UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

OR

[ ]	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to _____________

Commission File Number: **000-27816**

REDWOOD MORTGAGE INVESTORS VIII,
a California Limited Partnership

(Exact name of registrant as specified in its charter)

California	**94-3158788**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
900 Veterans Blvd., Suite 500, Redwood City, CA	**94063**
(Address of principal executive offices)	(Zip Code)

(650) 365-5341
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ ] YES [ ] NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[ ] YES [X] NO

Part I –FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REDWOOD MORTGAGE INVESTORS VIII
(A California Limited Partnership)
Consolidated Balance Sheets
MARCH 31, 2011 (unaudited) AND DECEMBER 31, 2010 (audited)
(in thousands)

ASSETS

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 5,191	$ 7,054
Loans		
Secured by deeds of trust, net of discount of $2,881 for both periods		
Principal	189,811	202,134
Advances	18,039	18,190
Accrued interest	12,878	13,119
Unsecured	30	85
Allowance for loan losses	(85,275)	(89,200)
Net loans	135,483	144,328
Real estate owned (REO)		
Held for sale	51,901	54,206
Held as investment, net	125,864	115,411
Net REO	177,765	169,617
Receivable from affiliate	—	18
Other assets, net	1,315	971
Total assets	$ 319,754	$ 321,988

LIABILITIES AND CAPITAL

	March 31, 2011	December 31, 2010
Liabilities		
Bank loan, secured	$ 42,500	$ 50,000
Mortgages payable	42,850	36,270
Accounts payable	2,824	2,609
Deferred revenue	109	109
Payable to affiliate	1,078	973
Total liabilities	89,361	89,961
Capital		
Partners' capital		
Limited partners' capital, subject to redemption, net	226,986	228,193
General partners' capital (deficit), net	(743)	(734)
Total partners' capital		
Non-controlling interest	4,150	4,568
Total capital	230,393	232,027
Total liabilities and capital	$ 319,754	$ 321,988

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

REDWOOD MORTGAGE INVESTORS VIII
(A California Limited Partnership)
Consolidated Statements of Operations
For the Three Months Ended March 31, 2011 and 2010
(in thousands, except for per limited partner amounts)
(unaudited)

	2011	2010
Revenue, net		
Interest income		
Loans	$ 758	$ 3,074
Imputed interest on formation loan	125	147
Other interest income	1	23
Total interest income	884	3,244
Interest expense		
Bank loan, secured	730	917
Mortgages payable	552	45
Amortization of discount on formation loan	125	147
Other interest expense	—	—
Total interest expense	1,407	1,109
Net interest income	(523)	2,135
Late fees	3	24
Other	2	4
Total revenues, net	(518)	2,163
Provision for loan losses	—	301
Operating Expenses		
Mortgage servicing fees	182	583
Asset management fees	247	304
Costs from Redwood Mortgage Corp.	110	112
Professional services	124	362
Rental operations, net	(593)	(140)
Real estate owned holding costs	350	55
Loss on disposal of real estate	—	223
Impairment loss on real estate	—	89
Other	17	39
Total operating expenses	437	1,627
Net income (loss)	$ (955)	$ 235
Net income (loss)		
General partners (1%)	$ (10)	$ 2
Limited partners (99%)	(945)	233
	$ (955)	$ 235
Net income (loss) per $1,000 invested by limited partners for entire period		
Where income is reinvested	$ (4)	$ 1
Where partner receives income in monthly distributions	$ (4)	$ 1

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

REDWOOD MORTGAGE INVESTORS VIII
(A California Limited Partnership)
Consolidated Statements of Changes in Partners' Capital
For the Three Months Ended March 31, 2011
(in thousands) (unaudited)

	Limited Partners			
	Capital Account Limited Partners	Unallocated Syndication Costs	Formation Loan, Gross	Total Limited Partners' Capital
Balances, December 31, 2010	$ 238,581	$ (1,016)	$ (9,372)	$ 228,193
Formation loan payments received	–	–	436	436
Net income (loss)	(945)	–	–	(945)
Allocation of syndication costs	(87)	87	–	—
Partners' withdrawals	(698)	–	–	(698)
Early withdrawal penalties	–	–	–	—
Balances, March 31, 2011	$ 236,851	$ (929)	$ (8,936)	$ 226,986

	General Partners			
	Capital/ (Deficit) Account General Partners	Unallocated Syndication Costs	Total General Partners' Capital/ (Deficit)	Total Partners' Capital
Balances, December 31, 2010	$ (724)	$ (10)	$ (734)	$ 227,459
Formation loan payments received	–	–	–	436
Net income (loss)	(10)	–	(10)	(955)
Allocation of syndication costs	(1)	1	–	–
Partners' withdrawals		–		(697)
Early withdrawal penalties	–	–	–	–
Balances, March 31, 2011	$ (734)	$ (9)	$ (743)	$ 226,243

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

REDWOOD MORTGAGE INVESTORS VIII
(A California Limited Partnership)
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2011 and 2010
(in thousands) (unaudited)

	2011	2010
Cash flows from operating activities		
Net income (loss)	$ (955)	$ 235
Adjustments to reconcile net income (loss) to		
net cash provided by (used in) operating activities		
Amortization of origination fees	139	27
Imputed interest on formation loan	(125)	(147)
Amortization of discount on formation loan	125	147
Provision for loan losses	—	301
Depreciation from rental operations	397	346
Impairment loss/(valuation gain) on real estate	—	89
Change in operating assets and liabilities		
Accrued interest	12	(935)
Advances on loans	(755)	(1,452)
Receivable from affiliate	18	(288)
Other assets	(483)	(95)
Accounts payable	(94)	(561)
Payable to affiliate	105	302
Net cash provided by (used in) operating activities	(1,616)	(2,031)
Cash flows from investing activities		
Loans originated	(3)	(504)
Principal collected on loans	5,879	15,564
Refund/(payments) for development of real estate	55	(700)
Proceeds from disposition of real estate	2,225	984
Net cash provided by (used in) investing activities	8,156	15,344
Cash flows from financing activities		
Payments on bank loan	(7,500)	(7,500)
Payments on mortgages	(224)	(688)
Partners’ withdrawals	(697)	(979)
Formation loan collections	436	487
Increase/(decrease) in non-controlling interest	(418)	135
Net cash provided by (used in) financing activities	(8,403)	(8,545)
Net increase (decrease) in cash and cash equivalents	(1,863)	4,768
Cash and cash equivalents, beginning of year	7,054	11,161
Cash and cash equivalents, end of year	$ 5,191	$ 15,929

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

REDWOOD MORTGAGE INVESTORS VIII
(A California Limited Partnership)
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2011 and 2010
(in thousands) (unaudited)

	2011	2010
Supplemental disclosures of cash flow information		
Non-cash investing activities		
Real estate acquired through foreclosure/settlement on loans, net of liabilities assumed	$ 3,712	$ 7,877
Cash paid for interest	$ 1,282	$ 935

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

NOTE 1 – GENERAL

In the opinion of the management of the partnership, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the consolidated financial information included therein. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the partnership's Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission. The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the operating results to be expected for the full year.

Redwood Mortgage Investors VIII, a California Limited Partnership, was organized in 1993. The general partners are Michael R. Burwell, an individual, Gymno Corporation and Redwood Mortgage Corp. (RMC), both California corporations that are owned and controlled directly or indirectly, by Michael R. Burwell through his individual stock ownership and as trustee of certain family trusts. The partnership was organized to engage in business as a mortgage lender for the primary purpose of making loans secured by deeds of trust on California real estate. Loans are being arranged and serviced by RMC. The rights, duties and powers of the general and limited partners of the partnership are governed by the limited partnership agreement and Sections 15611 et seq. of the California Corporations Code. Income taxes – federal and state – are the obligation of the partners, if and when taxes apply, other than for the annual California franchise taxes levied on and paid by the partnership.

The combination of the general economic conditions, the constrained credit and financial markets, the distressed real estate markets, and the terms and the conditions of the amended and restated loan agreement resulted in significant changes to the lending and business operations of the partnership, as well as to its balance sheet, results of operations and cash flows.

In March 2009, in response to economic conditions, the dysfunction of the credit markets, the distress in the real estate markets, and the expected cash needs of the partnership, the partnership suspended capital liquidations, and is not accepting new liquidation requests until further notice.

In December 2008, the partnership completed its sixth offering stage, wherein contributed capital totaled $299,813,000 of approved aggregate offerings of $300,000,000. No additional offerings are contemplated at this time.

Sales commissions are not paid directly by the partnership out of the offering proceeds. Instead, the partnership loans to RMC, one of the general partners, amounts to pay all sales commissions and amounts payable in connection with unsolicited orders. This loan is unsecured and non-interest bearing and is referred to as the "formation loan." The following summarizes formation loan transactions at March 31, 2011 ($ in thousands):

Formation loan made	$	22,567
Unamortized discount on imputed interest		(1,205)
Formation loan made, net		21,362
Repayments to date		(12,988)
Early withdrawal penalties applied		(643)
Formation loan, net		7,731
Unamortized discount on imputed interest		1,205
Balance, March 31, 2011	$	8,936

The formation loan is deducted from limited partners' capital in the consolidated balance sheets. As amounts are collected from RMC, the deduction from capital is reduced. Interest has been imputed at the market rate of interest in effect at the date the offerings closed which ranged from 4.00% to 9.50%. An estimated amount of imputed interest is recorded for offerings still outstanding. During the three months ended March 31, 2011 and 2010, $125,000, and $147,000, respectively, were recorded related to amortization of the discount on imputed interest.

NOTE 1 – GENERAL (continued)

The partnership bears its own syndication costs, other than certain sales commissions, including legal and accounting expenses, printing costs, selling expenses and filing fees. Syndication costs are charged against partners' capital and are allocated to individual partners consistent with the partnership agreement.

Through March 31, 2011, syndication costs of $5,010,000 had been incurred by the partnership with the following distribution ($ in thousands):

Costs incurred	$ 5,010
Early withdrawal penalties applied	(190)
Allocated to date	(3,882)
March 31, 2011 balance	$ 938

The partnership is scheduled to terminate in 2032, unless sooner terminated as provided in the partnership agreement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The partnership's consolidated financial statements include the accounts of its 100%-owned subsidiaries, Altura, LLC, Borrette Property Company, LLC, Broadway Property Company LLC, Diablo Villa Property Company, LLC, Diamond Heights Winery, LLC, The Element, LLC, Fremont Investment Property Company, LLC, Grand Villa Glendale, LLC, Howard Street Property Investors LLC, Lincoln Village LLC, Pine Acres LLC, Richmond Eddy Property Management, LLC, SF Dore LLC, Winchester Property Company LLC, and the partnership's 72.5%-owned subsidiary, Larkin Property Company, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain reclassifications, not affecting previously reported net income or total partner capital, have been made to the previously issued consolidated financial statements to conform to the current year presentation.

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Such estimates relate principally to the determination of the allowance for loan losses, including the valuation of impaired loans, (which itself requires determining the fair value of the collateral), and the valuation of real estate held for sale and held as investment, at acquisition and subsequently. Actual results could differ significantly from these estimates.

Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, "protective equity" is the arithmetic difference between the fair value of the collateral, net of any senior liens, and the loan balance, where "loan balance" is the sum of the unpaid principal, advances and the recorded interest thereon. This computation is done for each loan (whether impaired or performing), and while loans secured by collateral of similar property type are grouped, there is enough distinction and variation in the collateral that a loan-by-loan, collateral-by-collateral analysis is appropriate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management estimates (continued)

The fair value of the collateral is determined by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values, and publicly available information on in-market transactions. Historically, it has been rare for determinations of fair value to be made without substantial reference to current market transactions. However, in recent years, due to the low levels of real estate transactions, and the rising number of transactions that are distressed (i.e., that are executed by an unwilling seller – often compelled by lenders or other claimants – and/or executed without broad exposure or with market exposure but with few, if any, resulting offers), more interpretation, judgment and interpolation/extrapolation within and across property types is required.

Appraisals of commercial real property generally present three approaches to estimating value: 1) market comparables or sales approach; 2) cost to replace and 3) capitalized cash flows or investment approach. These approaches may or may not result in a common, single value. The market-comparables approach may yield several different values depending on certain basic assumptions, such as, determining highest and best use (which may or may not be the current use); determining the condition (e.g. as-is, when-completed, or for land when-entitled); and determining the unit of value (e.g. as a series of individual unit sales or as a bulk disposition). Further complicating this process already subject to judgment, uncertainty and imprecision are the current low transaction volumes in the residential, commercial and land markets, and the variability that has resulted. This exacerbates the imprecision in the process, and requires additional considerations and inquiries as to whether the transaction was entered into by a willing seller in a functioning market or the transaction was completed in a distressed market, in which the predominant number of sellers are surrendering properties to lenders in partial settlement of debt (as is currently prevalent in the residential markets and is occurring more frequently in commercial markets) and/or participating in "arranged sales" to achieve partial settlement of debts and claims and to generate tax advantage. Either way, the present market is at historically low transaction volumes with neither potential buyers nor sellers willing to transact. In certain asset classes the time elapsed between transactions – other than foreclosures – was 12 or more months.

The uncertainty in the process is exacerbated by the tendency in distressed market for lesser-quality properties to transact while upper echelon properties remain off the market – or come on and off the market – because these owners often believe in the intrinsic value of their properties (and the recoverability of that value) and are unwilling to accept non-economic offers from opportunistic – often all cash – acquirers taking advantage of distressed markets. This accounts for the ever lower transaction volumes for higher quality properties which exacerbate the perception of a broadly declining market in which each succeeding transaction establishes a new low.

