



**SHEPHERD'S FINANCE, LLC  
SUPPLEMENT NO. 2 DATED AUGUST 17, 2023  
TO THE PROSPECTUS DATED APRIL 26, 2023**

This document supplements, and should be read in conjunction with, the prospectus of Shepherd's Finance, LLC (the "Company," "we," or "our") dated April 26, 2023 and Supplement No.1 dated May 18, 2023. Unless otherwise defined in this supplement, capitalized terms used in this supplement shall have the same meanings as set forth in the prospectus.

The purpose of this supplement is to disclose:

- an update regarding the status of our offering;
- an update to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our prospectus to include information for the three and six months ended June 30, 2023; and
- our unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2023.

**Status of Our Offering**

We commenced this offering of Fixed Rate Subordinated Notes ("Notes"), which is our third follow-on offering of Notes (our "Current Offering"), on September 16, 2022. As of August 14, 2023, we have issued approximately \$8.06 million of Notes in our Current Offering. As of August 14, 2023, approximately \$61.94 million of Notes remain available for sale to the public under our Current Offering.

We commenced our initial public offering of Notes on October 4, 2012. On September 29, 2015, we terminated our initial public offering, having issued approximately \$8.25 million in Notes. We commenced our first follow-on offering of Notes (our "First Follow-on Offering") on September 29, 2015. On March 22, 2019, we terminated our First Follow-on Offering, having issued approximately \$29.99 million in Notes. We commenced our second follow-on offering of Notes (our "Second Follow-on Offering") on March 22, 2019. On September 16, 2022, we terminated our Second Follow-on Offering, having issued approximately \$34.50 million in Notes.

**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 supplement. 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").

**Overview**

During the quarter and six months ended June 30, 2023, the Company continued to focus on the reduction of non-interest earning assets. As of June 30, 2023, gross loan values classified as non-accrual were eight or \$4,973 compared to 14 or \$7,177 as of December 31, 2022. In addition, as of June 30, 2023, we had one foreclosed asset or \$140 compared to three or \$1,582 as of December 31, 2022.

The estimated loss on interest income for the quarter and six months ended June 30, 2023 was \$121 and \$240 compared to \$342 and \$607, respectively, compared to the same periods of 2022. Looking ahead, we expect to decrease the balance of non-interest earning assets.

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 2023:

1. Continue to decrease the balance of non-interest-bearing assets, which includes foreclosed real estate and non-accrual assets.
2. While we anticipate lower loan originations in 2023 as compared to 2022, we will increase our focus on fix and flips as a percentage of sales.
3. Lower SG&A expenses.
4. Maintain a consistent margin, similar to our current spread.
5. Maintain liquidity at a level sufficient for loan originations.

During the second half of 2023, the housing market in most of the areas in which we do business will likely increase as compared to the same period of time in 2022 due to an apparent shortage in housing. We anticipate losses in principal and the lower interest income due to nonperforming assets will continue to decrease during 2023 as compared to prior years. Mortgage rates have leveled off in 2023. 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 \$57,466 and \$56,650 in loan assets, net as of June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023, we had 189 commercial construction and 17 development loans with 61 borrowers in 20 states.

Net cash provided by operations decreased \$235 to \$2,407 as of June 30, 2023 compared to the same period of 2022. The decrease in operating cash flow was due primarily to accrued interest payable and customer interest escrows.

### **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.

|  | <b>June 30, 2023<br/>Loan Loss<br/>Provision<br/>Higher/(Lower)</b> |
|--|---|
| <b>Change in Fair Value Assumption</b>                       |   |
| Increasing fair value of the real estate collateral by 35%*  | \$  |
| Decreasing fair value of the real estate collateral by 35%** | \$ 2,913  |

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

\*\* Assumes the loans were nonperforming and a book amount of the loans outstanding of \$57,466.

#### *Foreclosed Assets*

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

|  | <b>June 30, 2023<br/>Foreclosed<br/>Assets Higher/<br/>(Lower)</b> |
|--|--|
| <b>Change in Fair Value Assumption</b>                 |  |
| 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 \$881.

### **Results of Operations**

#### *Interest Spread*

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

|  | <b>Three Months Ended</b> |             |                 |             | <b>Six Months Ended</b> |             |                 |             |
|--|---------------------------|-------------|-----------------|-------------|-------------------------|-------------|-----------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b> |             | <b>June 30,</b>         |             | <b>June 30,</b> |             |
|  | <b>2023</b>               | <b>2022</b> | <b>2023</b>     | <b>2022</b> | <b>2023</b>             | <b>2022</b> | <b>2023</b>     | <b>2022</b> |
| <b>Interest Income</b>                             |                           |             |                 |             |                         |             |                 |             |
| Estimated interest income                          | \$ 2,390                  | 15%         | \$ 1,969        | 13%         | \$ 4,709                | 15%         | \$ 3,780        | 13%         |
| Estimated unearned interest income due to COVID-19 | (122)                     | (1)%        | (166)           | (1)%        | (240)                   | (1)%        | (353)           | (1)%        |
| Interest income on loans                           | \$ 2,268                  | 14%         | \$ 1,803        | 12%         | \$ 4,469                | 14%         | \$ 3,427        | 12%         |
| Fee income on loans                                | 748                       | 5%          | 871             | 6%          | 1,561                   | 5%          | 1,788           | 6%          |
| Deferred loan fees                                 | (139)                     | (1)%        | (158)           | (1)%        | (299)                   | (1)%        | (338)           | (1)%        |
| Fee income on loans, net                           | 609                       | 4%          | 713             | 5%          | 1,262                   | 4%          | 1,450           | 5%          |
| Interest and fee income on loans                   | 2,877                     | 18%         | 2,516           | 17%         | 5,731                   | 18%         | 4,877           | 17%         |
| Interest expense unsecured                         | 749                       | 5%          | 664             | 4%          | 1,472                   | 5%          | 1,333           | 4%          |
| Interest expense secured                           | 560                       | 4%          | 526             | 3%          | 1,178                   | 4%          | 1,043           | 3%          |
| Amortization offering costs                        | 59                        | -           | 59              | 1%          | 121                     | -           | 122             | 1%          |
| Interest expense                                   | 1,368                     | 9%          | 1,249           | 8%          | 2,771                   | 9%          | 2,498           | 8%          |
| Net interest income (spread)                       | 1,509                     | 9%          | 1,267           | 9%          | 2,960                   | 9%          | 2,379           | 9%          |
| Weighted average outstanding loan asset balance    | <u>\$64,104</u>           |             | <u>\$57,025</u> |             | <u>\$64,041</u>         |             | <u>\$56,082</u> |             |

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

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

- ***Difference between the interest rate received (on our loan assets) and the interest rate paid (on our borrowings).*** The loans we have originated have interest rates which are based on our cost of funds, with a minimum cost of funds of 7%. 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 increased to 15% for the quarter and six months ended June 30, 2023 compared to 13% for the same periods of the prior year. Interest income increased due to a decline in the total number of loans not paying interest. Construction loans not paying interest as of June 30, 2023 and 2022 were \$4,972 and \$6,701, respectively.

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 six months ended June 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 six months ended June 30, 2023 compared to 6% for the same period of 2022 due primarily to modification fees charged on certain loans in 2022.

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

As of June 30, 2023 and December 31, 2022, foreclosed assets were \$140 and \$1,822, respectively, which resulted in a negative impact to our interest spread.

#### ***Loan Loss Provision***

Loan loss provision or expense was \$43 and \$163 for the quarter and six months ended June 30, 2023 compared to \$134 and \$208 for the same periods of 2022, respectively.

The allowance for credit losses at June 30, 2023 was \$2,732 which primarily consisted of \$2,371 for loans evaluated individually and \$361 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 six months ended June 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 were \$19 and \$10 during the quarter and six months ended June 30, 2023 compared to \$25 and \$95 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 six months ended June 30, 2023, we recognized \$10 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 six months ended June 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 six months ended June 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:

|                                    | <b>Three Months Ended<br/>June 30,</b> |               | <b>Six Months Ended<br/>June 30,</b> |                 |
|------------------------------------|--|---------------|--------------------------------------|-----------------|
|                                    | <b>2023</b>                            | <b>2022</b>   | <b>2023</b>                          | <b>2022</b>     |
| Legal and accounting               | \$ 34                                  | \$ 33         | \$ 197                               | \$ 153          |
| Salaries and related expenses      | 432                                    | 389           | 897                                  | 789             |
| Board related expenses             | 27                                     | 25            | 54                                   | 50              |
| Advertising                        | 6                                      | 42            | 11                                   | 62              |
| Rent and utilities                 | 13                                     | 28            | 30                                   | 43              |
| Loan and foreclosed asset expenses | 16                                     | 109           | 57                                   | 142             |
| Travel                             | 49                                     | 38            | 81                                   | 78              |
| Other                              | 40                                     | 49            | 116                                  | 93              |
| <b>Total SG&amp;A</b>              | <b>\$ 617</b>                          | <b>\$ 713</b> | <b>\$ 1,443</b>                      | <b>\$ 1,410</b> |

Our SG&A expense decreased \$96 to \$617 during the quarter ended June 30, 2023 compared to the same period of 2022. The decrease was primarily due to lower loan and foreclosed asset expenses. During the six months ended June 30, 2023 SG&A expenses increased \$33 to \$1,443 compared to the same period of 2022. The increase was primarily due to salaries and related expenses.

