Deferred Financing Costs

The Company had secured deferred financing costs of \$3 and \$4 as of September 30, 2023 and December 31, 2022, respectively.

Borrowings secured by loan assets are summarized below:

	September 30, 2023		December 31, 2022	
	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	\$ 10,145	\$ 6,379	\$ 8,232	\$ 6,065
S.K. Funding	9,450	6,500	9,049	7,100
Lender				
Shuman	345	125	724	125
Jeff Eppinger	1,387	260	2,761	1,500
R. Scott Summers	2,073	1,003	1,334	728
John C. Solomon	1,054	563	1,172	563
Judith Y. Swanson	10,618	6,086	9,571	6,473
Total	\$ 35,072	\$ 20,916	\$ 32,843	\$ 22,554

Unsecured Borrowings

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

The effective interest rate on borrowings through our Notes Program at September 30, 2023 and December 31, 2022 was 9.01% and 8.60%, respectively, not including the amortization of deferred financing costs.

We generally offer four durations at any given time, ranging from 12 to 48 months from the date of issuance. Our fourth public notes offering, which was declared effective on September 16, 2022, includes a mandatory early redemption option on all Notes, provided that the proceeds are reinvested. In our historical offerings, there were limited rights of early redemption. Our 36-month Note sold in our third public notes offering had a mandatory early redemption option, subject to certain conditions.

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Gross Notes outstanding, beginning of period	\$ 21,576	\$ 20,636	\$ 20,636
Notes issued	685	7,245	3,243
Note repayments / redemptions	(1,502)	(6,305)	(3,368)
Gross Notes outstanding, end of period	\$ 20,759	\$ 21,576	\$ 20,511
Less deferred financing costs, net	(276)	(367)	(379)
Notes outstanding, net	<u>\$ 20,483</u>	<u>\$ 21,209</u>	<u>\$ 20,132</u>

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Deferred financing costs, beginning balance	\$ 835	\$ 1,061	\$ 1,061
Additions	89	223	187
Disposals	-	(449)	-
Deferred financing costs, ending balance	924	835	1,248
Less accumulated amortization	(648)	(468)	(869)
Deferred financing costs, net	<u>\$ 276</u>	<u>\$ 367</u>	<u>\$ 379</u>

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

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022	Nine Months Ended September 30, 2022
Accumulated amortization, beginning balance	\$ 468	\$ 694	\$ 694
Additions	180	223	175
Disposals	-	(449)	-
Accumulated amortization, ending balance	<u>\$ 648</u>	<u>\$ 468</u>	<u>\$ 869</u>

Other Unsecured Debts

Our other unsecured debts are detailed below:

Loan	Maturity Date	Interest Rate ⁽¹⁾	September 30, 2023	December 31, 2022
Unsecured Note with Seven Kings Holdings, Inc. Senior Subordinated	Demand ⁽²⁾	9.5%	\$ 500	\$ 500
Unsecured Line of Credit from Swanson	October 2023	10.0%	914	527
Unsecured Line of Credit from Builder Finance, Inc. Senior Subordinated	January 2024	10.0%	-	750
Subordinated Promissory Note	April 2024	10.0%	100	100
Subordinated Promissory Note	February 2025	9.0%	600	600
Subordinated Promissory Note	October 2023	10.0%	400	400
Subordinated Promissory Note	March 2024	9.75%	500	500
Subordinated Promissory Note	December 2023	11.0%	20	20
Subordinated Promissory Note	February 2024	11.0%	20	20
Subordinated Promissory Note	January 2025	10.0%	15	15
Subordinated Promissory Note	January 2026	8.0%	-	10
Subordinated Promissory Note	March 2027	10.0%	26	-
Subordinated Promissory Note	November 2023	9.5%	200	200
Subordinated Promissory Note	October 2024	10.0%	700	700
Subordinated Promissory Note	December 2024	10.0%	100	100
Subordinated Promissory Note	April 2025	10.0%	202	202
Subordinated Promissory Note	July 2023	8.0%	-	100
Subordinated Promissory Note	July 2025	8.0%	100	-
Subordinated Promissory Note	September 2023	7.0%	-	94
Subordinated Promissory Note	September 2027	10%	108	-
Subordinated Promissory Note	October 2023	7.0%	100	100
Subordinated Promissory Note	December 2025	8.0%	180	180
Senior Subordinated Promissory Note	March 2026 ⁽³⁾	8.0%	374	374
Subordinated Promissory Note	August 2026	8.0%	291	291
Subordinated Promissory Note	July 2026 ⁽⁴⁾	1.0%	740	740
Junior Subordinated Promissory Note	July 2026 ⁽⁴⁾	20.0%	460	460
Senior Subordinated Promissory Note	October 2024 ⁽⁴⁾	1.0%	720	720
Junior Subordinated Promissory Note	October 2024 ⁽⁴⁾	20.0%	447	447
Subordinated Promissory Note	March 2029	10.0%	1,700	-
Subordinated Promissory Note	April 2024	10.0%	750	750
Subordinated Promissory Note	May 2027	10.0%	98	-
			<u>\$ 10,365</u>	<u>\$ 8,900</u>

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

(2) Due Nine 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 10% per annum.