Management has the requisite familiarity with the markets the partnership lends in generally and of the collateral properties specifically to analyze sales-comparables and assess their suitability/applicability. Management is acquainted with market participants – investors, developers, brokers, lenders – that are useful, relevant secondary sources of data and information regarding valuation and valuation variability. These secondary sources may have familiarity with and perspectives on pending transactions, successful strategies to optimize value, and the history and details of specific properties - on and off the market – that enhance the process and analysis that is particularly and principally germane to establishing value in distressed markets and/or property types (such as land held for development and for units in a condominium conversion). Multiple inputs from different sources often collectively provide the best evidence of fair value. In these cases expected cash flows would be considered alongside other relevant information. Management's analysis of these secondary sources, as well as the analysis of comparable sales, assists management in preparing its estimates regarding valuations, such as collateral fair value. However, such estimates are inherently imprecise and actual results could differ significantly from such estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The partnership considers all highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents. Periodically, partnership cash balances in banks exceed federally insured limits.

Loans, advances and interest income

Loans generally are stated at the unpaid principal balance (principal). Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the partnership's interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums, and attorney fees. Advances generally are stated at the principal balance and accrue interest until repaid by the borrower.

The partnership may fund a specific loan origination net of an interest reserve to insure timely interest payments at the inception (one to two years) of the loan. As monthly interest payments become due, the partnership funds the payments into the affiliated trust account.

If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement; a loan may be designated as impaired. Impaired loans are included in management's periodic analysis of recoverability. Any subsequent payments on impaired loans are applied to late fees and then to reduce first the accrued interest, then advances, and then unpaid balances.

The partnership may on occasion negotiate and enter into contractual workout agreements with borrowers whose loans are past maturity or who are delinquent in making payments which can delay and/or alter the loan's cash flow and delinquency status.

Interest is accrued daily based on the unpaid principal balance of the loans. An impaired loan continues to accrue as long as the loan is in the process of collection and is considered to be well-secured. Loans are placed on non-accrual status at the earlier of management's determination that the primary source of repayment will come from the foreclosure and subsequent sale of the collateral securing the loan (which usually occurs when a notice of sale is filed) or when the loan is no longer considered well-secured. When a loan is placed on non-accrual status, the accrual of interest is discontinued; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement.

Allowance for loan losses

Loans and the related accrued interest and advances are analyzed on a periodic basis for ultimate recoverability. Delinquencies are identified and followed as part of the loan system. Delinquencies are determined based upon contractual terms. For impaired loans, a provision is made for loan losses to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral values, such that the net carrying amount (unpaid principal balance, plus advances, plus accrued interest less the specific allowance) is reduced to the present value of future cash flows discounted at the loan's effective interest rate, or, if a loan is collateral dependent, to the estimated fair value of the related collateral net of any senior loans, which would include costs to sell in arriving at net realizable value if planned disposition of the asset securing a loan is by way of sale.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

Loans determined not to be individually impaired are grouped by the property type of the underlying collateral, and for each loan and for the total by property type, the amount of protective equity or amount of exposure to loss (*i.e.,* the dollar amount of the deficiency of the fair value of the underlying collateral to the loan balance) is computed. Based on its knowledge of the borrowers and their historical (and expected) performance, and the exposure to loss as indicated in the analysis, management estimates an appropriate reserve by property type for probable credit losses in the portfolio. Because the partnership is an asset-based lender and because specific regions, neighborhoods and even properties within the same neighborhoods, vary significantly as to real estate values and transaction activity, general market trends, which may be indicative of a change in the risk of a loss, are secondary to the condition of the property, the property type and the neighborhood/region in which the property is located, and do not enter substantially into the determination of the amount of the non-specific (i.e. general) reserves.

The fair value estimates are derived from information available in the real estate markets including similar property, and may require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible.

Real estate owned (REO), held for sale

REO, held for sale includes real estate acquired in full or partial settlement of loan obligations generally through foreclosure that is being marketed for sale. REO, held for sale is recorded at acquisition at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property's net realizable value, which is the fair value less estimated costs to sell, as applicable. Any excess of the recorded investment in the loan over the net realizable value is charged against the allowance for loan losses. The fair value estimates are derived from information available in the real estate markets including similar property, and often require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The estimates figure materially in calculating the value of the property at acquisition, the level of charge to the allowance for loan losses and any subsequent valuation reserves. After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, REO, held for sale is analyzed periodically for changes in fair values and any subsequent write down is charged to operating expenses. Any recovery in the fair value subsequent to such a write down is recorded – not to exceed the net realizable value at acquisition – as an offset to operating expenses. Gains or losses on sale of the property are recorded in other income or expense. Recognition of gains on the sale of real estate is dependent upon the transaction meeting certain criteria related to the nature of the property and the terms of the sale including potential seller financing.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real estate owned (REO), held as investment, net

REO, held as investment, net includes real estate acquired in full or partial settlement of loan obligations generally through foreclosure that is not being marketed for sale and is either being operated, such as rental properties; is being managed through the development process, including obtaining appropriate and necessary entitlements, permits and construction; or are idle properties awaiting more favorable market conditions. REO, held as investment, net is recorded at acquisition at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property's estimated fair value, less estimated costs to sell, as applicable. After acquisition, costs incurred relating to the development and improvement of the property are capitalized, whereas costs relating to operating or holding the property are expensed. Subsequent to acquisition, management periodically compares the carrying value of real estate to expected undiscounted future cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds future undiscounted cash flows, the assets are reduced to estimated fair value.

Recently issued accounting pronouncements

On April 5, 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether Restructuring is a Troubled Debt Restructuring," providing guidance to lenders for evaluating where a modification or restructuring of a loan as a Troubled Debt Restructuring (TDR). ASU 2011-02 provides expanded guidance on whether: 1) the lender has granted a "concession" and 2) whether the borrower is experiencing "financial difficulties." The ASU is effective for the first interim or annual period beginning after June 15, 2011 (i.e. the third quarter of 2011) and is required to be applied retroactively for all modifications and restructuring activities in 2011. This ASU ends the FASB's deferral of the additional disclosures about TDR activities required by ASU 2010-20.

NOTE 3 – GENERAL PARTNERS AND RELATED PARTIES

The following are commissions and/or fees that are paid to the general partners or their affiliates:

- *Loan brokerage commissions* - For fees in connection with the review, selection, evaluation, negotiation and extension of loans, the general partners may collect loan brokerage commissions (points) limited to an amount not to exceed 4% of the total partnership assets per year. The loan brokerage commissions are paid by the borrowers and thus, are not an expense of the partnership. There were no loan brokerage commissions paid by the borrowers in the three months ended March 31, 2011 and 2010.

- *Mortgage servicing fees* - RMC, a general partner, receives monthly mortgage servicing fees of up to 1/8 of 1% (1.5% annually) of the unpaid principal balance of the loan portfolio or such lesser amount as is reasonable and customary in the geographic area where the property securing the mortgage is located. Historically, RMC has charged 1.0% annually, and at times waived additional amounts to enhance the partnership's earnings. Such fee waivers were not made for the purpose of providing the partnership with sufficient funds to satisfy withdrawal requests, nor were such waivers made in order to meet any required level of distributions, as the partnership has no such required level of distributions. RMC does not use any specific criteria in determining the exact amount of fees to be waived. The decision to waive fees and the amount, if any, to be waived, is made by RMC in its sole discretion.

NOTE 3 – GENERAL PARTNERS AND RELATED PARTIES (continued)

Mortgage servicing fees are summarized in the following table for the three months ended March 31 ($ in thousands).

	Three months ended March 31,	
	2011	2010
Maximum chargeable by RMC	$ 273	$ 875
Waived by RMC	(91)	(292)
Net charged	$ 182	$ 583

- *Asset management fees* - The general partners receive monthly fees for managing the partnership's loan portfolio and operations of up to 1/32 of 1% of the "*net asset value*" (3/8 of 1% annually). At times, the general partners have charged less than the maximum allowable rate to enhance the partnership's earnings. Such fee waivers were not made with the purpose of providing the partnership with sufficient funds to satisfy withdrawal requests, nor to meet any required level of distributions, as the partnership has no such required level of distributions. RMC does not use any specific criteria in determining the exact amount of fees to be waived. The decision to waive fees and the amount, if any, to be waived, is made by RMC in its sole discretion.

Asset management fees for the three months ended March 31, 2011 and 2010, were $247,000 and $304,000, respectively. No asset management fees were waived during any period reported.

- *Costs from RMC* - RMC, a general partner, is reimbursed by the partnership for operating expenses incurred on behalf of the partnership including, without limitation, accounting and audit fees, legal fees and expenses, postage, and the costs for preparation of reports to limited partners, and out-of-pocket general and administration expenses. Operating expenses for the three months ended March 31, 2011 and 2010, were $110,000 and $112,000 respectively.

NOTE 4 – LOANS

The partnership generally funds loans with a fixed interest rate and a five-year term. As of March 31, 2011, approximately 71% of the partnership's loans (representing 86% of the aggregate principal balance of the partnership's loan portfolio) have a five year term or less from loan inception. The remaining loans have terms longer than five years. As of March 31, 2011, approximately 33% of the loans outstanding (representing 59% of the aggregate principal balance of the partnership's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30 year amortization, with the remaining principal balance due at maturity.

- *Secured loans unpaid principal balance* (principal) - Secured loan transactions are summarized in the following table ($ in thousands).

	Three months ended March 31,	
	2011	2010
Principal, beginning of year	$ 202,134	$ 268,445
New loans added	3	504
Borrower repayments	(5,824)	(15,564)
Foreclosures	(6,502)	(6,421)
Other	—	(440)
Principal, end of period	$ 189,811	$ 246,524

NOTE 4 – LOANS (continued)

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

	March 31, 2011	December 31, 2010
Number of secured loans	72	79
Secured loans – principal	$ 189,811	$ 202,134
Secured loans – interest rates range (fixed)	2.75%-12.00%	2.75%-12.00%
Average secured loan – principal	$ 2,636	$ 2,559
Average principal as percent of total principal	1.39%	1.27%
Average principal as percent of partners' capital	1.17%	1.12%
Average principal as percent of total assets	0.82%	0.79%
Largest secured loan - principal	$ 37,923	$ 37,923
Largest principal as percent of total principal	19.98%	18.76%
Largest principal as percent of partners' capital	16.76%	16.67%
Largest principal as percent of total assets	11.86%	11.78%
Smallest secured loan - principal	$ 79	$ 79
Smallest principal as percent of total principal	0.04%	0.04%
Smallest principal as percent of partners' capital	0.03%	0.03%
Smallest principal as percent of total assets	0.02%	0.02%
Number of counties where security is located (all California)	25	27
Largest percentage of principal in one county	29.14%	28.80%
Number of secured loans in foreclosure status	12	13
Secured loans in foreclosure – principal	$ 90,218	$ 55,146
Number of secured loans with an interest reserve	—	—
Interest reserves	$ —	$ —

As of March 31, 2011, the partnership's largest loan, in the unpaid principal balance of $37,923,000 (representing 19.98% of outstanding secured loans and 11.86% of partnership assets) has an interest rate of 9.25% and is secured by a condominium/apartment complex located in Sacramento County, California. This loan matured July 1, 2010. The partnership has been pursuing the borrower on several fronts to obtain satisfaction of the debt, including having the courts place a receiver in charge of the property. In February 2011, the partnership filed a notice of default on the loan.

Larger loans sometimes increase above 10% of the secured loan portfolio or partnership assets as these amounts decrease due to limited partner withdrawals, loan payoffs and restructuring of existing loans.

NOTE 4 – LOANS (continued)

- *Lien positions* - Secured loans had the lien positions presented in the following table ($ in thousands).

	March 31, 2011			December 31, 2010		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	31	$ 76,055	40%	37	$ 85,535	43%
Second trust deeds	39	113,250	60	40	116,091	57
Third trust deeds	2	506	—	2	508	—
Total secured loans	72	189,811	100%	79	202,134	100%
Liens due other lenders at loan closing		224,222			232,081	
Total debt		$ 414,033			$ 434,215	
Appraised property value at loan closing		$ 649,429			$ 688,494	
Percent of total debt to appraised values (LTV) at loan closing (1)		63.75%			63.07%	

(1) Based on appraised values and liens due other lenders at loan closing. The loan to value computation does not take into account subsequent increases or decreases in property values following the loan closing nor does it include decreases or increases of the amount owing on senior liens to other lenders by payments or interest accruals, if any. Property values likely have changed, particularly over the last two years, and the portfolio's current loan to value ratio likely is higher than this historical ratio.

- *Property type* - Secured loans summarized by property type of the collateral are presented in the following table ($ in thousands).

	March 31, 2011			December 31, 2010		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family	58	$ 148,576	78%	63	$ 155,241	77%
Multi-family	4	5,337	3	5	8,135	4
Commercial	9	35,353	19	10	38,212	19
Land	1	545	—	1	546	—
Total secured loans	72	$ 189,811	100%	79	$ 202,134	100%

Single family properties include owner-occupied and non-owner occupied single family homes (1-4 unit residential buildings), condominium units, townhouses, and condominium complexes. From time to time, loan originations in one sector or property type become more active due to prevailing market conditions. The current concentration of the partnership's loan portfolio in condominium properties may pose additional or increased risks. Recovery of the condominium sector of the real estate market is generally expected to lag behind that of single-family residences. In addition, availability of financing for condominium properties has been, and will likely continue to be, constricted and more difficult to obtain than other property types. As of March 31, 2011 and December 31, 2010, $131,486,000 and $135,948,000, respectively, of the partnership's loans were secured by condominium properties.

NOTE 4 – LOANS (continued)

Condominiums may create unique risks for the partnership that are not present for loans made on other types of properties. In the case of condominiums, a board of managers generally has discretion to make decisions affecting the condominium building, including regarding assessments to be paid by the unit owners, insurance to be maintained on the building, and the maintenance of that building, which may have an impact on the partnership loans that are secured by such condominium property.