#### *Loss on the Sale of Foreclosed Assets*

During the six months ended June 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 decrease as loans near maturity payoff and as we have new loan originations with low balances.

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

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

| State          | Number of Borrowers | Number of Loans | Value of Collateral (1) | Commitment Amount | Amount Outstanding | Loan to Value Ratio <sup>(2)</sup> | Loan Fee  |
|----------------|---------------------|-----------------|-------------------------|-------------------|--------------------|------------------------------------|-----------|
| Arizona        | 1                   | 1               | \$ 458                  | \$ 321            | \$ 284             | 70%                                | 5%        |
| California     | 1                   | 1               | 2,551                   | 1,505             | 1,403              | 59%                                | 5%        |
| Connecticut    | 1                   | 3               | 1,305                   | 867               | 535                | 66%                                | 5%        |
| Florida        | 18                  | 83              | 34,282                  | 25,290            | 19,405             | 74%                                | 5%        |
| Georgia        | 6                   | 8               | 4,386                   | 2,606             | 1,238              | 59%                                | 5%        |
| Illinois       | 1                   | 1               | 1,245                   | 992               | 763                | 80%                                | 5%        |
| Louisiana      | 1                   | 2               | 495                     | 405               | 309                | 82%                                | 5%        |
| Maryland       | 1                   | 2               | 958                     | 671               | 648                | 70%                                | 5%        |
| Missouri       | 1                   | 1               | 250                     | 175               | 130                | 70%                                | 5%        |
| New Jersey     | 2                   | 5               | 2,371                   | 2,146             | 2,091              | 91%                                | 5%        |
| North Carolina | 7                   | 14              | 7,200                   | 4,343             | 2,474              | 60%                                | 5%        |
| Ohio           | 1                   | 3               | 850                     | 553               | 774                | 65%                                | 5%        |
| Pennsylvania   | 1                   | 17              | 20,825                  | 14,341            | 12,040             | 69%                                | 5%        |
| South Carolina | 10                  | 30              | 12,337                  | 7,602             | 4,965              | 62%                                | 5%        |
| Tennessee      | 2                   | 4               | 1,114                   | 761               | 504                | 68%                                | 5%        |
| Texas          | 2                   | 4               | 2,445                   | 1,765             | 1,604              | 72%                                | 5%        |
| Utah           | 1                   | 1               | 2,200                   | 1,320             | 447                | 60%                                | 5%        |
| Virginia       | 2                   | 3               | 924                     | 646               | 540                | 70%                                | 5%        |
| Washington     | 1                   | 6               | 3,570                   | 2,427             | 2,248              | 68%                                | 5%        |
| <b>Total</b>   | <b>61</b>           | <b>189</b>      | <b>\$ 99,766</b>        | <b>\$ 68,736</b>  | <b>\$ 52,402</b>   | <b>69%<sup>(3)</sup></b>           | <b>5%</b> |

(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 <sup>(2)</sup> | 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%        |
| <b>Total</b>   | <b>66</b>           | <b>230</b>      | <b>\$ 104,993</b>       | <b>\$ 72,526</b>  | <b>\$ 52,796</b>         | <b>69%<sup>(3)</sup></b>           | <b>5%</b> |

(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 June 30, 2023:

| States         | Number of Borrowers | Number of Loans | Value of Collateral (1) | Commitment Amount <sup>(2)</sup> | Gross Amount Outstanding | Loan to Value Ratio <sup>(3)</sup> | Interest Spread |
|----------------|---------------------|-----------------|-------------------------|----------------------------------|--------------------------|------------------------------------|-----------------|
| Delaware       | 1                   | 1               | 543                     | 147                              | 147                      | 27%                                | 7%              |
| Florida        | 6                   | 6               | 542                     | 1,659                            | 290                      | 53%                                | 7%              |
| New Jersey     | 1                   | 2               | 100                     | 52                               | 51                       | 51%                                | 7%              |
| Pennsylvania   | 1                   | 5               | 16,772                  | 8,500                            | 7,708                    | 46%                                | 7%              |
| South Carolina | 2                   | 3               | 2,480                   | 1,505                            | 1,433                    | 58%                                | 7%              |
| <b>Total</b>   | <b>11</b>           | <b>17</b>       | <b>20,387</b>           | <b>\$ 11,863</b>                 | <b>\$ 9,629</b>          | <b>47%<sup>(4)</sup></b>           | <b>7%</b>       |

(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<br>(1) | Commitment Amount <sup>(2)</sup> | Gross Amount Outstanding<br>(5) | Loan to Value Ratio<br>(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%              |
|                |                     |                 |                            |                                  |                                 | %                          |                 |
| <b>Total</b>   | <u>14</u>           | <u>20</u>       | <u>\$ 19,718</u>           | <u>\$ 12,110</u>                 | <u>\$ 8,178</u>                 | <u>41<sup>(4)</sup></u>    | <u>7%</u>       |

(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 are comprised of the following as of June 30, 2023 and December 31, 2022:

|                                   | June 30, 2023    | December 31, 2022 |
|-----------------------------------|------------------|-------------------|
| Loans receivable, gross           | \$ 62,031        | \$ 60,974         |
| Less: Deferred loan fees          | (1,215)          | (1,264)           |
| Less: Deposits                    | (869)            | (839)             |
| Plus: Deferred origination costs  | 251              | 306               |
| Less: Allowance for credit losses | (2,732)          | (2,527)           |
| Loans receivable, net             | <u>\$ 57,466</u> | <u>\$ 56,650</u>  |

The following is a roll forward of our construction and development loan portfolio:

|   | <b>Six Months Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31, 2022</b> |
|---|---|---|
| Beginning balance                         | \$ 56,650                                 | \$ 46,943                               |
| Originations and modifications            | 30,787                                    | 59,408                                  |
| Principal collections                     | (29,730)                                  | (49,658)                                |
| Transferred from loans receivable, net    | -   | (556)                                   |
| Transferred to loans receivable, net      | -   | 1,017                                   |
| Change in builder deposit                 | (30)                                      | 95                                      |
| Change in the allowance for credit losses | (205)                                     | (479)                                   |
| Change in loan fees, net                  | (6)                                       | (120)                                   |
| Ending balance                            | <u>\$ 57,466</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 June 30, 2023.

|   | <b>Loans<br/>Receivable<br/>Gross</b> | <b>Commitment<br/>Value</b> | <b>ACL</b>             |
|---|---------------------------------------|-----------------------------|------------------------|
| <b>Construction Loans Collectively Evaluated:</b> |                                       |                             |                        |
| A Credit Risk                                     | \$ 41,133                             | \$ 54,706                   | \$ 215                 |
| B Credit Risk                                     | 4,693                                 | 7,252                       | 38                     |
| C Credit Risk                                     | 1,697                                 | 2,324                       | 11                     |
| <b>Development Loans Collectively Evaluated:</b>  |                                       |                             |                        |
| A Credit Risk                                     | \$ 7,866                              | 9,625                       | 8                      |
| B Credit Risk                                     | 184                                   | 183                         | -                      |
| C Credit Risk                                     | 1,485                                 | 1,557                       | 89                     |
| <b>Unsecured Loans</b>                            | <b>\$ 2,737</b>                       | <b>2,642</b>                | <b>2,160</b>           |
| <b>Secured loans individually evaluated</b>       | <b>\$ 2,236</b>                       | <b>2,310</b>                | <b>211</b>             |
| <b>Total</b>                                      | <b><u>\$ 62,031</u></b>               | <b><u>\$ 80,599</u></b>     | <b><u>\$ 2,732</u></b> |