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 total assets was 9.3% and 11.9% as of September 30, 2023 and December 31, 2022, respectively. We anticipate this ratio to increase as more earnings are retained in 2023 and 2024 and some additional preferred equity may be added. The % went down as we eliminated the Preferred B equity, repaid a Preferred C investor and received investments from all of the Common equity investors. While the percentage cited above did reduce, the Common equity increased from \$180 to \$2,117 during the above time period.

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, 2023	December 31, 2022
Borrowing Source			
Purchase and sale agreements and other secured borrowings	1	\$ 21,491	\$ 23,142
Secured lines of credit from affiliates	2	522	35
Unsecured line of credit (senior)	3	500	1,250
Other unsecured debt (senior subordinated)	4	634	634
Unsecured Notes through our public offering, gross	5	20,759	21,576
Other unsecured debt (subordinated)	5	8,324	6,109
Other unsecured debt (junior subordinated)	6	907	907
Total gross secured and unsecured notes payable		<u>\$ 53,137</u>	<u>\$ 53,653</u>

Liquidity and Capital Resources

Our primary liquidity management objective is to meet expected cash flow needs while continuing to service our business and customers. As of September 30, 2023 and December 31, 2022, we had combined loans outstanding of 222 and 250, respectively. In addition, gross loans outstanding were \$63,543 and \$60,974 as of September 30, 2023 and December 31, 2022, respectively.

Unfunded commitments to extend credit, which have similar collateral, credit and market risk to our outstanding loans, were \$20,988 and \$19,730 as of September 30, 2023 and December 31, 2022, respectively. For off-balance-sheet credit exposures, the estimate of expected credit losses has been presented as a liability on the balance sheet as of September 30, 2023. Other than unfunded commitments, we had no off-balance sheet transactions, nor do we currently have any such arrangements or obligations.

We anticipate originations to begin to slow in 2024 due to higher interest rates slowing the rate of sale of our customers' -built homes.

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, 2023		As of December 31, 2022	
Secured debt, net of deferred financing costs	\$	22,009	\$	23,173
Unsecured debt, net of deferred financing costs	\$	30,848	\$	30,110
Equity*	\$	7,102	\$	7,805
Cash, cash equivalents and restricted cash	\$	3,552	\$	4,196

* Equity includes Members' Capital and Redeemable Preferred Equity.

As of September 30, 2023 and December 31, 2022, cash, cash equivalents and restricted cash was \$3,552 and \$4,196, respectively. Secured debt, net of deferred financing costs decreased \$1,164 to \$22,009 as of September 30, 2023 compared to \$23,173 for the year ended December 31, 2022. The decrease in secured debt was due primarily to repayments on borrowings pursuant to our loan purchase and sale agreements.

Unsecured debt, net of deferred financing costs increased \$738 to \$30,848 as of September 30, 2023 compared to \$30,110 as of December 31, 2022.

Equity decreased \$703 to \$7,102 as of September 30, 2023 compared to \$7,805 as of December 31, 2022. The decrease was due to the \$1,900 and \$1,178 redemption of Series B preferred equity and Series C cumulative preferred equity, respectively. The decrease in equity was partially offset by an increase in Class A common equity of \$1,937 as of September 30, 2023.

As of September 30, 2023, Series C cumulative preferred equity decreased \$843 to \$4,882 compared to \$5,725 as of December 31, 2022 which was due primarily to the redemption of \$1,178 in March 2023.

We anticipate an increase in our common equity and Series C preferred equity during the nine months subsequent to September 30, 2023, mostly through retained earnings. If we are not able to maintain our equity, we will rely more heavily on raising additional funds through the Notes Program.

The total amount of our debt maturing through year ending December 31, 2023 is \$25,109, which consists of secured borrowings of \$21,393 and unsecured borrowings of \$3,716.