The partnership may have less flexibility in foreclosing on the collateral for a loan secured by condominiums upon a default by the borrower. Among other things, the partnership must consider the governing documents of the homeowners association and the state and local laws applicable to condominium units, which may require an owner to obtain a public report prior to the sale of the units.

- *Scheduled maturities* - Secured loans are scheduled to mature as presented in the following table ($ in thousands).

Scheduled maturities	Loans	Principal	Percent
2011	13	$ 12,460	7
2012	17	52,643	28
2013	14	5,645	3
2014	2	2,532	1
2015	8	1,954	1
Thereafter	4	2,208	1
Total future maturities	58	77,442	41
Matured at March 31, 2011	14	112,369	59
Total secured loans	72	$ 189,811	100%

It is the partnership's experience that loans may be repaid or refinanced before, at or after the contractual maturity date. For matured loans, the partnership may continue to accept payments while pursuing collection of amounts owed from borrowers. Therefore, the above tabulation for scheduled maturities is not a forecast of future cash receipts.

- *Matured loans* - Secured loans past maturity are summarized in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Secured loans past maturity		
Number of loans (2) (3)	14	13
Principal	$ 112,369	$ 95,264
Advances	17,562	14,424
Accrued interest	8,426	8,040
Loan balance	$ 138,357	$ 117,728
Percent of loans	59%	47%

(2) The secured loans past maturity include 10 loans as of March 31, 2011 and December 31, 2010, also included in the secured loans in non-accrual status.

(3) The secured loans past maturity include 12 and 11 loans as of March 31, 2011 and December 31, 2010, respectively, also included in the secured loans delinquency category.

NOTE 4 – LOANS (continued)

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

	March 31, 2011	December 31, 2010
30-89 days past due	$ 10,359	$ 8,083
90-179 days past due	318	2,511
180 or more days past due	151,249	156,866
Total past due	161,926	167,460
Current	27,885	34,674
Total secured loans	$ 189,811	$ 202,134

The partnership reports delinquency based upon the most recent contractual agreement with the borrower.

Interest income accrued on loans contractually past due 90 days or more as to principal or interest payments during the months ended March 31, 2011 and 2010 was $8,000 and $1,277,000, respectively. Accrued interest on loans contractually past due 90 days or more as to principal or interest payments at March 31, 2011 and December 31, 2010 was $11,654,000 and $12,078,000, respectively.

At March 31, 2011, the partnership had 14 workout agreements in effect with an aggregate principal of $18,269,000. Of the 14 borrowers, 13, with an aggregate principal of $17,849,000, had made all required payments under the workout agreements and were included in the above table as current. Ten of the 14 loans, with an aggregate principal of $17,049,000 were designated impaired and 6 of the 10 impaired loans with an aggregate principal of $7,957,000 were in non-accrual status.

At December 31, 2010, the partnership had 14 workout agreements in effect with an aggregate principal of $20,444,000. Of the 14 borrowers, 11, with an aggregate principal of $19,097,000 had made all required payments under the workout agreements and the loans were included in the above table as current. The three loans which were 90 or more days past due, were not designated impaired and were accruing interest. Ten of the 14 loans, with an aggregate principal of $19,223,000 were designated impaired and 6 of the 10 impaired loans with an aggregate principal of $10,131,000 were in non-accrual status.

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

	March 31, 2011	December 31, 2010
Secured loans in nonaccrual status		
Number of loans	25	28
Principal	$ 158,767	$ 167,500
Advances	17,986	18,153
Accrued interest	11,659	11,971
Loan balance	$ 188,412	$ 197,624
Foregone interest	$ 3,474	$ 12,012

NOTE 4 – LOANS (continued)

At March 31, 2011 and December 31, 2010, there were 2 and 4 loans, respectively, with loan balances of $337,000 and $1,327,000, respectively, that were contractually 90 or more days past due as to principal or interest and not in non-accrual status.

- *Impaired loans* - Secured loans designated as impaired loans are summarized in the following table at and for the three months ended March 31, 2011 and at and for the year ended December 31, 2010 ($ in thousands).

	March 31, 2011	December 31, 2010
Principal	$ 171,509	$ 180,242
Recorded investment (4)	$ 202,119	$ 211,236
Impaired loans without allowance	$ 39,436	$ 39,354
Impaired loans with allowance	$ 162,683	$ 171,882
Allowance for loan losses, impaired loans	$ 83,999	$ 87,364

(4) Recorded investment is the sum of principal, advances, and interest accrued for financial reporting purposes.

Impaired loans had the average balances and interest income recognized and received in cash as presented in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Average recorded investment	$ 206,678	$ 192,706
Interest income recognized	$ 237	$ 1,379
Interest income received in cash	$ 161	$ 1,521

During the three months ended March 31, 2011, the partnership modified three loans by extending the maturity date, lowering the interest rate, deferring some payments or reducing the monthly payment. One of the modified loans qualified as a troubled debt restructuring under GAAP resulting in a loss of approximately $50,000.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Allowance for loan losses activity is presented in the following table ($ in thousands).

	Three months ended March 31, 2011	Three months ended March 31, 2010
Balance, beginning of year	$ 89,200	$ 23,086
Provision for loan losses	—	301
Charge-offs, net		
Charge-offs	(3,925)	(483)
Recoveries	—	—
Charge-offs, net	(3,925)	(483)
Balance, March 31	$ 85,275	$ 22,904
Specific reserves	$ 83,999	$ 20,884
General reserves	1,276	2,020
Balance, March 31	$ 85,275	$ 22,904
Ratio of charge-offs, net during the period to average secured loans outstanding during the period	1.93%	0.18%

Allowance for loan losses applicable to secured loans (by property type) and the percentage of principal (by property type) are presented in the following table ($ in thousands).

Allowance for loan losses	March 31, 2011 Amount	March 31, 2011 Percent	December 31, 2010 Amount	December 31, 2010 Percent
Secured loans by property type				
Single family	$ 76,937	78%	$ 78,802	77%
Multi-family	1,060	3	1,760	4
Commercial	7,268	19	8,628	19
Land	10	–	10	–
Total for secured loans	$ 85,275	100%	$ 89,200	100%
Unsecured loans	$ –	100%	$ –	100%
Total allowance for loan losses	$ 85,275	100%	$ 89,200	100%

NOTE 6 – REAL ESTATE OWNED (REO), HELD FOR SALE

REO, held for sale activity and changes in the net realizable values are summarized in the following table ($ in thousands).

	Three months ended March 31, 2011	Three months ended March 31, 2010
REO held for sale, beginning of year	$ 54,206	$ 8,102
Acquisitions	—	—
Dispositions	(2,225)	(984)
Improvements/betterments/(refunds)	(80)	11
Charge-offs	—	(245)
Changes in net realizable values	—	(89)
REO, held for sale, March 31,	$ 51,901	$ 6,795

REO, held for sale summarized by property type is presented in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Number of properties	9	10
Property type		
Single family	$ 8,356	$ 7,099
Multi-family	30,095	32,777
Commercial	13,450	14,330
Total REO, held for sale	$ 51,901	$ 54,206

The results of operations for rental properties in REO, held for sale is presented in the following table ($ in thousands).

	Three months ended March 31, 2011	Three months ended March 31, 2010
Rental income	$ 376	$ 59
Operating expenses		
Property taxes	64	—
Management, administration and insurance	165	5
Utilities, maintenance and other	73	7
Advertising and promotions	2	—
Total operating expenses	304	12
Net operating income	72	47
Depreciation	—	—
Rental operations, net	$ 72	$ 47

Interest expense on the mortgages securing the rental property was $212,000 and $24,000 for the three month periods ended March 31, 2011 and 2010.

NOTE 6 – REAL ESTATE OWNED (REO), HELD FOR SALE (continued)

In October 2010, the partnership acquired through a deed in lieu, a commercial office building of approximately 140,000 square feet, located in Long Beach, California. At acquisition, the partnership's investment in the property was approximately $10,000,000. A court appointed receiver has been overseeing the management and cosmetic improvements of the property. The property has been listed for sale with a national real estate firm.

In August 2010, the partnership acquired through foreclosure a single family residence located in Calabasas, California. At acquisition the partnership's investment in the property was approximately $2,500,000. A realtor has been engaged to handle the sale.

In April 2010, SF Dore, LLC, a wholly-owned subsidiary of the partnership, acquired a 42 unit condominium complex located in San Francisco, California. The property is currently being operated as rental apartments, and is considered fully occupied. An independent, professional management firm was engaged to oversee operations. At acquisition, the partnership's total investment in the property was approximately $12,808,000. The property is subject to a mortgage loan with a balance at acquisition of approximately $5,925,000 and an interest rate of 4.20%. The sale of the property was completed in April 2011 with sales price of $12,737,000.

In March 2010, the partnership acquired through foreclosure an approximately 13,500 square foot commercial property located in San Francisco, California. At acquisition the total investment was approximately $3,400,000, which consisted of the prior loan balance, accrued interest and advances. The property is currently vacant and being listed in the real estate leasing and sale markets.

In March 2010, the partnership acquired through foreclosure an eight unit condominium complex located in San Francisco, California. The property is subject to a senior loan of $2,460,000, with an interest rate of 7.00%. At acquisition the total investment was approximately $3,540,000, which consisted of the prior loan balance, accrued interest, advances and the senior loan. Following its acquisition, the property has been operated as a rental property and is considered fully occupied. An independent, professional management firm has been engaged to oversee property operations. In September 2010, the property was listed for sale with a national real estate firm.

In February 2010, the partnership, along with two affiliated partnerships, acquired through foreclosure, a 22 unit, condominium complex, in which the partnership held a 70.00% ownership interest. The property was subject to a senior loan with an interest rate of 7.21%. In February of 2011, the property was sold. The property value had been adjusted in December 2010 to recognize the contracted sales price. While the property was owned, it was operated as apartment rentals.

In January 2010, the partnership acquired through foreclosure a mixed use commercial property located in Sausalito, California. At acquisition the total investment was approximately $863,000, which consisted of the prior loan balance and accrued interest. The property had been vacated and typical cosmetic improvements were made to enhance the property's appeal to the real estate leasing and sale markets, where it is currently listed.

In October 2009, the partnership acquired by foreclosure an eight-unit apartment complex located in Stockton, California. At acquisition the partnership's investment in the loan totaled $377,000.

In April 2008, the partnership acquired by deed in lieu of foreclosure a single family residence located in La Quinta, California. The total investment in the loan was $1,269,000 at foreclosure. In April 2011, the property was sold for approximately its carrying value.

NOTE 6 – REAL ESTATE OWNED (REO), HELD FOR SALE (continued)

The partnership owns a multi-unit property in San Francisco, California acquired by foreclosure in 2005. At acquisition the partnership's investment in the loan, together with three other affiliate partnerships, totaled $10,595,000. Upon acquisition, the property was transferred via a statutory warranty deed to a new entity named Larkin Street Property Company, LLC ("Larkin"). The partnership owns a 72.50% interest in the property and the other three affiliates collectively own the remaining 27.50%. The assets and liabilities of Larkin are consolidated into the accompanying consolidated financial statements of the partnership. The property is not leased or occupied and does not generate any revenues. Larkin has performed a substantial renovation and remodeling of the property and intends to undertake additional renovation to several un-remodeled units. The partnership plans to sell the remodeled units as tenant in common interests. As of December 31, 2010, approximately $7,698,000 in costs related to the development of this property had been capitalized, net of recovery in 2006 from the guarantors of the original loan, related to this property. As of March 31, 2011 the partnership's investment, together with the other affiliated partnerships, totaled approximately $17.8 million.

NOTE 7 – REAL ESTATE OWNED (REO), HELD AS INVESTMENT, NET

For REO, held as investment, net, the activity and changes in the impairment reserves are summarized in the following table for the three months ended March 31 ($ in thousands).

	Net Realizable Value		Accumulated Depreciation	
	2011	2010	2011	2010
Balance, beginning of year	$ 115,411	$ 102,833	$ 1,807	$ 507
Acquisitions	10,825	14,865		
Dispositions	—	—	—	—
Improvements/betterments	25	502	—	—
Designated REO, held for sale	—	—	—	—
Depreciation	(397)	(346)	397	346
Change in impairment reserve	—	—	—	—
Balance, March 31	$ 125,864	$ 117,854	$ 2,204	$ 853

REO, held as investment, net summarized by property type is presented in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Number of properties	16	13
Property type		
Single family	$ 10,093	$ 9,399
Multi-unit	94,407	86,813
Commercial	16,334	14,170
Land	5,030	5,029
Total REO, held as investment, net	$ 125,864	$ 115,411

At March 31, 2011, there were 3 properties with a carrying value of $7,742,000 in construction and/or rehabilitation and at December 31, 2010, there were 3 properties with a carrying value of $7,537,000 in construction and/or rehabilitation.

NOTE 7 – REAL ESTATE OWNED (REO), HELD AS INVESTMENT, NET (continued)

The results of operations for rental properties in REO, held as investment, net is presented in the following table for the three months ended March 31 ($ in thousands).

	Three months ended March 31, 2011	Three months ended March 31, 2010
Number of properties	10	6
Rental income	$ 1,797	$ 1,005
Operating expenses		
Property taxes	236	176
Management, administration and insurance	310	189
Utilities, maintenance and other	326	190
Advertising and promotions	7	11
Total operating expenses	879	566
Net operating income	918	439
Depreciation	397	346
Rental operations, net	$ 521	$ 93

Interest expense on the mortgages securing the rental property was $340,000 and $21,000 for the three months ended March 31, 2011 and 2010, respectively.

In February 2011, the partnership acquired by foreclosure, a multi-unit complex with 39 units, located in Santa Clara, California. The partnership placed its interest in the title to the property in a single asset entity named The Element LLC. At acquisition the partnership's investment was approximately $8,130,000. The property is subject to an interest-only mortgage loan with a balance at acquisition of approximately $6,800,000 and an interest rate of 6.25%. An independent, professional management firm has been engaged to oversee rental operations of the units.