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 nonaccrual loans. The Company's policies with respect to placing loans on nonaccrual are loans are individually evaluated if they are past due greater than 90 days. 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 June 30, 2023:

|                                     | <u>Amount</u>    | <u>Current<br/>0 - 59</u> | <u>Past<br/>Due<br/>60 - 89</u> | <u>Past<br/>Due<br/>90 -<br/>179</u> | <u>Past<br/>Due<br/>180 -<br/>269</u> | <u>Past<br/>Due<br/>&gt;270</u> | <u>ACL</u>      |
|-------------------------------------|------------------|---------------------------|---------------------------------|--------------------------------------|---------------------------------------|---------------------------------|-----------------|
| <b>Performing Loans</b>             |                  |                           |                                 |                                      |                                       |                                 |                 |
| A Credit Risk                       | \$ 48,999        | \$ 48,999                 | \$ -                            | \$ -                                 | \$ -                                  | \$ -                            | \$ 223          |
| B Credit Risk                       | 4,048            | 4,048                     | -                               | -                                    | -                                     | -                               | 33              |
| C Credit Risk                       | 2,629            | 2,629                     | -                               | -                                    | -                                     | -                               | 97              |
| <b>Forbearance Loans</b>            |                  |                           |                                 |                                      |                                       |                                 |                 |
| B Credit Risk                       | 830              | 830                       | -                               | -                                    | -                                     | -                               | 5               |
| C Credit Risk                       | 553              | 553                       | -                               | -                                    | -                                     | -                               | 3               |
| <b>Unsecured Loans</b>              | 2,737            | -                         | -                               | 73                                   | -                                     | 2,664                           | 2,160           |
| <b>Loans individually evaluated</b> | 2,235            | -                         | -                               | -                                    | 658                                   | 1,577                           | 211             |
| <b>Total</b>                        | <u>\$ 62,031</u> | <u>\$ 57,059</u>          | <u>\$ -</u>                     | <u>\$ 73</u>                         | <u>\$ 658</u>                         | <u>\$ 4,241</u>                 | <u>\$ 2,732</u> |

Below is an aging schedule of loans receivable as of June 30, 2023, on a recency basis:

|   | <u>No.<br/>Loans</u> | <u>Unpaid<br/>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)   | 197                  | \$ 57,059                  | 92.0%         |
| 60-89 days  | -                    | -                          | -%            |
| 90-179 days   | 1                    | 73                         | -%            |
| 180-269 days  | 2                    | 658                        | 1.1%          |
| >270 days   | 6                    | 4,241                      | 6.9%          |
| <b>Subtotal</b>   | <u>206</u>           | <u>\$ 62,031</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.) | -                    | \$ -                       | -%            |
| <b>Total</b>  | <u>206</u>           | <u>\$ 62,031</u>           | <u>100.0%</u> |

Below is an aging schedule of loans receivable as of June 30, 2023, on a contractual basis:

|   | <b>No.<br/>Loans</b> | <b>Unpaid<br/>Balances</b> | <b>%</b>      |
|---|----------------------|----------------------------|---------------|
| Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.  | 197                  | \$ 57,059                  | 92.0%         |
| 60-89 days  | -                    | -                          | -%            |
| 90-179 days   | 1                    | 73                         | -%            |
| 180-269 days  | 2                    | 658                        | 1.1%          |
| >270 days   | 6                    | 4,241                      | 6.9%          |
| <b>Subtotal</b>   | <b>206</b>           | <b>\$ 62,031</b>           | <b>100.0%</b> |
| 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.) | -                    | \$ -                       | -%            |
| <b>Total</b>  | <b>206</b>           | <b>\$ 62,031</b>           | <b>100.0%</b> |

#### 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                                 | (163)             |
| Allowance for credit losses as of June 30, 2023     | <u>\$ (2,732)</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 \$16,334 and \$19,730 as of June 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 June 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:

|                                   | June 30, 2023  |                             | December 31, 2022 |                             |
|-----------------------------------|----------------|-----------------------------|-------------------|-----------------------------|
|                                   | Borrower City  | Percent of Loan Commitments | Borrower City     | Percent of Loan Commitments |
| Highest concentration risk        | Pittsburgh, PA | 28%                         | Pittsburgh, PA    | 27%                         |
| Second highest concentration risk | Cape Coral, FL | 7%                          | Orlando, FL       | 9%                          |
| Third highest concentration risk  | Orlando, FL    | 7%                          | 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 – nonaccrual | 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.

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

Below is an aging schedule of loans receivable as of December 31, 2022, on a recency basis:

|   | <b>No.<br/>Loans</b> | <b>Unpaid<br/>Balances</b> | <b>%</b>      |
|---|----------------------|----------------------------|---------------|
| Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)   | 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   | <u>7</u>             | <u>4,079</u>               | <u>6.7%</u>   |
| 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)  | <u>-</u>             | <u>\$ -</u>                | <u>-%</u>     |
| 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.) | <u>-</u>             | <u>\$ -</u>                | <u>-%</u>     |
| 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:

|   | <b>No.<br/>Loans</b> | <b>Unpaid<br/>Balances</b> | <b>%</b>      |
|---|----------------------|----------------------------|---------------|
| Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.  | 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   | <u>7</u>             | <u>4,079</u>               | <u>6.7%</u>   |
| 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)  | <u>-</u>             | <u>\$ -</u>                | <u>-%</u>     |
| 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.) | <u>-</u>             | <u>\$ -</u>                | <u>-%</u>     |
| Total   | <u>250</u>           | <u>\$ 60,974</u>           | <u>100.0%</u> |

### ***Foreclosed Assets***

Below is a roll forward of foreclosed assets:

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|---|---|---|---|
| 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 | 126   | 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                          | <u>\$ 140</u>                                 | <u>\$ 1,582</u>                             | <u>\$ 865</u>                                 |

During the quarter and six months ended June 30, 2023 we sold one and two foreclosed assets compared to 0 and two for the same periods of 2022, respectively.

### ***Customer Interest Escrow***

Below is a roll forward of interest escrow:

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|---|---|---|---|
| Beginning balance                               | \$ 766  | \$ 479                                      | \$ 479  |
| Preferred equity dividends                      | 47  | 180   | 87  |
| Additions from Pennsylvania loans               | 69  | 1,218                                       | 1,085   |
| Additions from other loans                      | 239   | 301   | 204   |
| Interest, fees, principal or repaid to borrower | (778)   | (1,412)                                     | (796)   |
| Ending balance                                  | <u>\$ 343</u>                                 | <u>\$ 766</u>                               | <u>\$ 1,059</u>                               |

### ***Related Party Borrowings***

As of June 30, 2023, the Company had \$995, \$0, 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 six months ended June 30, 2023, one loan originated by Mr. Myrick and serviced by the Company paid off for \$105.

## Secured Borrowings

### *Lines of Credit*

As of June 30, 2023 and December 31, 2022, the Company had \$511 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 six months ended June 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 \$4 as of June 30, 2023 and December 31, 2022.

### *Summary*

The borrowings secured by loan assets are summarized below:

|                       | <u>June 30, 2023</u>                                  |  | <u>December 31, 2022</u>                              |  |
|-----------------------|---|--|---|--|
|                       | <u>Book Value of Loans which Served as Collateral</u> | <u>Due from Shepherd's Finance to Loan Purchaser or Lender</u> | <u>Book Value of Loans which Served as Collateral</u> | <u>Due from Shepherd's Finance to Loan Purchaser or Lender</u> |
| <b>Loan Purchaser</b> |   |  |   |  |
| Builder Finance       | \$ 10,586   | \$ 5,294   | \$ 8,232  | \$ 6,065   |
| S.K. Funding          | 9,590   | 6,500  | 9,049   | 7,100  |
| <b>Lender</b>         |   |  |   |  |
| Shuman                | 342   | 125  | 724   | 125  |
| Jeff Eppinger         | 3,107   | 260  | 2,761   | 1,500  |
| R. Scott Summers      | 2,568   | 1,003  | 1,334   | 728  |
| John C. Solomon       | 835   | 563  | 1,172   | 563  |
| Judith Y. Swanson     | 10,750  | 6,000  | 9,571   | 6,473  |
| <b>Total</b>          | <u>\$ 37,778</u>                                      | <u>\$ 19,745</u>   | <u>\$ 32,843</u>                                      | <u>\$ 22,554</u>   |

## Unsecured Borrowings

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

The effective interest rate on borrowings through our Notes Program at June 30, 2023 and December 31, 2022 was 8.32% 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:

|  | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|--|---|---|---|
| Gross Notes outstanding, beginning of period | \$ 21,576                                     | \$ 20,636                                   | \$ 20,636                                     |
| Notes issued                                 | 562   | 7,245                                       | 1,303   |
| Note repayments / redemptions                | <u>(1,459)</u>                                | <u>(6,305)</u>                              | <u>(1,590)</u>                                |
| Gross Notes outstanding, end of period       | \$ 20,679                                     | \$ 21,576                                   | \$ 20,349                                     |
| Less deferred financing costs, net           | <u>(287)</u>                                  | <u>(367)</u>                                | <u>(383)</u>                                  |
| Notes outstanding, net                       | <u>\$ 20,392</u>                              | <u>\$ 21,209</u>                            | <u>\$ 19,966</u>                              |