Secured borrowings maturing through the year ending December 31, 2023 significantly consists of loan purchase and sale agreements with two loan purchasers (Builder Finance and S. K. Funding) and five lenders. These secured borrowings are listed as maturing over the next 12 months due primarily to their related demand loan collateral. The following are secured facilities listed as maturing in 2023 with actual maturity and renewal dates:

- Swanson – \$6,086 automatically renews unless notice given;
- Shuman – \$125 due July 2024 and automatically renews unless notice is given;
- S. K. Funding – \$4,500 due July 2024 and automatically renews unless notice is given;
- S. K. Funding – \$2,400 due April 2024 and automatically renews unless notice is given;
- Builder Finance, Inc – \$6,326 with no expiration date;
- New LOC Agreements - \$1,825 generally one-month notice and nine months to reduce principal balance to zero;
- Wallach LOC - \$263 due upon demand;
- Wallach Trust - \$263 due upon demand; and
- Mortgage Payable – \$4, with payments due monthly.

Unsecured borrowings due by December 31, 2023 consist of Notes issued pursuant to the Notes Program and other unsecured debt of \$3,716 and \$2,414, 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 75% of our Note holders reinvest upon maturity. The 36-month Note in our Notes program has a mandatory early redemption option, subject to certain conditions. As of September 30, 2023, the 36-month Notes were \$1,018. Our other unsecured debt has historically renewed. For more information on other unsecured borrowings, see Note 7 – Borrowings. If other unsecured borrowings are not renewed in the future, we anticipate funding such maturities through investments in our Notes Program.

Summary

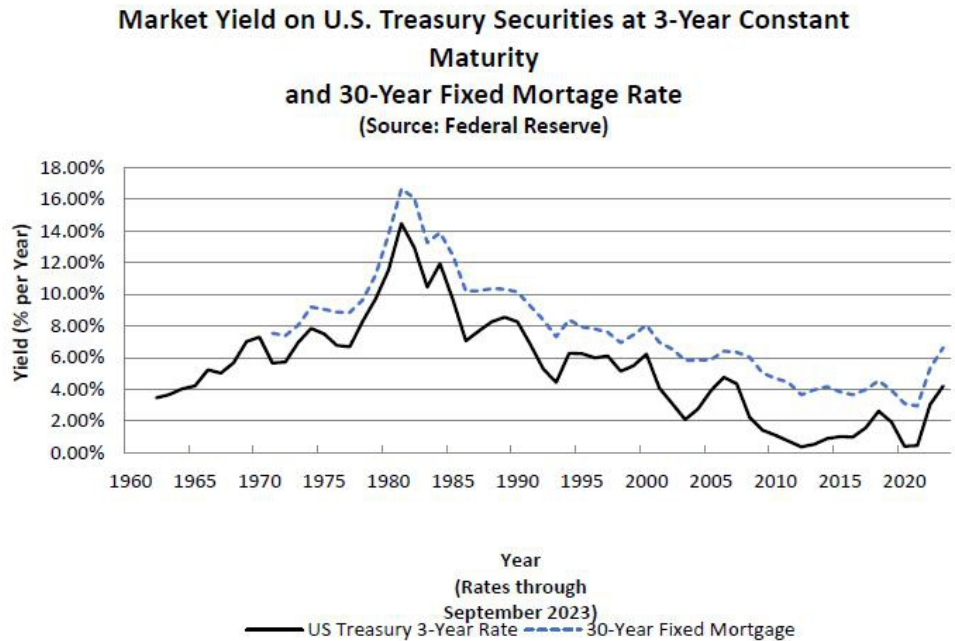
We have the funding available to address the loans we have today, including our unfunded commitments. We anticipate our assets reducing in the remainder of 2023; however, we are prepared for an increase of our assets through the net sources and uses (12-month liquidity) listed above as well as future capital from debt, redeemable preferred equity, and regular equity. Our expectation to reduce loan asset balances is subject to changes in the housing market and competition. 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 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 well above average in many of the housing markets in the U.S. today, and our lending against these values is having more risk than prior years. In some of our markets, prices of sold homes are dropping. This is both because some homes are selling for less and because the average home selling is smaller (more affordable). However, we anticipate significant declines in home values in many markets over the next 12 months.