In February 2011, the partnership acquired by foreclosure, 9 condominium units in a 37 unit complex, located in Yuba City, California. The partnership placed its interest in the title to the property in a single asset entity named Lincoln Village LLC. At acquisition the partnership's investment was approximately $495,000. An independent, professional management firm has been engaged to oversee rental operations of the units.

In February 2011, the partnership acquired by foreclosure, a recreation property of 45.7 acres with improvements including among others 91 RV camping sites, assembly building, pool, cabins, and a retail store. The property is located in Pine Grove, California. The partnership placed its interest in the title to the property in a single asset entity named Pine Acres LLC. At acquisition the partnership's investment was approximately $2,200,000. An independent, professional management firm has been engaged to oversee rental operations of the units.

In December 2010, the partnership acquired by foreclosure, 6 condominium units in an 18 unit complex, located in Richmond, California. The partnership placed its interest in the title to the property in a single asset entity named Richmond Eddy Property Company, LLC. At acquisition the partnership's investment was approximately $960,000. An independent, professional management firm has been engaged to oversee rental operations of the units.

NOTE 7 – REAL ESTATE OWNED (REO), HELD AS INVESTMENT, NET (continued)

In October 2010, the partnership acquired by foreclosure, a mixed-use property consisting of a single-family residence, winery and vineyard, located in Calistoga, California. The partnership placed its interest in the title to the property in a single asset entity named Diamond Heights Winery, LLC. At acquisition the partnership's investment was approximately $3,800,000. An independent, professional management firm has been engaged to oversee the permitting process and improvement at the property. Once all necessary permits have been obtained, the property will be listed for sale.

In October 2010, the partnership acquired by foreclosure, a 48 unit condominium complex located in Concord, California. The partnership placed its interest in the title to the property in a single asset entity named Diablo Villa Property Company, LLC. At acquisition the partnership's investment was approximately, $8,800,000. An independent, professional management firm has been engaged to oversee the rental operations at the property.

In September 2010, the partnership acquired a commercial office building located in Oakland, California. At acquisition the partnership's investment in the property was approximately $3,900,000.

In April 2010, the partnership acquired through foreclosure, a commercial property located in San Francisco, California. The property's sole tenant is the City of San Francisco, which occupies all leasable space on the property. Approximately 13 months remain on the lease. The tenant may, at its option, extend the lease for three additional five-year periods. At acquisition the partnership's total investment was approximately $10,342,000. The property is subject to a mortgage loan with a balance at acquisition of approximately $7,800,000 and an interest rate of 6.53%.

In December 2009, the partnership and two affiliated partnerships jointly acquired by foreclosure an undeveloped parcel of land located in Ceres, California. At acquisition the partnership's investment was approximately $600,000.

In September 2009, the partnership acquired by foreclosure 72 units in a 96-unit condominium complex located in Glendale, California. At acquisition the partnership's recorded net investment in the loan totaled $22,150,000. The partnership placed its interest in the title to the property in a single asset entity named Altura Avenue LLC ("Altura") and commenced rental operations of the unsold 72 units (of the original 96 units) as 24 of the units were sold prior to the partnership's foreclosure. An independent, professional management firm has been engaged to oversee operations at the property.

In July 2009, the partnership acquired by foreclosure a lot located in San Rafael, California. At acquisition the partnership's investment in the loan totaled $1,210,000.

In July 2009, the partnership acquired by foreclosure two loft (condominium) units located in San Francisco, California with each unit subject to a first deed of trust securing loans totaling $771,000. At acquisition the partnership's investment in the loan totaled $1,046,000. The units are being rented.

In June 2009, the partnership acquired by foreclosure a 126-unit condominium complex located in Glendale, California. At acquisition the partnership's recorded net investment in the loan totaled $56,549,000. The partnership placed its interest in the title to the property in a single asset entity named Grand Villa LLC ("Grand Villa") and commenced rental operations. An independent, professional management firm has been engaged to oversee operations at the property.

In February 2007, the partnership acquired by foreclosure a single-family residence located in Napa, California subject to a first deed of trust securing a loan of $500,000 and $344,000 of accrued interest and late fees. At acquisition the partnership's investment in the loan totaled $2,640,000. In September, 2007 the senior lien holder was paid in full. A single asset entity named Borrette Property Company; LLC ("Borrette") holds title to the property. The partnership beneficially owns 100% of the membership interests in Borrette. The partnership commenced rental operations of the property in 2009, managed by a local real estate firm.

NOTE 7 – REAL ESTATE OWNED (REO), HELD AS INVESTMENT, NET (continued)

The partnership owns a single family residence in San Francisco acquired by a foreclosure sale in 2004. At the time the partnership took ownership of the property, the partnership's investment in the loan totaled $1,937,000. The borrower had begun a substantial renovation of the property, which was not completed at the time of foreclosure. The partnership decided to pursue development of the property by processing plans for the creation of two condominium units on the property. The plans incorporate a portion of the existing improvements located on the property. At March 31, 2011 and December 31, 2010, the partnership's total investment in this property was $2,887,000 and $2,682,000, respectively.

The partnership owns land in Ceres, California acquired in 2004 by accepting a deed in lieu of foreclosure. At acquisition the partnership's investment in the loan totaled $4,377,000. Of the three parcels acquired, one was sold and two remain.

NOTE 8 – BORROWINGS

Bank loan, secured

The partnership's bank loan/line of credit matured on June 30, 2010, which maturity date was subsequently extended to October 18, 2010. The line of credit and related loan agreement had required the partnership to comply with certain financial covenants. As a result of reporting a net loss for the quarter ended September 30, 2009 and for the year ended December 31, 2009, the partnership was in technical non-compliance with the profitability covenant set forth in the loan agreement. In the fourth quarter of 2009, the banks and the partnership entered into a forbearance agreement under which the banks agreed, among other things, to forbear from exercising its rights and remedies arising out of the partnership's default in failing to comply with the profitability financial covenant until January 20, 2010 (which, forbearance period was subsequently extended to October 18, 2010). The terms of the forbearance agreement included increasing the interest rate on the line of credit by 2.0 percentage points to the default rate (prime plus 1.5%) effective as of October 1, 2009 and charging a forbearance fee of $148,000. Other modifications of the loan terms included a reduction of the revolving loan commitment to $80 million; suspension of the revolving facility; and assignment of unassigned notes receivable secured by mortgages as additional collateral.

As of October 18, 2010, the partnership and the banks entered into an amended and restated loan agreement. The significant terms and conditions in the amended loan agreement include: 1) an extended maturity date of June 30, 2012; with continuing scheduled pay downs of the loan amount to maturity; 2) an interest rate of Prime plus 1.5% subject to a floor of 5.0%; 3) an annual facility fee (payable quarterly) of 0.5%; 4) required remittance to the banks of 70% of net proceeds from the sale or refinance of REO and/or net proceeds from loan payoffs in excess of $5 million; 5) required remittance of cash balances in excess of $12 million; 6) restrictions on use of cash including no new loans with the exception of refinance of existing loans, no expenditures in the ordinary course of business to preserve, maintain, repair, or operate property in excess of $1 million without prior written consent (subject to exclusions for funds set aside for REO projects and servicing of senior liens designated in the loan agreement), limitations on distributions to electing limited partners of an amount not to exceed a distribution rate of 2.1%; 7) a collateral covenant, and 8) a financial covenant.

The bank loan balance at March 31, 2011 and December 31, 2010 was $42,500,000 and $50,000,000, respectively.

The required minimum principal payments are $24,000,000 for the remainder of 2011 and $18,500,000 for 2012.

NOTE 8 – BORROWINGS (continued)

Mortgages payable

Mortgages payable are summarized in the following table (mortgage balance $ in thousands).

Lender	March 31, 2011	December 31, 2010
First Citizens Bank	$ 6,804	$ —
Interest rate 6.25%		
Matures April 1, 2011		
Monthly payment $35,438		
First National Bank of Northern California	2,427	2,437
Interest rate 7.00%		
Matures September 1, 2011		
Monthly payment $17,043		
Business Partners	7,707	7,789
Interest rate 6.53%		
Matures May 1, 2015		
Monthly payment (1) $78,767		
NorthMarq Capital	19,335	19,436
Interest rate 2.99%		
Matures July 1, 2015		
Monthly payment (1) $123,247		
PNC Bank	5,844	5,869
Interest rate 4.16%		
Matures May 1, 2017		
Monthly payment (1) $43,748		
Wells Fargo Bank	388	392
Interest rate 3.00%		
Matures October 1, 2032		
Monthly payment $2,038		
Wells Fargo Bank (Wachovia Mortgage)	345	347
Interest rate 5.26%		
Matures September 15, 2032		
Monthly payment $2,240		
Total mortgages payable	$ 42,850	$ 36,270

(1) monthly payments include amounts for various impounds such as property taxes, insurance, and repairs.

NOTE 9 – FAIR VALUE

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The partnership determines the fair values of its assets and liabilities based on the fair value hierarchy established in GAAP. The standard describes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the partnership has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the partnership's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the partnership's own data.

The partnership does not record loans at fair value on a recurring basis.

Assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2011:

	Fair Value Measurement at Report Date Using			
Item	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans	$ —	$ —	$ —	$ —
REO, held for sale	$ —	$ —	$ 51,901	$ 51,901
REO, held as investment, net	$ —	$ —	$ 10,825	$ 10,825

Assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2010:

	Fair Value Measurement at Report Date Using			
Item	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans	$ —	$ —	$ 211,236	$ 211,236
REO, held for sale	$ —	$ —	$ 54,206	$ 54,206
REO, held as investment, net	$ —	$ —	$ 19,002	$ 19,002

NOTE 9 – FAIR VALUE (continued)

The following methods and assumptions were used to estimate the fair value:

(a) Cash and cash equivalents. The carrying amount equals fair value. All amounts, including interest bearing accounts, are subject to immediate withdrawal.

(b) Secured loans. The fair value of the non-impaired loans of $18,258,000 and $22,019,000 at March 31, 2011 and December 31, 2010, respectively, was estimated based upon projected cash flows discounted at the estimated current interest rates at which similar loans would be made. For impaired loans in which a specific allowance is established based on the fair value of the collateral, the collateral fair value is determined by exercise of judgment based on management’s experience informed by appraisals (by licensed appraisers), brokers opinion of values, and publicly available information on in-market transactions (Level 2 inputs). Historically, it has been rare for determinations of fair value to be made without substantial reference to current market transactions. However, in recent years, due to the low number of real estate transactions, and the rising number of transactions that are distressed (i.e., that are executed by an unwilling seller – often compelled by lenders or other claimants – and/or executed without broad exposure or with market exposure but with few, if any, resulting offers), more interpretation, judgment and interpolation/extrapolation within and across property types is required (Level 3 inputs).

(c) Unsecured loans. Unsecured loans are valued at their principal less any discount or loss reserves established by management after taking into account the borrower’s creditworthiness and ability to repay the loan.

(d) Real estate owned (REO), held. Real estate acquired in full or partial settlement of loan obligations, generally through foreclosure, is recorded at acquisition at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property’s fair value less estimated costs to sell, as applicable. The fair value estimates are derived from information available in the real estate markets including similar property, and often require the experience and judgment of third parties such as commercial real estate appraisers and brokers. Historically, it has been rare for determinations of fair value to be made without substantial reference to current market transactions. However, in recent years, due to the low number of real estate transactions, and the rising number of transactions that are distressed (i.e., that are executed by an unwilling seller – often compelled by lenders or other claimants - and/or executed without broad exposure or with market exposure but with few, if any, resulting offers), more interpretation, judgment and interpolation/extrapolation within and across property types is required.

(e) Bank loan. The partnership has a bank loan, evidenced by a promissory note, in an outstanding amount of $42,500,000 at March 31, 2011. The interest rate of 1.5 points above the prime rate, or 4.75%, with a floor of 5.0% is deemed to be a market rate and the other terms and conditions are deemed to be customary for a well collateralized note with a 21-month loan term.

(f) Mortgages payable. The partnership has mortgages payable (see Note 8 for details). The interest rates are deemed to be at market rates, and the other terms and conditions are deemed to be customary for the secured properties.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Loans

The partnership makes construction and rehabilitation loans which are not fully disbursed at loan inception. The partnership has approved the borrowers up to a maximum loan balance; however, disbursements are made periodically during completion phases of the construction or rehabilitation or at such other times as required under the loan documents and would be funded from available cash balances and future cash receipts. The partnership does not maintain a separate cash reserve to hold the undisbursed obligations, which are intended to be funded. As of March 31, 2011, there was one such loan; however, the borrower is in default negating any funding obligation.

The partnership may periodically negotiate various workout agreements with borrowers whose loans are past maturity or who are delinquent in making payments. The partnership is not obligated to fund additional money as of March 31, 2011.

Legal proceedings

In the normal course of business, the partnership may become involved in various legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc., to enforce provisions of the deeds of trust, collect the debt owed under promissory notes, or to protect, or recoup its investment from real property secured by the deeds of trust and to resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions typically would be of any material importance. As of the date hereof, the partnership is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to March 31, 2011:

In April 2011, the partnership sold a single-family residence classified as real estate owned, held for sale. The sales price was $845,000 and resulted in a loss of approximately $110,000.

In April 2011, the partnership acquired through foreclosure, condominiums located in San Francisco County, California, which had a book value of approximately $454,000, subject to a senior lien of approximately $880,000.

In May 2011, the partnership acquired through foreclosure, condominiums located in Alameda County, California, which had a book value of approximately $5,000,000.