The following is a roll forward of deferred financing costs:

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|---|---|---|---|
| Deferred financing costs, beginning balance | \$ 835  | \$ 1,061                                    | \$ 1,061                                      |
| Additions                                   | 42  | 223   | 138   |
| Disposals                                   | <u>-</u>                                      | <u>(449)</u>                                | <u>-</u>                                      |
| Deferred financing costs, ending balance    | 877   | 835   | 1,199   |
| Less accumulated amortization               | <u>(590)</u>                                  | <u>(468)</u>                                | <u>(816)</u>                                  |
| Deferred financing costs, net               | <u>\$ 287</u>                                 | <u>\$ 367</u>                               | <u>\$ 383</u>                                 |

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

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|---|---|---|---|
| Accumulated amortization, beginning balance | \$ 468  | \$ 694                                      | \$ 694  |
| Additions                                   | 121   | 223   | 122   |
| Disposals                                   | <u>-</u>                                      | <u>(449)</u>                                | <u>-</u>                                      |
| Accumulated amortization, ending balance    | <u>\$ 590</u>                                 | <u>\$ 468</u>                               | <u>\$ 816</u>                                 |

*Other Unsecured Debts*

Our other unsecured debts are detailed below:

| Loan  | Maturity Date               | Interest Rate <sup>(1)</sup> | Principal Amount Outstanding as of |                   |
|---|-----------------------------|------------------------------|------------------------------------|-------------------|
|   |                             |                              | June 30, 2023                      | December 31, 2022 |
| Unsecured Note with Seven Kings Holdings, Inc.      | Demand <sup>(2)</sup>       | 9.5%                         | \$ 500                             | \$ 500            |
| Unsecured Line of Credit from Swanson               | October 2023                | 10.0%                        | 1,000                              | 527               |
| Unsecured Line of Credit from Builder Finance, Inc. | 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                        | July 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                                | 100               |
| Subordinated Promissory Note                        | September 2023              | 7.0%                         | 94                                 | 94                |
| Subordinated Promissory Note                        | October 2023                | 7.0%                         | 100                                | 100               |
| Subordinated Promissory Note                        | December 2025               | 8.0%                         | 180                                | 180               |
| Senior Subordinated Promissory Note                 | March 2026 <sup>(3)</sup>   | 8.0%                         | 374                                | 374               |
| Senior Subordinated Promissory Note                 | August 2026                 | 8.0%                         | 291                                | 291               |
| Senior Subordinated Promissory Note                 | July 2026 <sup>(4)</sup>    | 1.0%                         | 740                                | 740               |
| Senior Subordinated Promissory Note                 | July 2026 <sup>(4)</sup>    | 20.0%                        | 460                                | 460               |
| Senior Subordinated Promissory Note                 | October 2024 <sup>(4)</sup> | 1.0%                         | 720                                | 720               |
| Junior Subordinated Promissory Note                 | October 2024 <sup>(4)</sup> | 20.0%                        | 447                                | 447               |
| Senior Subordinated Promissory Note                 | March 2029                  | 10.0%                        | 2,000                              | -                 |
| Senior Subordinated Promissory Note                 | April 2024                  | 10.0%                        | 750                                | 750               |
| Senior Subordinated Promissory Note                 | May 2027                    | 10.0%                        | 98                                 | -                 |
|   |                             |                              | <u>\$ 10,737</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 June 30, 2023 and December 31, 2022, respectively. We anticipate this ratio to increase as more earnings are retained in 2023 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.

|   | <b>Priority Rank</b> | <b>June 30, 2023</b> | <b>December 31, 2022</b> |
|---|----------------------|----------------------|--------------------------|
| <b>Borrowing Source</b>                                   |                      |                      |                          |
| Purchase and sale agreements and other secured borrowings | 1                    | \$ 20,323            | \$ 23,142                |
| Secured lines of credit from affiliates                   | 2                    | 511                  | 35                       |
| Unsecured line of credit (senior)                         | 3                    | 500                  | 1,250                    |
| Other unsecured debt (senior subordinated)                | 4                    | 1,094                | 1,094                    |
| Unsecured Notes through our public offering, gross        | 5                    | 20,679               | 21,576                   |
| Other unsecured debt (subordinated)                       | 5                    | 8,696                | 6,109                    |
| Other unsecured debt (junior subordinated)                | 6                    | 447                  | 447                      |
| Total gross secured and unsecured notes payable           |                      | <u>\$ 52,250</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 June 30, 2023 and December 31, 2022, we had combined loans outstanding of 206 and 250, respectively. In addition, gross loans outstanding were \$62,031 and \$60,974 as of June 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 \$16,334 and \$19,730 as of June 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 June 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 stable originations and payoffs during the 6 months ending December 31, 2023 compared to the six months ended June 30, 2023.

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

| <b>Source of Liquidity</b>                      | <b>As of</b>         |                          |
|---|----------------------|--------------------------|
|   | <b>June 30, 2023</b> | <b>December 31, 2022</b> |
| Secured debt, net of deferred financing costs   | \$ 20,831            | \$ 23,173                |
| Unsecured debt, net of deferred financing costs | \$ 31,129            | \$ 30,110                |
| Equity*   | \$ 6,892             | \$ 7,805                 |
| Cash, cash equivalents and restricted cash      | \$ 3,325             | \$ 4,196                 |

\* Equity includes Members' Capital and Redeemable Preferred Equity.

As of June 30, 2023 and December 31, 2022, cash, cash equivalents and restricted cash was \$3,325 and \$4,196, respectively. Secured debt, net of deferred financing costs decreased \$2,342 to \$20,831 as of June 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 \$1,019 to \$31,129 as of June 30, 2023 compared to \$30,110 as of December 31, 2022.

Equity decreased \$913 to \$6,892 as of June 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 June 30, 2023.

As of June 30, 2023, Series C cumulative preferred equity decreased \$950 to \$4,775 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 six months subsequent to June 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 \$25,175, which consists of secured borrowings of \$20,265 and unsecured borrowings of \$4,910.

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 – \$6,000 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 October 2023 and automatically renews unless notice is given;
- Builder Finance, Inc – \$5,294 with no expiration date;
- New LOC Agreements - \$1,825 generally one-month notice and six months to reduce principal balance to zero;
- Wallach LOC - \$255 due upon demand;
- Wallach Trust - \$256 due upon demand; and
- Mortgage Payable – \$7, 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 \$2,496 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 June 30, 2023, the 36-month Notes were \$1,099. 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***

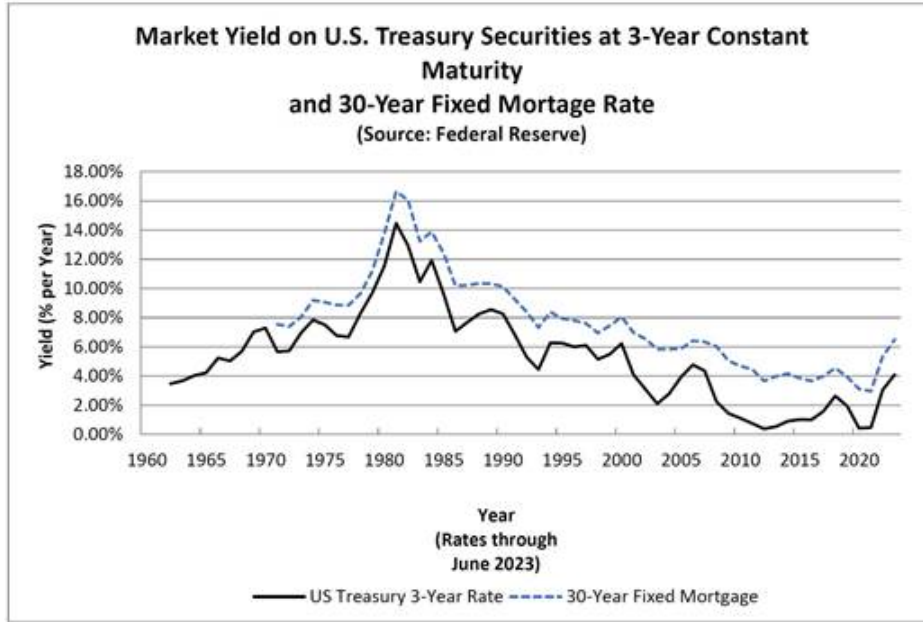
We have the funding available to address the loans we have today, including our unfunded commitments. We anticipate our assets reducing in the remainder of 2023; however, we are prepared for an increase of our assets through the net sources and uses (12-month liquidity) listed above as well as future 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. We can see this impact now as housing starts have dropped 21% this year as mortgage rates have risen. Housing starts are increasing recently. Higher interest rates will also affect our investors. We believe that there will be a spread between the rate our Notes yield to our investors and the rates the same investors could get on deposits at FDIC insured institutions. We also believe that the spread may need to widen if these rates rise. For instance, if we pay 7% above average CD rates when CDs are paying 0.5%, when CDs are paying 3%, we may have to have a larger than 7% difference. This may cause our lending rates, which are based on our cost of funds, to be uncompetitive. High interest rates may also increase builder defaults, as interest payments may become a higher portion of operating costs for the builder. 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.