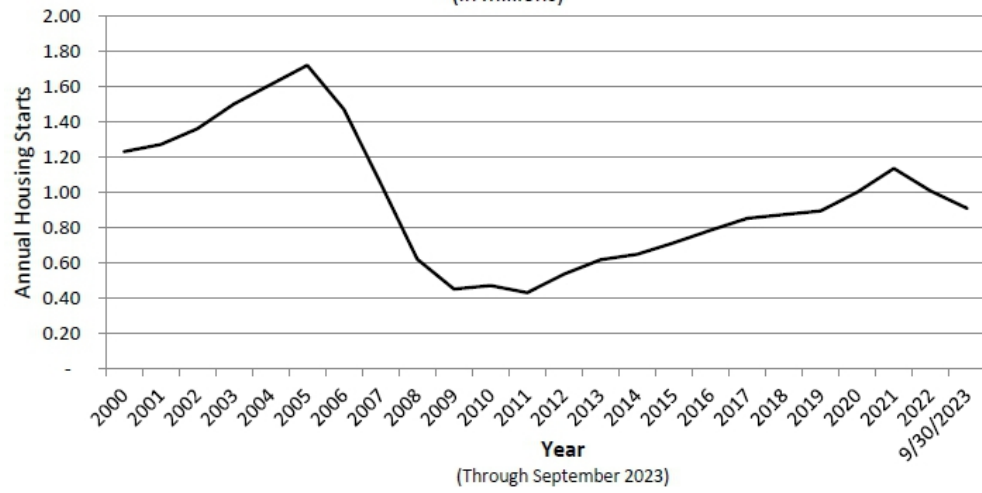
Interest rates have several impacts on our business. First, rates affect housing (starts, home size, etc.). High long-term interest rates may decrease housing starts, having the effects listed above. Housing starts have been increasing for the last 12 months, but customers are reporting longer hold times of built product. Higher interest rates will also affect our investors. We believe that there will be a spread between the rate our Notes yield to our investors and the rates the same investors could get on deposits at FDIC insured institutions. We also believe that the spread may need to widen if these rates rise. For instance, if we pay 7% above average CD rates when CDs are paying 0.5%, when CDs are paying 5%, we may have to have a larger than 7% difference. This may cause our lending rates, which are based on our cost of funds, to be uncompetitive. High interest rates may also increase builder defaults, as interest payments may become a higher portion of operating costs for the builder. Below is a chart showing three-year U.S. treasury rates and 30-year fixed mortgage rates. The U.S. treasury rates, are used by us here to approximate CD rates. Both the short- and long-term interest rates have risen slightly to historically normal levels.



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.

Annual Single Family Housing Starts in the U.S.

(in millions)



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, 2023 and December 31, 2022, other than unfunded loan commitments, 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 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 Chief Executive Officer and Chief 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 Chief Executive Officer and Chief 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, 2023 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 during the quarter ended September 30, 2023:

Owner	Units	Amount
Daniel M. and Joyce S. Wallach	0.2825589	28,255.89
Gregory L. Sheldon and Madeline M. Sheldon	0.2288373	22,883.73
BLDR, LLC	0.2115991	21,159.91
Schultz Family Living Trust	0.0526379	5,263.79
Fernando Ascencio and Lorraine Carol Ascencio	0.0984858	9,848.58
Mark and Tris Ann Garboski	0.1982002	19,820.02
Total	1,0723192	107,231.92

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.

- (b) We registered up to \$70,000 in Fixed Rate Subordinated Notes ("Notes") in our current public offering, which is our fourth public offering of Notes (SEC File No. 333-263759, effective September 16, 2022). As of September 30, 2023, we had issued \$8,720 in Notes pursuant to our current public offering. As of September 30, 2023, we incurred expenses of \$253 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, 2023 were \$8,467 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, 2023, 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, 2023, 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, 2023 (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 Registrant'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 Registrant'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 Limited Liability Company Agreement of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, filed on November 13, 2017, Commission File No. 333-203707</u>
3.4	<u>Amendment No. 1 to Second Amended and Restated Limited Liability Company Agreement of the Registrant, incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q, filed May 9, 2019, Commission File No. 333-203707</u>
3.5	<u>Amendment No. 2 to Second Amended and Restated Limited Liability Company Agreement of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed March 31, 2020, Commission File No. 333-224557</u>
4.1	<u>Indenture Agreement (including Form of Note) dated September 16, 2022, incorporated by reference to Exhibit 4.1 to the Registrant's Post-Effective Amendment No. 1, filed on September 16, 2022, Commission File No. 333-263759</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*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Schema Document
101.CAL*	Inline XBRL Calculation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
101.LAB*	Inline XBRL Labels Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
104*	Inline XBRL Cover Page Interactive Data File

* Filed herewith.

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 8, 2023

By: /s/ Catherine Loftin
Catherine Loftin
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 8, 2023

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 8, 2023

By: /s/ Catherine Loftin

Catherine Loftin
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, 2023 (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 8, 2023

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, 2023 (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 8, 2023

By: /s/ Catherine Loftin

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