In May 2011, one of two properties securing a partnership loan was foreclosed upon by the senior lien holder. At March 31, 2011 the partnership had fully reserved for the estimated value ($8,000,000) of the foreclosed upon property. The estimated value of the remaining security property is believed sufficient to support the partnership's net loan balance.

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

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto, which are included in Item 1 of this Report, as well as the audited consolidated financial statements and the notes thereto, and "Management Discussion and Analysis of Financial Condition and Results of Operations" included in the partnership's Annual Report on Form 10-K for the year ended December 31, 2010.

Forward-Looking Statements

Certain statements in this Report on Form 10-Q which are not historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the partnership's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward-looking statements include statements regarding future interest rates and economic conditions and their effect on the partnership and its assets, trends in the California real estate market, estimates as to the allowance for loan losses, estimates of future limited partner withdrawals, expectations as to when the partnership's bank loan will be repaid, additional foreclosures in 2011, expectations regarding the level of loan delinquencies, plans to develop, hold or sell certain properties, beliefs relating to the impact on the partnership from current economic conditions and trends in the financial and credit markets, expectations as to when liquidations will resume or how long reduced earnings distributions will be in effect, beliefs regarding the partnership's ability to recover its investment in certain properties, beliefs regarding the effect of borrower foreclosures on liquidity, the use of excess cash flow and the intention not to sell the partnership's loan portfolio. Actual results may be materially different from what is projected by such forward-looking statements. Factors that might cause such a difference include unexpected changes in economic conditions and interest rates, the impact of competition and competitive pricing, regulatory changes and downturns in the real estate markets in which the partnership has made loans. All forward-looking statements and reasons why results may differ included in this Form 10-Q are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results may differ.

Critical Accounting Policies

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Such estimates relate principally to the determination of the allowance for loan losses, including the valuation of impaired loans, (which itself requires determining the fair value of the collateral), and the valuation of real estate held for sale and held as investment, at acquisition and subsequently. Actual results could differ significantly from these estimates.

Collateral fair values are reviewed quarterly and the protective equity for each loan is computed. As used herein, "protective equity" is the arithmetic difference between the fair value of the collateral, net of any senior liens, and the loan balance, where "loan balance" is the sum of the unpaid principal, advances and the recorded interest thereon. This computation is done for each loan (whether impaired or performing), and while loans secured by collateral of similar property type are grouped, there is enough distinction and variation in the collateral that a loan-by-loan, collateral-by-collateral analysis is appropriate.

The fair value of the collateral is determined by exercise of judgment based on management's experience informed by appraisals (by licensed appraisers), brokers' opinion of values, and publicly available information on in-market transactions. Historically, it has been rare for determinations of fair value to be made without substantial reference to current market transactions. However, in recent years, due to the low levels of real estate transactions, and the rising number of transactions that are distressed (i.e., that are executed by an unwilling seller – often compelled by lenders or other claimants – and/or executed without broad exposure or with market exposure but with few, if any, resulting offers), more interpretation, judgment and interpolation/extrapolation within and across property types is required.

Appraisals of commercial real property generally present three approaches to estimating value: 1) market comparables or sales approach; 2) cost to replace and 3) capitalized cash flows or investment approach. These approaches may or may not result in a common, single value. The market-comparables approach may yield several different values depending on certain basic assumptions, such as, determining highest and best use (which may or may not be the current use); determining the condition (e.g. as-is, when-completed, or for land when-entitled); and determining the unit of value (e.g. as a series of individual unit sales or as a bulk disposition). Further complicating this process already subject to judgment, uncertainty and imprecision are the current low transaction volumes in the residential, commercial and land markets, and the variability that has resulted. This exacerbates the imprecision in the process, and requires additional considerations and inquiries as to whether the transaction was entered into by a willing seller in a functioning market or the transaction was completed in a distressed market, in which the predominant number of sellers are surrendering properties to lenders in partial settlement of debt (as is currently prevalent in the residential markets and is occurring more frequently in commercial markets) and/or participating in “arranged sales” to achieve partial settlement of debts and claims and to generate tax advantage. Either way, the present market is at historically low transaction volumes with neither potential buyers nor sellers willing to transact. In certain asset classes the time elapsed between transactions – other than foreclosures – was 12 or more months.

The uncertainty in the process is exacerbated by overt (over)conservatism and caution exercised by appraisers. Criticized – as having contributed to the asset bubble by inflating values – beginning in the immediate aftermath of the market and economic crisis, as a class the tendency of appraisers now is seemingly to (over)compensate by searching out or over-weighting lower sales comparables, thereby depressing values. It also may be reflective of the tendency in distressed market for lesser-quality properties to transact while upper echelon properties remain off the market – or come on and off the market – because these owners often believe in the intrinsic value of their properties (and the recoverability of that value) and are unwilling to accept “vulture” offers. This accounts for the ever lower transaction volumes for higher quality properties which exacerbate the perception of a broadly declining market in which each succeeding transaction establishes a new low.

Management has the requisite familiarity with the markets the partnership lends in generally and of the collateral properties specifically to analyze sales-comparables and assess their suitability/applicability. Management is acquainted with market participants – investors, developers, brokers, lenders – that are useful, relevant secondary sources of data and information regarding valuation and valuation variability. These secondary sources may have familiarity with and perspectives on pending transactions, successful strategies to optimize value, and the history and details of specific properties – on and off the market – that enhance the process and analysis that is particularly and principally germane to establishing value in distressed markets and/or property types (such as land held for development and for units in a condominium conversion). Multiple inputs from different sources often collectively provide the best evidence of fair value. In these cases expected cash flows would be considered alongside other relevant information. Management’s analysis of these secondary sources, as well as the analysis of comparable sales, assists management in preparing its estimates regarding valuations, such as collateral fair value. However, such estimates are inherently imprecise and actual results could differ significantly from such estimates.

Loans, advances and interest income

Loans and advances generally are stated at the unpaid principal balance. Management has discretion to pay amounts (advances) to third parties on behalf of borrowers to protect the partnership’s interest in the loan. Advances include, but are not limited to, the payment of interest and principal on a senior lien to prevent foreclosure by the senior lien holder, property taxes, insurance premiums, and attorney fees. Advances generally are stated at the unpaid principal balance and accrue interest until repaid by the borrower.

The partnership may fund a specific loan origination net of an interest reserve to insure timely interest payments at the inception (one to two years) of the loan. As monthly interest payments become due, the partnership funds the payments into the affiliated trust account.

If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement; a loan may be designated as impaired. Impaired loans are included in management’s periodic analysis of recoverability. Any subsequent payments on impaired loans are applied to late fees and then to reduce first the accrued interest, then advances, and then unpaid principal balances.

From time to time, the partnership negotiates and enters into contractual workout agreements with borrowers whose loans are past maturity or who are delinquent in making payments which can delay and/or alter the loan’s cash flow and delinquency status.

Interest is accrued daily based on the unpaid principal balance of the loans. An impaired loan continues to accrue as long as the loan is in the process of collection and is considered to be well-secured. Loans are placed on non-accrual status at the earlier of management’s determination that the primary source of repayment will come from the foreclosure and subsequent sale of the collateral securing the loan (which usually occurs when a notice of sale is filed) or when the loan is no longer considered well-secured. When a loan is placed on non-accrual status, the accrual of interest is discontinued; however, previously recorded interest is not reversed. A loan may return to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement.

Allowance for loan losses

Loans and the related accrued interest and advances are analyzed on a periodic basis for ultimate recoverability. Delinquencies are identified and followed as part of the loan system. Delinquencies are determined based upon contractual terms. For impaired loans, a provision is made for loan losses to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral values, such that the net carrying amount (unpaid principal balance, plus advances, plus accrued interest less the specific allowance) is reduced to the present value of future cash flows discounted at the loan’s effective interest rate, or, if a loan is collateral dependent, to the estimated fair value of the related collateral net of any senior loans, which would include costs to sell in arriving at net realizable value if planned disposition of the asset securing a loan is by way of sale.

Loans determined not to be individually impaired are grouped by the property type of the underlying collateral, and for each loan and for the total by property type, the amount of protective equity or amount of exposure to loss (*i.e.*, the dollar amount of the deficiency of the fair value of the underlying collateral to the loan balance) is computed. Based on its knowledge of the borrowers and their historical (and expected) performance, and the exposure to loss as indicated in the analysis, management estimates an appropriate reserve by property type for probable credit losses in the portfolio. Because the partnership is an asset-based lender and because specific regions, neighborhoods and even properties within the same neighborhoods, vary significantly as to real estate values and transaction activity, general market trends, which may be indicative of a change in the risk of a loss, are secondary to the condition of the property, the property type and the neighborhood/region in which the property is located, and do not enter substantially into the determination of the amount of the non-specific (i.e. general) reserves.

The fair value estimates are derived from information available in the real estate markets including similar property, and may require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible.

Real estate owned (REO), held for sale

REO, held for sale includes real estate acquired in full or partial settlement of loan obligations generally through foreclosure that is being marketed for sale. REO, held for sale is recorded at acquisition at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property's net realizable value, which is the fair value less estimated costs to sell, as applicable. Any excess of the recorded investment in the loan over the net realizable value is charged against the allowance for loan losses. The fair value estimates are derived from information available in the real estate markets including similar property, and often require the experience and judgment of third parties such as commercial real estate appraisers and brokers. The estimates figure materially in calculating the value of the property at acquisition, the level of charge to the allowance for loan losses and any subsequent valuation reserves. After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, REO, held for sale is analyzed periodically for changes in fair values and any subsequent write down is charged to operating expenses. Any recovery in the fair value subsequent to such a write down is recorded – not to exceed the net realizable value at acquisition – as an offset to operating expenses. Gains or losses on sale of the property are recorded in other income or expense. Recognition of gains on the sale of real estate is dependent upon the transaction meeting certain criteria related to the nature of the property and the terms of the sale including potential seller financing.

Real estate owned (REO), held as investment, net

REO, held as investment, net includes real estate acquired in full or partial settlement of loan obligations generally through foreclosure that is not being marketed for sale and is either being operated, such as rental properties; is being managed through the development process, including obtaining appropriate and necessary entitlements, permits and construction; or are idle properties awaiting more favorable market conditions. REO, held as investment, net is recorded at acquisition at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property's estimated fair value, less estimated costs to sell, as applicable. After acquisition, costs incurred relating to the development and improvement of the property are capitalized, whereas costs relating to operating or holding the property are expensed. Subsequent to acquisition, management periodically compares the carrying value of real estate to expected undiscounted future cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds future undiscounted cash flows, the assets are reduced to estimated fair value.

Recently issued accounting pronouncements

On April 5, 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether Restructuring is a Troubled Debt Restructuring," providing guidance to lenders for evaluating where a modification or restructuring of a loan as a Troubled Debt Restructuring (TDR). ASU 2011-02 provides expanded guidance on whether: 1) the lender has granted a "concession" and 2) whether the borrower is experiencing "financial difficulties." The ASU is effective for the first interim or annual period beginning after June 15, 2011 (i.e. the third quarter of 2011) and is required to be applied retroactively for all modifications and restructuring activities in 2011. This ASU ends the FASB's deferral of the additional disclosures about TDR activities required by ASU 2010-20.

Related Parties

The general partners of the partnership are RMC, Gymno Corporation and Michael R. Burwell. Most partnership business is conducted through RMC, which arranges, services and maintains the loan portfolio for the benefit of the partnership. The fees received by the general partners are paid pursuant to the partnership agreement and are determined at the sole discretion of the general partners, subject to limitations imposed by the partnership agreement. In the past the general partners have elected not to take the maximum compensation. See Note 1 (General) and Note 3 (General Partners and Related Parties) to the financial statements included in Part I, Item 1 of this report for a detailed discussion of various partnership activities for which the general partners and related parties are compensated, and other related-party transaction, including the formation loan.

Results of Operations

The partnership's operating results are discussed below ($ in thousands).

	Changes during the three months ended March 31, 2011 versus 2010	
	Dollars	Percent
Revenue, net		
Interest income		
Loans	$ (2,316)	(75) %
Imputed interest on formation loan	(22)	(15)
Other interest income	(22)	(96)
Total interest income	(2,360)	(73)
Interest expense		
Bank loan, secured	(187)	(20)
Mortgages payable	507	1,127
Amortization of discount on imputed interest	(22)	(15)
Total interest expense	298	27
Net interest income	(2,658)	(124)
Late fees	(21)	(88)
Other	(2)	(50)
Total revenues, net	(2,681)	(124)
Provision for loan losses	(301)	(100)
Operating expenses		
Mortgage servicing fees	(401)	(69)
Asset management fees	(57)	(19)
Costs through Redwood Mortgage Corp.	(2)	(2)
Professional services	(238)	(66)
Rental operations, net	(453)	(324)
REO holding costs	295	536
Loss on disposal of REO	(223)	(100)
Impairment loss on REO	(89)	(100)
Other	(22)	(56)
Total operating expenses, net	(1,190)	(73)
Net income (loss)	$ (1,190)	(506) %

Please refer to the above table throughout the discussion of Results of Operations.