Source: U.S. Census Bureau

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

**Off-Balance Sheet Arrangements**

As of June 30, 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.

## **Financial Statements**

The financial statements listed below are contained in this supplement:

|  |     |
|--|-----|
| <a href="#"><u>Interim Condensed Consolidated Balance Sheets as of June 30, 2023 (Unaudited) and December 31, 2022</u></a>   | F-2 |
| <a href="#"><u>Interim Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2023 and 2022</u></a>                 | F-3 |
| <a href="#"><u>Interim Condensed Consolidated Statement of Changes in Members' Capital (Unaudited) for the Three and Six Months Ended June 30, 2023 and 2022</u></a> | F-4 |
| <a href="#"><u>Interim Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2023 and 2022</u></a>                           | F-5 |
| <a href="#"><u>Notes to Interim Condensed Consolidated Financial Statements (Unaudited)</u></a>  | F-6 |

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

*(in thousands of dollars)*

| <u>(in thousands of dollars)</u>  | <u>June 30, 2023</u> | <u>December 31, 2022</u> |
|---|----------------------|--------------------------|
|   | <u>(Unaudited)</u>   |                          |
| <b>Assets</b>   |                      |                          |
| Cash and cash equivalents   | \$ 3,325             | \$ 2,996                 |
| Restricted cash   | -                    | 1,200                    |
| Accrued interest receivable   | 1,003                | 670                      |
| Loans receivable, net of allowance for credit losses of \$2,732 and \$2,527 as of June 30, 2023 and December 31, 2022, respectively | 57,466               | 56,650                   |
| Real estate investments   | -                    | 660                      |
| Foreclosed assets, net  | 140                  | 1,582                    |
| Premises and equipment  | 840                  | 852                      |
| Other assets  | 356                  | 862                      |
| Total assets  | <u>\$ 63,130</u>     | <u>\$ 65,472</u>         |
| <b>Liabilities and Members' Capital</b>   |                      |                          |
| Customer interest escrow  | \$ 343               | \$ 766                   |
| Accounts payable and accrued expenses   | 866                  | 650                      |
| Accrued interest payable  | 3,069                | 2,921                    |
| Notes payable secured, net of deferred financing costs  | 20,831               | 23,173                   |
| Notes payable unsecured, net of deferred financing costs  | 31,129               | 30,110                   |
| Due to preferred equity member  | -                    | 47                       |
| Total liabilities   | <u>\$ 56,238</u>     | <u>\$ 57,667</u>         |
| Commitments and Contingencies (Note 10)   |                      |                          |
| <b>Redeemable Preferred Equity</b>  |                      |                          |
| Series C preferred equity   | \$ 4,775             | \$ 5,725                 |
| <b>Members' Capital</b>   |                      |                          |
| Series B preferred equity   | -                    | 1,900                    |
| Class A common equity   | 2,117                | 180                      |
| Members' capital  | <u>\$ 2,117</u>      | <u>\$ 2,080</u>          |
| Total liabilities, redeemable preferred equity and members' capital   | <u>\$ 63,130</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 Six Months ended June 30, 2023 and 2022**

| <i>(in thousands of dollars)</i>                        | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2023                           | 2022     | 2023                         | 2022     |
| <b>Interest Income</b>                                  |                                |          |                              |          |
| Interest and fee income on loans                        | \$ 2,877                       | \$ 2,491 | \$ 5,731                     | \$ 4,782 |
| Interest expense:                                       |                                |          |                              |          |
| Interest related to secured borrowings                  | 560                            | 526      | 1,178                        | 1,043    |
| Interest related to unsecured borrowings                | 808                            | 723      | 1,593                        | 1,455    |
| Interest expense  | 1,368                          | 1,249    | 2,771                        | 2,498    |
| Net interest income                                     | 1,509                          | 1,242    | 2,960                        | 2,284    |
| Less: Loan loss provision                               | 43                             | 134      | 163                          | 208      |
| Net interest income after loan loss provision           | 1,466                          | 1,108    | 2,797                        | 2,076    |
| <b>Non-Interest Income</b>                              |                                |          |                              |          |
| Other income  | 19                             | 25       | 40                           | 95       |
| Gain on sale of real estate investments                 | 10                             | -        | 10                           | -        |
| Gain on impairment of foreclosed assets                 | 9                              | -        | 7                            | -        |
| Gain on sale of foreclosed assets                       | 8                              | 101      | 8                            | 101      |
| Total non-interest income                               | 46                             | 126      | 65                           | 196      |
| Income  | 1,512                          | 1,234    | 2,862                        | 2,272    |
| <b>Non-Interest Expense</b>                             |                                |          |                              |          |
| Selling, general and administrative                     | 617                            | 713      | 1,443                        | 1,410    |
| Depreciation and amortization                           | 20                             | 12       | 40                           | 24       |
| Loss on sale of foreclosed assets                       | -                              | -        | 34                           | -        |
| Total non-interest expense                              | 637                            | 725      | 1,517                        | 1,434    |
| <b>Net Income</b>                                       | \$ 875                         | \$ 509   | \$ 1,345                     | \$ 838   |
| <b>Earned distribution to preferred equity holders</b>  | 141                            | 204      | 301                          | 399      |
| <b>Net income attributable to common equity holders</b> | \$ 734                         | \$ 305   | \$ 1,044                     | \$ 439   |

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 Six Months Ended June 30, 2023 and 2022**

**For the Three Months Ended June 30, 2023 and 2022**

| <i>(in thousands of dollars)</i>  | <b>June 30, 2023</b> | <b>June 30, 2022</b> |
|---|----------------------|----------------------|
| Members' capital, beginning balance, March 31, 2023 and 2022                          | \$ 1,619             | \$ 1,741             |
| Net income less distributions to Series C preferred equity holders of \$141 and \$158 | 734                  | 351                  |
| Contributions from Series B preferred equity holders                                  | -                    | 30                   |
| Distributions to Series B preferred equity holders                                    | -                    | (46)                 |
| Distributions to common equity holders  | (236)                | (129)                |
| Members' capital, as of June 30, 2023 and 2022  | <u>\$ 2,117</u>      | <u>\$ 1,947</u>      |

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

**For the Six Months Ended June 30, 2023 and 2022**

| <i>(in thousands of dollars)</i>  | <b>June 30, 2023</b> | <b>June 30, 2022</b> |
|---|----------------------|----------------------|
| 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 \$301 and \$308 | 1,044                | 530                  |
| Contributions from Common A equity holders  | 1,460                | -                    |
| Contributions from Series B preferred equity holders                                  | -                    | 140                  |
| Distributions to Series B preferred equity holders                                    | (1,900)              | (90)                 |
| Distributions to common equity holders  | (389)                | (223)                |
| Members' capital, as of June 30, 2023 and 2022  | <u>\$ 2,117</u>      | <u>\$ 1,947</u>      |

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

**Shepherd's Finance, LLC**  
**Interim Condensed Consolidated Statements of Cash Flows - Unaudited**  
**For the Six Months Ended June 30, 2023 and 2022**

| <i>(in thousands of dollars)</i>  | <b>June 30,</b> |                 |
|---|-----------------|-----------------|
|   | <b>2023</b>     | <b>2022</b>     |
| <b>Cash flows from operations</b>   |                 |                 |
| Net income  | \$ 1,345        | \$ 838          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |
| Amortization of deferred financing costs  | 121             | 122             |
| Provision for loan losses   | 163             | 208             |
| Change in loan origination fees, net  | 6               | 448             |
| Depreciation and amortization   | 40              | 24              |
| Loss on sale of foreclosed assets   | 34              | -               |
| Gain on sale of foreclosed assets   | (8)             | (101)           |
| Impairment of foreclosed assets   | (7)             | -               |
| Gain on the sale of real estate investments                                       | (10)            | -               |
| Net change in operating assets and liabilities:                                   |                 |                 |
| Other assets  | 478             | (181)           |
| Accrued interest receivable   | (333)           | 27              |
| Customer interest escrow  | (470)           | 493             |
| Accrued interest payable  | 822             | 668             |
| Accounts payable and accrued expenses   | 216             | 96              |
| Net cash provided by operating activities   | <u>2,397</u>    | <u>2,642</u>    |
| <b>Cash flows from investing activities</b>                                       |                 |                 |
| Loan originations and principal collections, net                                  | (1,163)         | (6,781)         |
| Investment in foreclosed assets   | (126)           | (153)           |
| Additions for construction in real estate investments                             | (1,461)         | (1,159)         |
| Deposits for construction in real estate investments                              | -               | 185             |
| 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 provided by (used in) investing activities                               | <u>930</u>      | <u>(5,795)</u>  |
| <b>Cash flows from financing activities</b>                                       |                 |                 |
| Contributions from Common A equity holders  | 1,460           | -               |
| Contributions from preferred B equity holders                                     | -               | 140             |
| Contributions from preferred C equity holders                                     | -               | 200             |
| Distributions to preferred B equity holders                                       | (1,900)         | -               |
| Distributions to preferred C equity holders                                       | (1,251)         | (61)            |
| Distributions to common equity holders  | (389)           | (223)           |
| Proceeds from secured note payable  | 4,963           | 6,493           |
| Repayments of secured note payable  | (6,832)         | (4,280)         |
| Proceeds from unsecured notes payable   | 676             | 2,253           |
| Redemptions/repayments of unsecured notes payable                                 | (883)           | (3,840)         |
| Deferred financing costs paid   | (42)            | (138)           |
| Net cash (used in) provided by financing activities                               | <u>(4,198)</u>  | <u>544</u>      |
| Net change in cash, cash equivalents and restricted cash                          | (871)           | (2,609)         |
| <b>Cash and cash equivalents</b>  |                 |                 |
| Beginning of period   | 4,196           | 3,735           |
| End of period   | <u>\$ 3,325</u> | <u>\$ 1,126</u> |
| <b>Supplemental disclosure of cash flow information</b>                           |                 |                 |
| Cash paid for interest  | \$ 2,623        | \$ 2,181        |

**Non-cash investing and financing activities**

|   |    |     |    |       |
|---|----|-----|----|-------|
| Earned by Series B preferred equity holders but not distributed to customer interest escrow | \$ | -   | \$ | 46    |
| Earned by Series B preferred equity holders and distributed to customer interest escrow     | \$ | 47  | \$ | 87    |
| Earned but not paid distributions of Series C preferred equity holders                      | \$ | 228 | \$ | 248   |
| Secured and unsecured notes payable transfers   | \$ | 473 | \$ | 159   |
| Accrued interest payable transferred to unsecured notes payable                             | \$ | 674 | \$ | 351   |
| 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 June 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 June 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 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022, and early adoption is permitted.

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 June 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 June 30, 2023 and December 31, 2022.

|                                     | June 30, 2023      |                         | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|-------------------------------------|--------------------|-------------------------|--|---|--|
|                                     | Carrying<br>Amount | Estimated<br>Fair Value |  |   |  |
| Foreclosed assets, net              | \$ 140             | \$ 140                  | \$ –   | \$ –  | \$ 140   |
| Impaired loans due to COVID-19, net | 1,257              | 1,257                   | –  | –   | 1,257  |
| Other impaired loans, net           | 1,344              | 1,344                   | –  | –   | 1,344  |
| Total                               | <u>\$ 2,741</u>    | <u>\$ 2,741</u>         | <u>\$ –</u>  | <u>\$ –</u>   | <u>\$ 2,741</u>                                  |

|                                     | <b>December 31, 2022</b>   |                                 | <b>Quoted<br/>Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>Level 1</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>Level 2</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>Level 3</b> |
|-------------------------------------|----------------------------|---------------------------------|---|--|--|
|                                     | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |   |  |  |
| Foreclosed assets                   | \$ 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:

|  | <b>June 30, 2023</b>       |                                 | <b>December 31, 2022</b>   |                                 |
|--|----------------------------|---------------------------------|----------------------------|---------------------------------|
|  | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| <b>Financial Assets</b>                    |                            |                                 |                            |                                 |
| Cash, cash equivalents and restricted cash | \$ 3,325                   | \$ 3,325                        | \$ 4,196                   | \$ 4,196                        |
| Loan receivable, net                       | 57,466                     | 57,466                          | 56,650                     | 56,650                          |
| Accrued interest on loans receivables, net | 1,003                      | 1,003                           | 670                        | 670                             |
| <b>Financial Liabilities</b>               |                            |                                 |                            |                                 |
| Customer interest escrow                   | 343                        | 343                             | 766                        | 766                             |
| Notes payable secured, net                 | 20,831                     | 20,831                          | 23,173                     | 23,173                          |
| Notes payable unsecured, net               | 31,129                     | 31,129                          | 30,110                     | 30,110                          |
| Accrued interest payable                   | 3,069                      | 3,069                           | 650                        | 650                             |

### 3. Loan Receivables, net

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

|                                   | <b>June 30, 2023</b> | <b>December 31, 2022</b> |
|-----------------------------------|----------------------|--------------------------|
| Loans receivable, gross           | \$ 62,031            | \$ 60,974                |
| Less: Deferred loan fees          | (1,215)              | (1,264)                  |
| Less: Deposits                    | (869)                | (839)                    |
| Plus: Deferred origination costs  | 251                  | 306                      |
| Less: Allowance for credit losses | (2,732)              | (2,527)                  |
| Loans receivable, net             | <u>\$ 57,466</u>     | <u>\$ 56,650</u>         |

### Commercial Construction and Development Loans

#### *Construction Loan Portfolio Summary*

As of June 30, 2023, the Company's portfolio consisted of 189 commercial construction and 17 development loans with 61 borrowers in 20 states.

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

| Year | Number of States | Number of Borrowers | Number of Loans | Value of Collateral <sup>(1)</sup> | Commitment Amount | Gross Amount Outstanding | Loan to Value Ratio <sup>(2)(3)</sup> | Loan Fee |
|------|------------------|---------------------|-----------------|------------------------------------|-------------------|--------------------------|---------------------------------------|----------|
| 2023 | 20               | 61                  | 189             | \$ 99,766                          | \$ 68,736         | \$ 52,402                | 69%                                   | 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 June 30, 2023 and December 31, 2022:

| Year | Number of States | Number of Borrowers | Number of Loans | Gross Value of Collateral <sup>(1)</sup> | Commitment Amount <sup>(2)</sup> | Gross Amount Outstanding | Loan to Value Ratio <sup>(3)</sup> <sup>(4)</sup> | Interest Spread |
|------|------------------|---------------------|-----------------|--|----------------------------------|--------------------------|---|-----------------|
| 2023 | 5                | 11                  | 17              | \$ 20,387                                | \$ 11,863                        | \$ 9,629                 | 47%   | 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 June 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:

|   | Six Months Ended June 30, 2023 | Year Ended December 31, 2022 |
|---|--------------------------------|------------------------------|
| Beginning balance                         | \$ 56,650                      | \$ 46,943                    |
| Originations and modifications            | 30,787                         | 59,408                       |
| Principal collections                     | (29,730)                       | (49,658)                     |
| Transferred from loans receivable, net    | -                              | (556)                        |
| Transferred to loans receivable, net      | -                              | 1,017                        |
| Change in builder deposit                 | (30)                           | 95                           |
| Change in the allowance for credit losses | (205)                          | (479)                        |
| Change in loan fees, net                  | (6)                            | (120)                        |
| Ending balance                            | \$ 57,466                      | \$ 56,650                    |



## 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 June 30, 2023.

|   | <b>Loans<br/>Receivable<br/>Gross</b> | <b>Commitment<br/>Value</b> | <b>ACL</b>      |
|---|---------------------------------------|-----------------------------|-----------------|
| <b>Construction Loans Collectively Evaluated:</b> |                                       |                             |                 |
| A Credit Risk                                     | \$ 41,133                             | \$ 54,706                   | \$ 215          |
| B Credit Risk                                     | 4,693                                 | 7,252                       | 38              |
| C Credit Risk                                     | 1,697                                 | 2,324                       | 11              |
| <b>Development Loans Collectively Evaluated:</b>  |                                       |                             |                 |
| A Credit Risk                                     | \$ 7,866                              | 9,625                       | 8               |
| B Credit Risk                                     | 184                                   | 183                         | –               |
| C Credit Risk                                     | 1,485                                 | 1,557                       | 89              |
| <b>Unsecured Loans</b>                            | <b>\$ 2,737</b>                       | <b>2,642</b>                | <b>2,160</b>    |
| <b>Secured loans individually evaluated</b>       | <b>\$ 2,236</b>                       | <b>2,310</b>                | <b>211</b>      |
| <b>Total</b>                                      | <b>\$ 62,031</b>                      | <b>\$ 80,599</b>            | <b>\$ 2,732</b> |