Recent Developments. Historically the partnership relied upon partners' capital as the source of funds for loans, and subsequently on loan payoffs, borrowers' mortgage payments, and sale of real estate owned and to a lesser degree, retention of income as the source of funds for new loans. Currently the economy generally (and employment particularly) and the credit, financial and real estate markets specifically are facing a significant and prolonged disruption following the financial crisis (worldwide) of 2008. The Great Recession has officially ended and Gross Domestic Product was positive for 2010. Unemployment has begun to improve yet remains at historically high levels. Other significant disruptions resulting from the financial crisis are ongoing and are now expected to persist for an extended period. While these are indications the general economic health of the economy is improving, a recession persists in certain areas and in certain industries and it will take significant further improvements in many sectors to get back to pre-crisis/pre-recession numbers. Overall the real estate sector took a disproportionate portion of the impact from the financial crisis and the ensuing Great Recession. Real estate sales, investment, construction and financing came to a virtual standstill. The negative impression of real estate brought about by the financial crisis and the recent recession still continues to cast a shadow upon real estate in general. Investors, homeowners, developers, and financiers are all reluctant to devote capital, excepting opportunistic capital to the real estate sector. As a result, loans are not readily available to owners, developers or purchasers of real estate. These credit constraints have impacted the partnership and our borrowers' ability to sell properties or refinance their loans in the event they have difficulty making loan payments or their loan matures. Borrowers are also generally finding it more difficult to refinance or sell their properties at other than distressed prices due to the general decline in California real estate values caused in significant part to short sales, foreclosure sales, and sale of real estate owned by acquiring lenders of real estate at liquidation pricing in recent years. The partnership's loans generally have shorter maturity terms than typical mortgages. As a result, constraints on the ability of our borrowers to refinance their loans on or prior to maturity have had and likely will continue to have a negative impact on their ability to repay their loans at maturity, resulting in substantially increased levels of default and foreclosure. In addition, the payment terms of the amended and restated loan agreement, our line of credit, with the partnership's lending banks necessitate foreclosed assets be sold when prices and conditions permit which may not necessarily be the optimum time to sell these foreclosed assets.

The partnership's bank loan/line of credit matured on June 30, 2010, which maturity date was extended subsequently to October 18, 2010. As of October 18, 2010, the partnership and the banks entered into an amended and restated loan agreement. The significant terms and conditions in the amended loan agreement include: 1) an extended maturity date of June 30, 2012; with continuing scheduled pay downs of the loan amount to maturity; 2) an interest rate of Prime plus 1.5% subject to a floor of 5.0%; 3) an annual facility fee (payable quarterly) of 0.5%; 4) required remittance to the banks of 70% of net proceeds from the sale or refinance of REO and/or net proceeds from loan payoffs in excess of $5 million; 5) required remittance of cash balances in excess of $12 million; 6) restrictions on use of cash including no new loans with the exception of refinance of existing loans, no expenditures in the ordinary course of business to preserve, maintain, repair, or operate property in excess of $1 million without prior written consent (subject to exclusions for funds set aside for REO projects and servicing of senior liens designated in the loan agreement), limitations on distributions to electing limited partners of an amount not to exceed a distribution rate of 2.1%; 7) a collateral covenant, and 8) a financial covenant.

The combination of the general economic conditions, the constrained credit and financial markets, the distressed real estate markets, and the terms and the conditions of the amended and restated loan agreement resulted in significant changes to the lending and business operations of the partnership, as well as to its balance sheet, results of operations and cash flows.

Cash received from loan payments, loan payoffs, the sale of real estate owned and third-party mortgages obtained on stabilized properties that we own and are included in REO is predominantly used to paydown the amount outstanding on the bank loan, to make the periodic interest and principal payments on the loan, to protect the security interest in the collateral securing the loans from senior debt and claims, to maintain and develop REO, to meet the operating expenses of the partnership, and to fund periodic payments to limited partners that elected monthly, quarterly and annual distributions.

Since the partnership is limited in its capacity to originate loans by economic conditions, market constraints and the terms and conditions of the amended and restated loan agreement, the partnership's secured loan balances declined.

Comparison of the three month period ended March 31, 2011 versus the same period ended March 31, 2011

Revenue – Interest income - Loans

The interest income on loans decreased for the three month period ended March 31, 2011 compared to the same period in 2010, due to a decrease in the average secured loan portfolio balance, the decrease in the related average yield rate and the increase in non-accrual loans for the three month period ended March 31, 2011, resulting in approximately $834,000 of additional foregone interest (i.e., interest not recorded for financial reporting purposes on loans designated as in nonaccrual status) in 2011 compared to 2010. The table below recaps the quarterly averages and the effect of the foregone interest on the average yield rate ($ in thousands).

	Three months ended March 31,		
	Average Secured Loan Balance	Stated Average Yield Rate	Effective Yield Rate
2010	$ 261,405	8.82%	4.70%
2011	$ 203,078	8.46%	1.49%

Interest Expense – Bank Loan, secured, and other Borrowings

The decreased interest expense related to the partnership's bank loan (previously line of credit) for the three month period ended March 31, 2011 compared to the same period in 2010, is related primarily to a decrease in the average daily borrowing, which for the three month period of 2011 was $47,500,000 compared to $76,667,000 for 2010.

The increased interest expense on mortgages is due to the partnership either obtaining a mortgage on a piece of owned property or making the payments on existing mortgages encumbering foreclosed upon property.

Provision for losses on loans

The provision for losses on loans is primarily driven by the specific reserves maintained in the allowance for loan losses, associated with impaired loans as analyzed each quarter. No change was required for the three month period ending March 31, 2011.

Operating Expenses

The decreases in mortgage servicing fees for the three month period ended March 31, 2011, compared to the same period in 2010 was due to the reduction in the loan portfolio and an increase in the impaired loans which are not charged such fee by RMC.

The decrease in professional services for the three month period ended March 31, 2011, compared to the same period in 2010 was due to a reduced need for legal and accounting services, audits and tax return processing.

The increase in rental operations for the three months ended March 31, 2011 compared to the same period in 2010 is attributable to the partnership's acquisition, since March 31, 2010, of seven additional properties which the general partners determined, at the time of acquisition, would best serve the partnership at such time to be rented rather than sold (one was sold in February 2011, and another in April 2011, as the market for these properties has improved). The properties range from a single condominium unit up to a 126 unit condominium complex, along with a detached single-family residence and commercial property. Independent, professional management firms were engaged to oversee operations at each of the larger or complex properties.

Operating expenses of rental operations and depreciation of rental properties are presented in the following table for the three months ended March 31, ($ in thousands).

	Three months ended March 31, 2011	Three months ended March 31, 2010
Rental income	$ 2,173	$ 1,064
Operating expenses		
Property taxes	300	176
Management, administration and insurance	475	194
Utilities, maintenance and other	399	197
Advertising and promotions	9	11
Total operating expenses	1,183	578
Earnings/(loss) before depreciation	990	486
Depreciation	397	346
Rental operations, net	$ 593	$ 140

Interest expense on the mortgages securing the rental property was $552,000 and $45,000 for the three month periods ended March 31, 2011 and 2010, respectively.

The increases in real estate owned holding costs for the three month period ended March 31, 2011, compared to the same period in 2010, is primarily due to the increases in the number of REO properties.

The loss on disposal of real estate and impairment loss on real estate for 2010 is the result of the completed sale of a condominium unit and an accepted offer for sale on another condominium unit, set to close escrow in the second quarter of 2010.

Allowance for Losses

The allowance for loan losses is principally the total of the specific reserves for loans designated impaired (and therefore deemed collateral dependent). Impaired loans for which specific reserves are recorded and the amount of the specific reserves are summarized in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Principal	$ 171,509	$ 180,242
Recorded investment (4)	$ 202,119	$ 211,236
Impaired loans without allowance	$ 39,436	$ 39,354
Impaired loans with allowance	$ 162,683	$ 171,882
Allowance for loan losses, impaired loans	$ 83,999	$ 87,364

(4) Recorded investment is the sum of principal, advances, and interest accrued for financial reporting purposes.

Impaired loans had the average balances and interest income recognized and received in cash as presented in the following table for the years ended December 31, ($ in thousands).

	March 31, 2011	December 31, 2010
Average recorded investment	$ 206,678	$ 192,706
Interest income recognized	$ 237	$ 1,379
Interest income received in cash	$ 161	$ 1,521

Loans are designated impaired when based on current information and events, it is probable the partnership will be unable to collect all amounts due in accordance with the terms of the loan agreements. For loans designated impaired, but that are deemed well collateralized, no impairment to the investment in the loan is recorded (i.e. there is no specific reserve recorded).

During the three months ended March 31, 2011, the partnership modified three loans by extending the maturity date, lowering the interest rate, deferring some payments or reducing the monthly payment. One of the modified loans qualified as a troubled debt restructuring under GAAP resulting in a loss of approximately $50,000.

For impaired loans, a provision is made for loan losses to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral values, such that the net carrying amount (unpaid principal balance, plus advances, plus accrued interest less the specific allowance) is reduced to the present value of future cash flows discounted at the loan's effective interest rate, or, if a loan is collateral dependent, to the estimated fair value of the related collateral net of any senior loans, which would include costs to sell in arriving at net realizable value if planned disposition of the asset securing a loan is by way of sale. Loans that are determined not to be individually impaired are grouped by the property type of the underlying collateral, and for each loan and for the total by property type, the amount of protective equity or amount of exposure to loss (*i.e.*, the dollar amount of the deficiency of the fair value of the underlying collateral to the loan balance) is computed. Based on its knowledge of the borrowers and their historical (and expected) performance, and the exposure to loss, management estimates an appropriate reserve by property type for probable credit losses in the portfolio. The decline in real estate transactions and volumes has impacted adversely the protective equity for substantially all loans and the allowance for loan losses increased correspondingly.

The partnership may enter into a workout agreement with a borrower whose loan is past maturity or whose loan payments are delinquent. Typically, a workout agreement allows the borrower to extend the maturity date of the balloon payment and/or allows the borrower to make current monthly payments while deferring for periods of time, past due payments, or allows additional time to pay the loan in full. By deferring maturity dates of balloon payments or deferring past due payments, workout agreements may adversely affect the partnership's cash flow and may be classified for financial reporting purposes as a troubled debt restructuring. If a workout agreement cannot be reached, if the borrower repeatedly is delinquent and/or if the collateral is at risk, the general partners may initiate foreclosure by filing a notice of default. This may result – unless the delinquency is satisfied by the borrower or a workout agreement is negotiated – in a foreclosure sale, often resulting in the title to the collateral property being taken by the partnership in satisfaction of the debt. Both troubled debt restructurings and foreclosure sales may result in charge-offs being recorded as offsets to the allowance for loan losses. The partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined the full amount is not collectible.

Activity in the allowance for loan losses is presented in the following table ($ in thousands).

	Three months ended March 31,	
	2011	2010
Balance, beginning of year	$ 89,200	$ 23,086
Provision for loan losses	—	301
Charge-offs, net		
Charge-offs	(3,925)	(483)
Recoveries	—	—
Charge-offs, net	(3,925)	(483)
Balance, March 31	$ 85,275	$ 22,904
Specific reserves	$ 83,999	$ 20,884
General reserves	1,276	2,020
Balance, March 31	$ 85,275	$ 22,904
Ratio of charge-offs, net during the period to average secured loans outstanding during the period	1.93%	0.18%

The partnership may restructure loans which are delinquent or past maturity. This is done either through the modification of an existing loan or by re-writing a whole new loan. It could involve, among other changes, an extension in maturity date, a reduction in repayment amount, a reduction in interest rate or granting an additional loan.

Liquidity and Capital Resources

The partnership relies upon loan payoffs, borrowers' mortgage payments, rents, and sale of real estate owned for the source of funds for new loans, partnership operations, and partner distributions and liquidations. Recently, mortgage interest rates have decreased somewhat from those available at the inception of the partnership. If interest rates were to increase substantially, the yield of the partnership's loans may provide lower yields than other comparable debt-related investments. Additionally, since the partnership has made primarily fixed rate loans, if interest rates were to rise, the likely result would be a slower prepayment rate for the partnership. This could cause a lower degree of liquidity as well as a slowdown in the ability of the partnership to invest in loans at the then current interest rates. Conversely, in the event interest rates were to decline, the partnership could experience significant borrower prepayments, which, if the partnership can only obtain the then existing lower rates of interest may cause a dilution of the partnership's yield on loans, thereby lowering the partnership's overall yield to the limited partners. Cash is generated from borrower payments of interest, principal, loan payoffs and from the partnership's sale of real estate owned properties.

Currently the credit and financial markets are facing a significant and prolonged disruption. As a result, loans are not readily available to borrowers or purchasers of real estate. These credit constraints have impacted the partnership and our borrowers' ability to sell properties or refinance their loans in the event they have difficulty making loan payments or their loan matures. Borrowers are also generally finding it more difficult to refinance or sell their properties due to the general decline in California real estate values in recent years. The partnership's loans generally have shorter maturity terms than typical mortgages. As a result, constraints on the ability of our borrowers to refinance their loans on or prior to maturity have had and will likely continue to have a negative impact on their ability to repay their loans. This has resulted, and may continue to result, in increasing number of loans designated as impaired. If based upon current information and events, it is probable the partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement, a loan may be designated as impaired. Impaired loans are individually reviewed for ultimate collectability based on the fair value of the underlying collateral and the financial resources of the borrower. In addition, the relatively higher than median nature of our average loan balances, makes it more difficult for many of our borrowers to refinance with us, even though we are an "asset" lender. Residential-loan borrowers with high loan balances, particularly jumbo-loan borrowers, would find it difficult to refinance their loans with us. In the event a borrower is unable to repay a loan at maturity due to its inability to refinance the loan or otherwise, the partnership may consider extend the maturing loan through workouts or modifications, or foreclosing on the property as the general partners deem appropriate based on their evaluation of each individual loan. A slow down or reduction in loan repayments would likely reduce the partnership's cash flows and restrict the partnership's ability to invest in new loans or provide earnings and capital distributions.

As a result of reporting a net loss for the quarter ended September 30, 2009 and for the year ended December 31, 2009, the partnership was in technical non-compliance with the profitability covenant then set forth in the partnership's loan agreement with certain banks. In the fourth quarter of 2009, the banks and the partnership entered into a forbearance agreement under which the banks agreed, among other things, to forbear from exercising their rights and remedies. The terms of the forbearance agreement included increasing the interest rate on the line of credit by 2.0 percentage points to the default rate (prime plus 1.5%) effective as of October 1, 2009 and charging a forbearance fee of $148,000. Other modifications of the loan terms included a reduction of the revolving loan commitment to $80 million; suspension of the revolving facility; and assignment of unassigned notes receivable secured by mortgages as additional collateral.