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 nonaccrual loans. The Company's policies with respect to placing loans on nonaccrual are loans are individually evaluated if they are past due greater than 90 days. 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 June 30, 2023:

|                                     | <b>Gross<br/>Loan<br/>Value</b> | <b>Current<br/>0 - 59</b> | <b>Past<br/>Due<br/>60 - 89</b> | <b>Past Due<br/>90 - 179</b> | <b>Past<br/>Due<br/>180 -<br/>269</b> | <b>Past<br/>Due<br/>&gt;270</b> | <b>ACL</b>      |
|-------------------------------------|---------------------------------|---------------------------|---------------------------------|------------------------------|---------------------------------------|---------------------------------|-----------------|
| <b>Performing Loans</b>             |                                 |                           |                                 |                              |                                       |                                 |                 |
| A Credit Risk                       | \$ 48,999                       | \$ 48,999                 | \$ -                            | \$ -                         | \$ -                                  | \$ -                            | \$ 223          |
| B Credit Risk                       | 4,048                           | 4,048                     | -                               | -                            | -                                     | -                               | 33              |
| C Credit Risk                       | 2,629                           | 2,629                     | -                               | -                            | -                                     | -                               | 97              |
| <b>Forbearance Loans</b>            |                                 |                           |                                 |                              |                                       |                                 |                 |
| B Credit Risk                       | 830                             | 830                       | -                               | -                            | -                                     | -                               | 5               |
| C Credit Risk                       | 553                             | 553                       | -                               | -                            | -                                     | -                               | 3               |
| <b>Unsecured Loans</b>              | 2,737                           | -                         | -                               | 73                           | -                                     | 2,664                           | 2,160           |
| <b>Loans individually evaluated</b> | 2,235                           | -                         | -                               | -                            | 658                                   | 1,577                           | 211             |
| <b>Total</b>                        | <u>\$ 62,031</u>                | <u>\$ 57,059</u>          | <u>\$ -</u>                     | <u>\$ 73</u>                 | <u>\$ 658</u>                         | <u>\$ 4,241</u>                 | <u>\$ 2,732</u> |

Below is an aging schedule of loans receivable as of June 30, 2023, on a recency basis:

|   | <b>No.<br/>Loans</b> | <b>Unpaid<br/>Balances</b> | <b>%</b>      |
|---|----------------------|----------------------------|---------------|
| Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)   | 197                  | \$ 57,059                  | 92.0%         |
| 60-89 days  | -                    | -                          | -%            |
| 90-179 days   | 1                    | 73                         | -%            |
| 180-269 days  | 2                    | 658                        | 1.1%          |
| >270 days   | 6                    | 4,241                      | 6.9%          |
| <b>Subtotal</b>   | <u>206</u>           | <u>\$ 62,031</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.) | -                    | \$ -                       | -%            |
| <b>Total</b>  | <u>206</u>           | <u>\$ 62,031</u>           | <u>100.0%</u> |

Below is an aging schedule of loans receivable as of June 30, 2023, on a contractual basis:

|   | <u>No.<br/>Loans</u> | <u>Unpaid<br/>Balances</u> | <u>%</u>             |
|---|----------------------|----------------------------|----------------------|
| Contractual Terms – All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.  | 197                  | \$ 57,059                  | 92.0%                |
| 60-89 days  | –                    | –                          | –%                   |
| 90-179 days   | 1                    | 73                         | –%                   |
| 180-269 days  | 2                    | 658                        | 1.1%                 |
| >270 days   | <u>6</u>             | <u>4,241</u>               | <u>6.9%</u>          |
| Subtotal  | <u>206</u>           | <u>\$ 62,031</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)  | <u>–</u>             | <u>\$ –</u>                | <u>–%</u>            |
| 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.) | <u>–</u>             | <u>\$ –</u>                | <u>–%</u>            |
| Total   | <u><u>206</u></u>    | <u><u>\$ 62,031</u></u>    | <u><u>100.0%</u></u> |

#### 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                                 | (163)                    |
| Allowance for credit losses as of June 30, 2023     | <u><u>\$ (2,732)</u></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 \$16,334 and \$19,730 as of June 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 June 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:

|                                   | <u>June 30, 2023</u>     |  | <u>December 31, 2022</u> |  |
|-----------------------------------|--------------------------|--|--------------------------|--|
|                                   | <u>Borrower<br/>City</u> | <u>Percent of<br/>Loan<br/>Commitments</u> | <u>Borrower<br/>City</u> | <u>Percent of<br/>Loan<br/>Commitments</u> |
| Highest concentration risk        | Pittsburgh, PA           | 28%  | Pittsburgh, PA           | 27%  |
| Second highest concentration risk | Cape Coral, FL           | 7%   | Orlando, FL              | 9%   |
| Third highest concentration risk  | Orlando, FL              | 7%   | 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 – nonaccrual | 7,177                    |
|                         | <u>7,177</u>             |
| 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                    |
|   | <u>6,081</u>             |
| 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.<br/>Loans</u> | <u>Unpaid<br/>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%          |
|   | <u>250</u>           | <u>\$ 60,974</u>           | <u>100.0%</u> |
| Subtotal  |                      |                            |               |
| 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:

|   | <b>No.<br/>Loans</b> | <b>Unpaid<br/>Balances</b> | <b>%</b>      |
|---|----------------------|----------------------------|---------------|
| Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.  | 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%          |
| <b>Subtotal</b>   | <b>250</b>           | <b>\$ 60,974</b>           | <b>100.0%</b> |
| 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.) | -                    | \$ -                       | -%            |
| <b>Total</b>  | <b>250</b>           | <b>\$ 60,974</b>           | <b>100.0%</b> |

#### 4. Real Estate Investment Assets

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

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30, 2022</b> |
|---|---|---|---|
| Beginning balance                                 | \$ 660  | \$ 1,651                                    | \$ 1,651                                      |
| Deposits from real estate investments             | -   | (1,570)                                     | (185)   |
| 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                                       | 1,159   |
| Ending balance                                    | <u>\$ -</u>                                   | <u>\$ 660</u>                               | <u>\$ 1,608</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 quarter and six months ended June 30, 2023, the Company sold our final two real estate investment assets and recognized a gain on the sale of \$10. No losses were recognized on the sales.

## 5. Foreclosed Assets

The following table is a roll forward of foreclosed assets:

|   | <b>Six Months<br/>Ended<br/>June 30, 2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2022</b> |
|---|---|---|---|
| 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 | 126   | 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                          | <u>\$ 140</u>                                 | <u>\$ 1,582</u>                             | <u>\$ 865</u>                                     |

## 6. Borrowings

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

|   | <b>Priority<br/>Rank</b> | <b>June 30, 2023</b> | <b>December 31,<br/>2022</b> |
|---|--------------------------|----------------------|------------------------------|
| <b>Borrowing Source</b>                                   |                          |                      |                              |
| Purchase and sale agreements and other secured borrowings | 1                        | \$ 20,323            | \$ 23,142                    |
| Secured lines of credit from affiliates                   | 2                        | 511                  | 35                           |
| Unsecured line of credit (senior)                         | 3                        | 500                  | 1,250                        |
| Other unsecured debt (senior subordinated)                | 4                        | 1,094                | 1,094                        |
| Unsecured Notes through our public offering, gross        | 5                        | 20,679               | 21,576                       |
| Other unsecured debt (subordinated)                       | 5                        | 8,696                | 6,109                        |
| Other unsecured debt (junior subordinated)                | 6                        | 447                  | 447                          |
| Total gross secured and unsecured notes payable           |                          | <u>\$ 52,250</u>     | <u>\$ 53,653</u>             |

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

| <b>Year Maturing</b> | <b>Total Amount<br/>Maturing</b> | <b>Public<br/>Offering</b> | <b>Other<br/>Unsecured</b> | <b>Secured<br/>Borrowings</b> |
|----------------------|----------------------------------|----------------------------|----------------------------|-------------------------------|
| 2023                 | \$ 25,175                        | \$ 2,496                   | \$ 2,414                   | \$ 20,265                     |
| 2024                 | 10,999                           | 7,644                      | 3,337                      | 18                            |
| 2025                 | 8,387                            | 7,370                      | 998                        | 19                            |
| 2026                 | 2,601                            | 716                        | 1,865                      | 20                            |
| 2027 and thereafter  | 5,088                            | 2,453                      | 2,123                      | 512                           |
| Total                | <u>\$ 52,250</u>                 | <u>\$ 20,679</u>           | <u>\$ 10,737</u>           | <u>\$ 20,834</u>              |

## Secured Borrowings

### Lines of Credit

As of June 30, 2023 and December 31, 2022, the Company had \$511 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 first quarter of 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 \$4 as of June 30, 2023 and December 31, 2022.