As of October 18, 2010, the partnership and the banks entered into an amended and restated loan agreement. The significant terms and conditions in the amended loan agreement include: 1) an extended maturity date of June 30, 2012; with continuing scheduled pay downs of the loan amount to maturity; 2) an interest rate of Prime plus 1.5% subject to a floor of 5.0%; 3) an annual facility fee (payable quarterly) of 0.5%; 4) required remittance to the banks of 70% of net proceeds from the sale or refinance of REO and/or net proceeds from loan payoffs in excess of $5 million; 5) required remittance of cash balances in excess of $12 million; 6) restrictions on use of cash including no new loans with the exception of refinance of existing loans, no expenditures in the ordinary course of business to preserve, maintain, repair, or operate property in excess of $1 million without prior written consent (subject to exclusions for funds set aside for REO projects and servicing of senior liens designated in the loan agreement), limitations on distributions to electing limited partners of an amount not to exceed a distribution rate of 2.1%; 7) a collateral covenant, and 8) a financial covenant. The bank loan balance at March 31, 2011 and December 31, 2010 was $42,500,000 and $50,000,000, respectively. The loan is scheduled to be paid off in June 2012.

Cash received from loan payments, loan payoffs, the sale of real estate owned and third-party mortgages obtained on stabilized properties that we own and are included in REO is predominantly used to paydown the amount outstanding on the bank loan, to make the periodic interest and principal payments on the loan, to protect the security interest in the collateral securing the loans from senior debt and claims, to maintain and develop REO, to meet the operating expenses of the partnership, and to fund periodic payments to limited partners that elected monthly, quarterly and annual distributions.

At the time of their subscription to the partnership, limited partners must elect either to receive monthly, quarterly or annual cash distributions from the partnership, or to compound earnings in their capital account. If an investor initially elects to receive monthly, quarterly or annual distributions, such election, once made, is irrevocable. If the investor initially elects to compound earnings in his/her capital account, in lieu of cash distributions, the investor may, after three (3) years, change the election and receive monthly, quarterly or annual cash distributions. Earnings allocable to limited partners, who elect to compound earnings in their capital account, will be retained by the partnership for making further loans or for other proper partnership purposes and such amounts will be added to such limited partners' capital accounts. The percent of limited partnerships electing distribution of allocated net income, if any, by weighted average to total partners' capital was 53% and 48% at March 31, 2011 and 2010, respectively. Should the amount distributed to limited partners based on estimated net income exceed the full year results of operations, the excess amount distributed would be a return of capital.

Under the terms of the amended and restated loan agreement, distributions to electing limited partners cannot exceed a distribution rate of 2.1%. Accordingly, the partnership is restricted in its ability to increase distributions to the limited partners until the bank loan is repaid in full, which the partnership currently anticipates will occur on or about the scheduled maturity date of June 30, 2012. However, if borrowers continue to default on their loan obligations, if the partnership's needs for cash increase substantially, or if income flows into the partnership decrease, then the partnership may be unable to service its scheduled debt payments during the loan term or may be unable to repay the bank loan in full on the maturity date. As with the recovery of the real estate market and the economy generally, it is anticipated rebuilding earnings and cash flows will be a slow process. It is not anticipated limited partners will see a quick or large increase in the earnings or distributions within the limitations imposed by the bank loan. Rather, such increases, if any, are anticipated to grow slowly over time as the economy and the state of the partnership improves and the bank loan is repaid. For the three months ended March 31, 2011 and 2010, the partnership distributed $1,339,000 and $2,006,000, respectively.

The partnership also allows the limited partners to withdraw their capital account subject to certain limitations and penalties. Once a limited partner's initial five-year holding period has passed, the general partners expect to see an increase in liquidations due to the ability of limited partners to withdraw without penalty. This ability to withdraw five years after a limited partner's investment has the effect of providing limited partner liquidity and the general partners expect a portion of the limited partners to avail themselves of this liquidity. This has the anticipated effect of increasing the net capital of the partnership, primarily through retained earnings during the offering period. The general partners expect to see increasing numbers of limited partner withdrawals during a limited partner's 5th through 10th anniversary, at which time the bulk of those limited partners who have sought withdrawal have been liquidated.

In March 2009, in response to economic conditions then existing, as to the financial-market crisis, the dysfunction of the credit markets, the distress in the real estate markets, and the expected cash needs of the partnership, the partnership suspended capital liquidations and is not accepting new liquidation requests until further notice. The partnership entered into an amended and restated loan agreement (dated October 2010) which includes additional restrictions on liquidations and distributions of partners' capital. The bank loan is scheduled to be paid off in June 2012. Liquidation requests of approximately $2,700,000 remained unfulfilled at March 31, 2009 and liquidations for future periods are suspended until future notice. Liquidation requests submitted to Redwood after March 16, 2009 are not deemed to be accepted, nor do they serve as placeholders for the submitting limited partner. In addition, since March 16, 2009, the partnership significantly reduced the amount of the cash distributions made to the limited partners, who had made the election to receive distributions of their pro-rata share of the net income.

In the event the downturn in the real estate markets continues or worsens, the disruption in the credit markets is prolonged, or liquidity in the partnership is otherwise further restricted, liquidations will continue to be suspended. For the foreseeable future, the partnership intends to utilize available cash flows to protect its security interests in properties, maintain its real estate holdings, pay down amounts due under its bank loan and on mortgages payable, and maintain operations. It is anticipated liquidation payments will resume only when the partnership's bank loan is paid in full and cash flows improve to levels that enable the partnership to accomplish these objectives.

In some cases in order to satisfy broker-dealers and other reporting requirements, the general partners have valued the limited partners' interest in the partnership on a basis which utilizes a per unit system of calculation, rather than based upon the investors' capital account. This information has been reported in this manner in order to allow the partnership to integrate with certain software used by the broker-dealers and other reporting entities. In those cases, the partnership will report to broker-dealers, trust companies and others a "reporting" number of units based upon a $1.00 per unit calculation. The number of reporting units provided will be calculated based upon the limited partner's capital account value divided by $1.00. Each investor's capital account balance is set forth periodically on the partnership account statement provided to investors. The reporting units are solely for broker-dealers requiring such information for their software programs and do not reflect actual units owned by a limited partner or the limited partners' right or interest in cash flow or any other economic benefit in the partnership. The amount of partnership earnings each investor is entitled to receive is determined by the ratio each investor's capital account bears to the total amount of all investor capital accounts then outstanding. The capital account balance of each investor should be included on any FINRA member client account statement in providing a per unit estimated value of the client's investment in the partnership in accordance with NASD Rule 2340.

While the general partners have set an estimated value for the units, such determination may not be representative of the ultimate price realized by an investor for such units upon sale. No public trading market exists for the units and none is likely to develop. Thus, there is no certainty the units can be sold at a price equal to the stated value of the capital account. Furthermore, the ability of an investor to liquidate his or her investment is limited subject to certain liquidation rights provided by the partnership, which may include early withdrawal penalties.

Current Economic Conditions

The majority of the property the partnership owns and property securing the partnership's loans is located in the nine San Francisco Bay Area counties and the Los Angeles metropolitan area. As a result, the health of the California economy, the California real estate market and the credit markets is of primary concern. Credit markets for real estate secured assets continue to remain extremely tight, with the exception of financing for stabilized multi-family properties.

The de-leveraging of consumers, financial institutions and commercial businesses continues. Financial institutions with an excess of real estate secured loans on their books, have increased underwriting standards and eliminated lending to perceived risky industries in their efforts to shore up balance sheets and credit quality. Historically, the real estate industry has relied upon a ready supply of capital in the form of loans. These funds generally came from government sponsored agencies such as Fannie Mae, Freddie Mac, FHA, jumbo loan securitizations, as well as commercial lending institutions of many types holding loans for their own accounts. The new reality is that the credit market has changed and may not recover in the near term. There is discussion that Fannie Mae and Freddie Mac, the largest suppliers of credit for residential properties, may be wound down. The real estate credit markets may not loosen up any time soon and may have changed, restrictively, forever from what they were just a few years ago.

In addition, CoreLogic released data showing that 11.1 million (23.1 percent) of all residential properties with a mortgage were in negative equity at the end of the fourth quarter of 2010, up from 10.8 million (22.5 percent) the previous quarter. Negative equity means that the borrower owes more than the value of the property. An additional 2.4 million borrowers had less than five percent equity, referred to as near-negative equity, in the fourth quarter. Together, negative equity and near-negative equity mortgages accounted for 27.9 percent of all residential properties with a mortgage nationwide. The borrowers that have mortgages larger than the value of their homes are in a difficult position along with their lenders. If the borrowers desire to sell their property for a myriad of reasons or have difficulty making their payments and are forced to sell their property they will not be able to generate sufficient proceeds from a sale to payoff their lenders unless they have sufficient cash assets that they choose to pay to the lender. Alternatively, they can let the lender take the property in satisfaction of their debt. In these cases the homeowner loses their home and the lender loses a portion of their debt if they choose to sell the acquired property in the near term. Additionally, borrowers with negative equity will find most lenders unwilling to provide new or lower cost financing as there will be inadequate equity to provide a cushion should a borrower default upon their mortgage. This leaves borrowers with negative equity locked into their properties and bound to their existing lender for the foreseeable future.

During the first quarter of 2011, interest rates continued to remain low and for those that can qualify for new loans the cost of carrying a mortgage continued to help improve ownership affordability. Even as of May 12, 2011, the Freddie Mac interest rate for a 30-year fixed mortgage was 4.63 percent (with 0.7 points of cost). In spite of historically low rates, credit remains difficult to obtain and consumers remain skeptical of real estate continuing to maintain value particularly in consideration of the declines in property values since 2007. Therefore, many potential purchasers lack the confidence to purchase and demand for real estate remains at historical lows.

The number of California new and resale houses and condominiums sold during March 2011 was 36,417. That was up 33.3 percent from 27,320 in February, and down 2.4 percent from 37,295 for March 2010. California sales for the month of March have varied from a low of 24,565 in 2008 to a high of 68,848 in 2005. Distressed property sales made up about 57 percent of California's March resale market. Of the existing homes sold, 39.3 percent were properties that had been foreclosed on during the past year. That was down from 40.1 percent in February and down from 40.3 percent in March a year ago. The all-time high was in February 2009 at 58.5 percent. Additionally, short sales – transactions where the sale price fell short of what was owed on the property – made up an estimated 17.6 percent of resales. That was down from an estimated 18.8 percent in February but the same as a year earlier and up from 11.4 percent two years ago.

The median price paid for a California home in March 2011 was $249,000, up 2.0 percent from $244,000 in February, and down 2.4 percent from $255,000 for March a year ago. The year-over-year decrease was the sixth in a row after eleven months of increases. The bottom of the current residential real estate cycle was $221,000 in April 2009, while the peak was at $484,000 in early 2007. While we are above the current historical median price low set in April 2009, the recent decreases in median price and low sales volumes continue to lead to expectations that real estate values will not increase significantly in the near term and are more indicative of a real estate market struggling with oversupply as a result of too many properties being delivered to the market from lenders due to borrower defaults and lack of demand.

The Gross Domestic Product (GDP) grew at a 1.8 percent rate during the first quarter of 2011. While this is a positive sign that the overall US economy is improving, real estate, which was one of the worst hit industries of the Great Recession, continues to be severely and adversely impacted by the downturn of the last four years. Jobs are an important factor effecting home affordability. The national unemployment rose in the United States from 9.3 percent in 2009 to 9.6 percent in 2010, the highest level since 1983. As of March 2011 the national unemployment rate had decreased to 8.8 percent, still high but moving downward as the economy has begun to create jobs.

At the same time, unemployment rose in California to its highest level since records began in 1976. In December 2010, the state posted a 12.5 percent unemployment rate, up from 12.2 percent in December 2009. By March 2011 the unemployment rate in California had declined to 12.0 percent, which is a significant improvement but still an unemployment rate that clearly illustrates the economic difficulties in the state and the depth of the Great Recession.

The San Francisco Bay Area fared better than the state as a whole, with unemployment falling in the Silicon Valley from 11.5 percent in December 2009, to 10.7 percent in December 2010 and to 10.6 percent in March 2011 and in the San Francisco-Oakland region from 10.2 percent in December 2009, to 9.9 percent in December 2010 and rising to 10.0 percent as of March 2011. Overall, the rapid rise in unemployment in recent years has caused significant worker concerns regarding job security and lowered confidence in their own financial circumstances. Spending on new homes, upgrades to larger homes and remodeling of existing housing are all highly dependent upon consumer sentiment and financial circumstances. Until unemployment drops considerably or returns to more normal levels, residential real estate values and a more normal real estate market will be hard pressed to emerge and begin a solid recovery.

Overall, there are signs that general economic conditions are improving. Unemployment has remained high but is not generally rising. Home prices fell on average but not nearly by the magnitudes in preceding years. Interest rates are remaining low and consumer sentiment while low is improving. The ends of recessions and periods of home price depreciation are often one of the most opportune times to make loans. Borrowers that qualify for a mortgage, particularly under stringent underwriting guidelines, are often the highest performing groups of borrowers in the long run. There is less competition from other lenders as they are still sitting on the sidelines or have left the industry altogether. With well collateralized loans, low loan-to-value lenders should avoid the dangers of lending into a bubble market and face limited exposure to further real estate value declines.

The company views the current economic conditions as a period in which to continue to stabilize its existing borrower base and to stabilize the properties it has acquired either through making cosmetic improvements in order to enhance the sale of these properties or to improve cash flows on properties held through leasing, improving tenancies and reducing property expenses.

Contractual Obligations

Contractual obligations of the partnership are summarized in the following table as of March 31, 2011 ($ in thousands).