Borrowings secured by loan assets are summarized below:

|                       | <u>June 30, 2023</u>  |  | <u>December 31, 2022</u>  |  |
|-----------------------|---|--|---|--|
|                       | <b>Book Value<br/>of<br/>Loans which<br/>Served as<br/>Collateral</b> | <b>Due from<br/>Shepherd's<br/>Finance to<br/>Loan<br/>Purchaser or<br/>Lender</b> | <b>Book Value<br/>of<br/>Loans which<br/>Served as<br/>Collateral</b> | <b>Due from<br/>Shepherd's<br/>Finance to<br/>Loan<br/>Purchaser or<br/>Lender</b> |
| <b>Loan Purchaser</b> |   |  |   |  |
| Builder Finance       | \$ 10,586   | \$ 5,294   | \$ 8,232  | \$ 6,065   |
| S.K. Funding          | 9,590   | 6,500  | 9,049   | 7,100  |
| <b>Lender</b>         |   |  |   |  |
| Shuman                | 342   | 125  | 724   | 125  |
| Jeff Eppinger         | 3,107   | 260  | 2,761   | 1,500  |
| R. Scott Summers      | 2,568   | 1,003  | 1,334   | 728  |
| John C. Solomon       | 835   | 563  | 1,172   | 563  |
| Judith Y. Swanson     | 10,750  | 6,000  | 9,571   | 6,473  |
| <b>Total</b>          | <u>\$ 37,778</u>  | <u>\$ 19,745</u>   | <u>\$ 32,843</u>  | <u>\$ 22,554</u>   |

## Unsecured Borrowings

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

The effective interest rate on borrowings through our Notes Program at June 30, 2023 and December 31, 2022 was 8.32% 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:

|  | <b>Six Months<br/>Ended<br/>June 30,<br/>2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2022</b> |
|--|---|---|---|
| Gross Notes outstanding, beginning of period | \$ 21,576   | \$ 20,636                                   | \$ 20,636   |
| Notes issued                                 | 562   | 7,245                                       | 1,303   |
| Note repayments / redemptions                | <u>(1,459)</u>                                    | <u>(6,305)</u>                              | <u>(1,590)</u>                                    |
| Gross Notes outstanding, end of period       | \$ 20,679   | \$ 21,576                                   | \$ 20,349   |
| Less deferred financing costs, net           | <u>(287)</u>                                      | <u>(367)</u>                                | <u>(383)</u>                                      |
| Notes outstanding, net                       | <u>\$ 20,392</u>                                  | <u>\$ 21,209</u>                            | <u>\$ 19,966</u>                                  |

The following is a roll forward of deferred financing costs:

|   | <b>Six Months<br/>Ended<br/>June 30,<br/>2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2022</b> |
|---|---|---|---|
| Deferred financing costs, beginning balance | \$ 835  | \$ 1,061                                    | \$ 1,061  |
| Additions                                   | 42  | 223   | 138   |
| Disposals                                   | <u>-</u>  | <u>(449)</u>                                | <u>-</u>  |
| Deferred financing costs, ending balance    | 877   | 835   | 1,199   |
| Less accumulated amortization               | <u>(590)</u>                                      | <u>(468)</u>                                | <u>(816)</u>                                      |
| Deferred financing costs, net               | <u>\$ 287</u>                                     | <u>\$ 367</u>                               | <u>\$ 383</u>                                     |

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

|   | <b>Six Months<br/>Ended<br/>June 30,<br/>2023</b> | <b>Year Ended<br/>December 31,<br/>2022</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2022</b> |
|---|---|---|---|
| Accumulated amortization, beginning balance | \$ 468  | \$ 694                                      | \$ 694  |
| Additions                                   | 121   | 223   | 122   |
| Disposals                                   | <u>-</u>  | <u>(449)</u>                                | <u>-</u>  |
| Accumulated amortization, ending balance    | <u>\$ 590</u>                                     | <u>\$ 468</u>                               | <u>\$ 816</u>                                     |



## Other Unsecured Debts

Our other unsecured debts are detailed below:

| Loan  | Maturity Date               | Interest Rate <sup>(1)</sup> | Principal Amount Outstanding as of |                   |
|---|-----------------------------|------------------------------|------------------------------------|-------------------|
|   |                             |                              | June 30, 2023                      | December 31, 2022 |
| Unsecured Note with Seven Kings Holdings, Inc.      | Demand <sup>(2)</sup>       | 9.5%                         | \$ 500                             | \$ 500            |
| Unsecured Line of Credit from Swanson               | October 2023                | 10.0%                        | 1,000                              | 527               |
| Unsecured Line of Credit from Builder Finance, Inc. | 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                        | July 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                                | 100               |
| Subordinated Promissory Note                        | September 2023              | 7.0%                         | 94                                 | 94                |
| Subordinated Promissory Note                        | October 2023                | 7.0%                         | 100                                | 100               |
| Subordinated Promissory Note                        | December 2025               | 8.0%                         | 180                                | 180               |
| Senior Subordinated Promissory Note                 | March 2026 <sup>(3)</sup>   | 8.0%                         | 374                                | 374               |
| Senior Subordinated Promissory Note                 | August 2026                 | 8.0%                         | 291                                | 291               |
| Senior Subordinated Promissory Note                 | July 2026 <sup>(4)</sup>    | 1.0%                         | 740                                | 740               |
| Senior Subordinated Promissory Note                 | July 2026 <sup>(4)</sup>    | 20.0%                        | 460                                | 460               |
| Senior Subordinated Promissory Note                 | October 2024 <sup>(4)</sup> | 1.0%                         | 720                                | 720               |
| Junior Subordinated Promissory Note                 | October 2024 <sup>(4)</sup> | 20.0%                        | 447                                | 447               |
| Senior Subordinated Promissory Note                 | March 2029                  | 10.0%                        | 2,000                              | -                 |
| Senior Subordinated Promissory Note                 | April 2024                  | 10.0%                        | 750                                | 750               |
| Senior Subordinated Promissory Note                 | May 2027                    | 10.0%                        | 98                                 | -                 |
|   |                             |                              | <u>\$ 10,737</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"):

|                               | Six Months Ended June 30, 2023 | Year Ended December 31, 2022 | Six Months Ended June 30, 2022 |
|-------------------------------|--------------------------------|------------------------------|--------------------------------|
| Beginning balance             | \$ 5,725                       | \$ 5,014                     | \$ 5,014                       |
| Additions from new investment | -                              | 200                          | 200                            |
| Distributions                 | (1,251)                        | (131)                        | (61)                           |
| Additions from reinvestments  | 301                            | 642                          | 309                            |

Ending balance

\$ 4,775

\$ 5,725

\$ 5,462

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

| <b>Year Maturing</b> | <b>Total<br/>Amount<br/>Redeemable</b> |
|----------------------|--|
| 2024                 | \$ 2,573                               |
| 2025                 | 481                                    |
| 2026                 | 309                                    |
| 2027                 | 1,206                                  |
| 2028                 | 206                                    |
| Total                | <u>\$ 4,775</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 June 30, 2023, the Class A Common Units are held by seven members, all of whom have no personal liability. 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 June 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 June 30, 2023, the Company had \$995, \$0, 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 six months ended June 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 \$16,334 and \$19,730 at June 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:

|   | <b>Quarter<br/>2<br/>2023</b> | <b>Quarter<br/>1<br/>2023</b> | <b>Quarter<br/>4<br/>2022</b> | <b>Quarter<br/>3<br/>2022</b> | <b>Quarter<br/>2<br/>2022</b> | <b>Quarter<br/>1<br/>2022</b> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net interest and fee income                   | \$ 1,509                      | \$ 1,451                      | \$ 1,407                      | \$ 1,424                      | \$ 1,242                      | \$ 1,041                      |
| Loan loss provision                           | 43                            | 120                           | 451                           | 271                           | 134                           | 74                            |
| Net interest income after loan loss provision | 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                      | 19                            | 21                            | 90                            | 31                            | 25                            | 70                            |
| SG&A expense                                  | 617                           | 826                           | 672                           | 603                           | 713                           | 695                           |
| Depreciation and amortization                 | 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 (loss)                             | <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:

|   | <b>For the Six Months Ended<br/>June 30,</b> |                 |
|---|--|-----------------|
|   | <b>2023</b>                                  | <b>2022</b>     |
| <b>Selling, general and administrative expenses</b> |  |                 |
| Legal and accounting                                | \$ 197                                       | \$ 153          |
| Salaries and related expenses                       | 897  | 789             |
| Board related expenses                              | 54   | 50              |
| Advertising   | 11   | 62              |
| Rent and utilities                                  | 30   | 43              |
| Loan and foreclosed asset expenses                  | 57   | 142             |
| Travel  | 81   | 78              |
| Other   | 116  | 93              |
| Total SG&A  | <u>\$ 1,443</u>                              | <u>\$ 1,410</u> |

## 13. Subsequent Events

Management of the Company has evaluated subsequent events through August 10, 2023, the date these interim condensed consolidated financial statements were issued.