Contractual Obligation (principal only)	Total	Less than 1 Year	1-3 Years	More than 3 Years
Bank loan, secured	$ 42,500	$ 32,250	$ 10,250	$ —
Mortgages payable	42,850	7,734	4,306	30,810
Construction contracts	200	200	—	—
HOA special assessment	308	308	—	—
Construction loans	—	—	—	—
Rehabilitation loans	—	—	—	—
Total	$ 85,858	$ 40,492	$ 14,556	$ 30,810

PORTFOLIO REVIEW

Secured Loan Portfolio

The partnership generally funds loans with a fixed interest rate and a five-year term. As of March 31, 2011, approximately 71% of the partnership's loans (representing 86% of the aggregate principal balance of the partnership's loan portfolio) have a five year term or less from loan inception. The remaining loans have terms longer than five years. As of March 31, 2011, approximately 33% of the loans outstanding (representing 59% of the aggregate principal balance of the partnership's loan portfolio) provide for monthly payments of interest only, with the principal due in full at maturity. The remaining loans require monthly payments of principal and interest, typically calculated on a 30 year amortization, with the remaining principal balance due at maturity.

- *Secured loans unpaid principal balance* (principal) - Secured loan transactions are summarized in the following table for the three months ended March 31, ($ in thousands).

	2011	2010
Principal, beginning of year	$ 202,134	$ 268,445
New loans added	3	504
Borrower repayments	(5,824)	(15,564)
Foreclosures	(6,502)	(6,421)
Other	—	(440)
Principal, end of period	$ 189,811	$ 246,524

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

	March 31, 2011	December 31, 2010
Number of secured loans	72	79
Secured loans – principal	$ 189,811	$ 202,134
Secured loans – interest rates range (fixed)	2.75%-12.00%	2.75%-12.00%
Average secured loan – principal	$ 2,636	$ 2,559
Average principal as percent of total principal	1.39%	1.27%
Average principal as percent of partners' capital	1.17%	1.12%
Average principal as percent of total assets	0.82%	0.79%
Largest secured loan - principal	$ 37,923	$ 37,923
Largest principal as percent of total principal	19.98%	18.76%
Largest principal as percent of partners' capital	16.76%	16.67%
Largest principal as percent of total assets	11.86%	11.78%
Smallest secured loan - principal	$ 79	$ 79
Smallest principal as percent of total principal	0.04%	0.04%
Smallest principal as percent of partners' capital	0.03%	0.03%
Smallest principal as percent of total assets	0.02%	0.02%
Number of counties where security is located (all California)	25	27
Largest percentage of principal in one county	29.14%	28.80%
Number of secured loans in foreclosure status	12	13
Secured loans in foreclosure – principal	$ 90,218	$ 55,146
Number of secured loans with an interest reserve	—	—
Interest reserves	$ —	$ —

As of March 31, 2011, the partnership's largest loan, in the unpaid principal balance of $37,923,000 (representing 19.98% of outstanding secured loans and 11.86% of partnership assets) has an interest rate of 9.25% and is secured by a condominium/apartment complex located in Sacramento County, California. This loan matured July 1, 2010. The partnership has been pursuing the borrower on several fronts to obtain satisfaction of the debt, including having the courts place a receiver in charge of the property. In February 2011, the partnership filed a notice of default on the loan.

Larger loans sometimes increase above 10% of the secured loan portfolio or partnership assets as these amounts decrease due to limited partner withdrawals, loan payoffs and restructuring of existing loans.

- *Lien positions* - Secured loans had the lien positions presented in the following table ($ in thousands).

	March 31, 2011			December 31, 2010		
	Loans	Principal	Percent	Loans	Principal	Percent
First trust deeds	31	$ 76,055	40%	37	$ 85,535	43%
Second trust deeds	39	113,250	60	40	116,091	57
Third trust deeds	2	506	—	2	508	—
Total secured loans	72	189,811	100%	79	202,134	100%
Liens due other lenders at loan closing		224,222			232,081	
Total debt		$ 414,033			$ 434,215	
Appraised property value at loan closing		$ 649,429			$ 688,494	
Percent of total debt to appraised values (LTV) at loan closing (1)		63.75%			63.07%	

(1) Based on appraised values and liens due other lenders at loan closing. The loan to value computation does not take into account subsequent increases or decreases in property values following the loan closing nor does it include decreases or increases of the amount owing on senior liens to other lenders by payments or interest accruals, if any. Property values likely have changed, particularly over the last two years, and the portfolio's current loan to value ratio likely is higher than this historical ratio.

- *Property type* - Secured loans summarized by property type of the collateral are presented in the following table ($ in thousands).

	March 31, 2011			December 31, 2010		
	Loans	Principal	Percent	Loans	Principal	Percent
Single family	58	$ 148,576	78%	63	$ 155,241	77%
Multi-family	4	5,337	3	5	8,135	4
Commercial	9	35,353	19	10	38,212	19
Land	1	545	—	1	546	—
Total secured loans	72	$ 189,811	100%	79	$ 202,134	100%

Single family properties include owner-occupied and non-owner occupied single family homes (1-4 unit residential buildings), condominium units, townhouses, and condominium complexes. From time to time, loan originations in one sector or property type become more active due to prevailing market conditions. The current concentration of the partnership's loan portfolio in condominium properties may pose additional or increased risks. Recovery of the condominium sector of the real estate market is generally expected to lag behind that of single-family residences. In addition, availability of financing for condominium properties has been, and will likely continue to be, constricted and more difficult to obtain than other property types. As of March 31, 2011 and December 31, 2010, $131,486,000 and $135,948,000, respectively, of the partnership's loans were secured by condominium properties.

Condominiums may create unique risks for the partnership that are not present for loans made on other types of properties. In the case of condominiums, a board of managers generally has discretion to make decisions affecting the condominium building, including regarding assessments to be paid by the unit owners, insurance to be maintained on the building, and the maintenance of that building, which may have an impact on the partnership loans that are secured by such condominium property.

The partnership may have less flexibility in foreclosing on the collateral for a loan secured by condominiums upon a default by the borrower. Among other things, the partnership must consider the governing documents of the homeowners association and the state and local laws applicable to condominium units, which may require an owner to obtain a public report prior to the sale of the units.

- *Scheduled maturities* - Secured loans are scheduled to mature as presented in the following table ($ in thousands).

Scheduled maturities	Loans	Principal	Percent
2011	13	$ 12,460	7
2012	17	52,643	28
2013	14	5,645	3
2014	2	2,532	1
2015	8	1,954	1
Thereafter	4	2,208	1
Total future maturities	58	77,442	41
Matured at March 31, 2011	14	112,369	59
Total secured loans	72	$ 189,811	100%

It is the partnership's experience that loans may be repaid or refinanced before, at or after the contractual maturity date. For matured loans, the partnership may continue to accept payments while pursuing collection of amounts owed from borrowers. Therefore, the above tabulation for scheduled maturities is not a forecast of future cash receipts.

- *Matured loans* - Secured loans past maturity are summarized in the following table ($ in thousands).

	March 31, 2011	December 31, 2010
Secured loans past maturity		
Number of loans (2) (3)	14	13
Principal	$ 112,369	$ 95,264
Advances	17,562	14,424
Accrued interest	8,426	8,040
Loan balance	$ 138,357	$ 117,728
Percent of loans	59%	47%

(2) The secured loans past maturity include 10 loans as of March 31, 2011 and December 31, 2010, also included in the secured loans in non-accrual status.

(3) The secured loans past maturity include 12 and 11 loans as of March 31, 2011 and December 31, 2010, respectively, also included in the secured loans delinquency category.

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

	March 31, 2011	December 31, 2010
30-89 days past due	$ 10,359	$ 8,083
90-179 days past due	318	2,511
180 or more days past due	151,249	156,866
Total past due	161,926	167,460
Current	27,885	34,674
Total secured loans	$ 189,811	$ 202,134

The partnership reports delinquency based upon the most recent contractual agreement with the borrower.

Interest income accrued on loans contractually past due 90 days or more as to principal or interest payments during the months ended March 31, 2011 and 2010 was $8,000 and $1,277,000, respectively. Accrued interest on loans contractually past due 90 days or more as to principal or interest payments at March 31, 2011 and December 31, 2010 was $11,654,000 and $12,078,000, respectively.

At March 31, 2011, the partnership had 14 workout agreements in effect with an aggregate principal of $18,269,000. Of the 14 borrowers, 13, with an aggregate principal of $17,849,000, had made all required payments under the workout agreements and were included in the above table as current. Ten of the 14 loans, with an aggregate principal of $17,049,000 were designated impaired and 6 of the 10 impaired loans with an aggregate principal of $7,957,000 were in non-accrual status.

At December 31, 2010, the partnership had 14 workout agreements in effect with an aggregate principal of $20,444,000. Of the 14 borrowers, 11, with an aggregate principal of $19,097,000 had made all required payments under the workout agreements and the loans were included in the above table as current. The three loans, which were 90 or more days past due, were not designated impaired and were accruing interest. Ten of the 14 loans, with an aggregate principal of $19,223,000 were designated impaired and 6 of the 10 impaired loans with an aggregate principal of $10,131,000 were in non-accrual status.

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

	March 31, 2011	December 31, 2010
Secured loans in nonaccrual status		
Number of loans	25	28
Principal	$ 158,767	$ 167,500
Advances	17,986	18,153
Accrued interest	11,659	11,971
Loan balance	$ 188,412	$ 197,624
Foregone interest	$ 3,474	$ 12,012

At March 31, 2011 and December 31, 2010, there were 2 and 4 loans, respectively, with loan balances of $337,000 and $1,327,000, respectively, that were contractually 90 or more days past due as to principal or interest and not in non-accrual status.

Loans designated as impaired and the allowance for loan losses are presented and discussed under the section entitled "Allowance for Losses" above.

- *Distribution by California counties* - The distribution of secured loans outstanding by California counties is presented in the following table at March 31, 2011 and December 31, 2010 ($ in thousands).

	March 31, 2011			December 31, 2010		
	Loans	Principal	Percent	Loans	Principal	Percent
San Francisco Bay Area	42	$ 130,025	68%	44	$ 135,788	67%
Other Northern California	14	51,614	28	16	55,567	28
Southern California	16	8,172	4	19	10,779	5
Total secured loans	72	$ 189,811	100%	79	$ 202,134	100%

The partnership also makes loans requiring periodic disbursements of funds. As of March 31, 2011, there were one such loans. These include loans for the ground up construction of buildings and loans for rehabilitation of existing structures. Interest on these loans is computed with the simple interest method and only on the amounts disbursed on a daily basis.

The status of the partnership's loans, which are periodically disbursed as of March 31, 2011, is set forth below ($ in thousands).

	Complete Construction	Rehabilitation
Disbursed funds	$ —	$ 17,000
Undisbursed funds	$ —	$ —

"Construction loans" are determined by the management to be those loans made to borrowers for the construction of entirely new structures or dwellings, whether residential, commercial or multifamily properties. For each such construction loan, the partnership has approved a maximum balance for such loan; however, disbursements are made in phases throughout the construction process. As of March 31, 2011, the partnership had no commitments for construction loans. Upon project completion construction loans are reclassified as permanent loans. Funding of construction loans is limited to 10% of the loan portfolio.

The partnership also makes loans, the proceeds of which are used to remodel, add to and/or rehabilitate an existing structure or dwelling, whether residential, commercial or multifamily properties and which, in the determination of management, are not construction loans. Many of these loans are for cosmetic refurbishment of both interiors and exteriors of existing condominiums. The refurbished units will then be sold to new owners, repaying the partnership's loan. These loans are referred to by management as "Rehabilitation Loans". As of March 31, 2011 the partnership had $17,000,000 in Rehabilitation Loans, however, the borrower is in default negating any funding obligation. While the partnership does not classify Rehabilitation Loans as Construction Loans, Rehabilitation Loans carry some of the same risks as Construction Loans. There is no limit on the amount of Rehabilitation Loans the partnership may make.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not included as the partnership is a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The partnership carried out an evaluation, under the supervision and with the participation of the general partners of the effectiveness of the design and operation of the partnership's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the general partners concluded the partnership's disclosure controls and procedures were effective.

Changes to Internal Control Over Financial Reporting

There have not been any changes in the partnership's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the partnership's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. **Legal Proceedings**

In the normal course of business, the partnership may become involved in various types of legal proceedings such as assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, judicial foreclosure, etc., to enforce provisions of the deeds of trust, collect the debt owed under promissory notes, or to protect, or recoup its investment from real property secured by the deeds of trust and resolve disputes between borrowers, lenders, lien holders and mechanics. None of these actions would typically be of any material importance. As of the date hereof, the partnership is not involved in any legal proceedings other than those that would be considered part of the normal course of business.

ITEM 1A. **Risk Factors**

Not included as the partnership is a smaller reporting company.

ITEM 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

Not Applicable.

ITEM 3. **Defaults Upon Senior Securities**

Not Applicable.

ITEM 4. **(Removed and Reserved)**

ITEM 5. **Other Information**

None.

ITEM 6. **Exhibits**

31.1 Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3 Certification of General Partner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3 Certification of General Partner pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

REDWOOD MORTGAGE INVESTORS VIII

Signature	Title	Date
/S/ Michael R. Burwell Michael R. Burwell	General Partner	May 16, 2011
/S/ Michael R. Burwell Michael R. Burwell	President of Gymno Corporation, (Principal Executive Officer); Director of Gymno Corporation Secretary/Treasurer of Gymno Corporation (Principal Financial and Accounting Officer)	May 16, 2011
/S/ Michael R. Burwell Michael R. Burwell	President, Secretary/Treasurer of Redwood Mortgage Corp. (Principal Financial and Accounting Officer); Director of Redwood Mortgage Corp.	May 16, 2011