UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period From to

Commission File Number 333-181360

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

DELAWARE	**36-4608739**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**

12627 San Jose Blvd., Suite 203, Jacksonville, FL 32223
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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, accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q of Shepherd's Finance, LLC, other than historical facts, may be considered forward-looking statements within the meaning of the federal securities laws. Words such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue," "predict," or other similar words identify forward-looking statements. Forward-looking statements appear in a number of places in this report, including without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and include statements regarding our intent, belief or current expectation about, among other things, trends affecting the markets in which we operate, our business, financial condition and growth strategies. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including but not limited to those set forth in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission. If any of the events described in "Risk Factors" occur, they could have an adverse effect on our business, consolidated financial condition, results of operations and cash flows.

When considering forward-looking statements, you should keep these risk factors, as well as the other cautionary statements in this report and in our 2013 Form 10-K in mind. You should not place undue reliance on any forward-looking statement. We are not obligated to update forward-looking statements.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Shepherd's Finance, LLC
Interim Condensed Consolidated Balance Sheets

(in thousands of dollars)	As of September 30, 2014 (Unaudited)	As of December 31, 2013
Assets		
Cash and cash equivalents	$ 202	$ 722
Accrued interest on loans	65	27
Deferred financing costs, net	647	649
Other assets	20	14
Loans receivable, net	7,532	4,045
Total assets	$ 8,466	$ 5,457
Liabilities and Members' Capital		
Customer interest escrow	$ 217	$ 255
Accounts payable and accrued expenses	144	59
Notes payable unsecured	6,096	3,239
Total liabilities	6,457	3,553
Commitments and Contingencies (Notes 4 and 8)		
Members' capital	2,009	1,904
Total liabilities and members' capital	$ 8,466	$ 5,457

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

Shepherd's Finance, LLC
Interim Condensed Consolidated Statements of Operations – Unaudited
For the Three and Nine Months Ended September 30, 2014 and 2013

(in thousands of dollars)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest Income				
Interest and fee income on loans	$ 328	$ 169	$ 768	$ 445
Interest expense	131	51	280	114
Net interest income	197	118	488	331
Less: Loan loss provision	17	–	20	–
Net interest income	180	118	468	331
Non-Interest Expense				
Selling, general and administrative	87	77	286	331
Total non-interest expense	87	77	286	331
Net income (loss)	$ 93	$ 41	$ 182	$ –

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

Shepherd's Finance, LLC
Interim Condensed Consolidated Statement of Changes in Members' Capital – Unaudited
For the Nine Months Ended September 30, 2014

(in thousands of dollars)

Members' capital, as of December 31, 2013	$	1,904
Net income		182
Distributions		(77)
Members' capital, as of September 30, 2014	$	2,009

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

Shepherd's Finance, LLC
Interim Condensed Consolidated Statements of Cash Flows – Unaudited

(in thousands of dollars)	For the Nine Months Ended September 30, 2014	2013
Cash flows from operations		
Net income (loss)	$ 182	$ –
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Amortization of deferred financing costs	51	25
Provision for loan losses	20	–
Net loan origination fees deferred (earned)	(55)	(132)
Net change in operating assets and liabilities		
Other assets	(6)	(11)
Accrued interest on loans	(38)	(5)
Customer interest escrow	(38)	(10)
Accounts payable and accrued expenses	85	(4)
Net cash provided by (used in) operating activities	201	(137)
Cash flows from investing activities		
Loan originations and principal collections, net	(3,452)	371
Net cash provided by (used in) investing activities	(3,452)	371
Cash flows from financing activities		
Distributions to members	(77)	(22)
Proceeds from (repayments of) related party notes	–	(1,108)
Proceeds from unsecured Notes	2,906	799
Repayments of unsecured Notes	(49)	–
Payments of deferred financing costs	(49)	(73)
Net cash provided by (used in) financing activities	2,731	(404)
Net increase (decrease) in cash and cash equivalents	(520)	(170)
Cash and cash equivalents		
Beginning of period	722	646
End of period	$ 202	$ 476
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 90	$ 22

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

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

1. Description of Business and Basis of Presentation

Description of Business

<u>Description of Business</u>
Shepherd's Finance, LLC and subsidiaries (the "Company", "we" or "our") is a finance company that engages in commercial lending to residential homebuilders, financing construction of single family homes and residential development. The loans are extended to residential homebuilders and, as such, are commercial loans.

We anticipate expanding our lending capacity and funding our business operations by continued extension of unsecured subordinated notes ("Notes") to the general public, which Notes are unsecured subordinated debt. We have a revolving secured line of credit from affiliates with no balance outstanding as of both September 30, 2014 and December 31, 2013. Eventually, the Company intends to permanently replace the lines of credit to affiliates with a secured line of credit from a bank or through other liquidity.

<u>Basis of Presentation</u>
The accompanying (a) condensed consolidated balance sheet as of December 31, 2013, which has been derived from audited consolidated financial statements, and (b) unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. While certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), management believes that the disclosures herein are adequate to make the condensed consolidated information presented not misleading. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. The results of operations for any interim period are not necessarily indicative of results expected for the fiscal year ending December 31, 2014. These unaudited interim condensed consolidated financial statements should be read in conjunction with the year end 2013 consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Statements"). The accounting policies followed by the Company are set forth in Note 2 - *Summary of Significant Accounting Policies* of the notes to the 2013 Statements.

Liquidity and Capital Resources

Our operations are subject to certain risks and uncertainties, particularly related to the concentration of our current operations, the majority of which are to a single customer and geographic region, as well as the evolution of the current economic environment and its impact on the United States real estate and housing markets. Both the concentration of risk and the economic environment could directly or indirectly cause or magnify losses related to certain transactions and access to and cost of adequate financing.

The Company's anticipated primary sources of liquidity going forward are the continued extension of Notes to the general public, interest income and/or principal repayments related to the loans, as well as funds borrowed from affiliated creditors. Our public Notes offering, which allows us to borrow money, was declared effective by the SEC on October 4, 2012 and has been registered and declared effective in 38 states as of both September 30, 2014 and December 31, 2013. We began to advertise in March 2013 and received an aggregate of approximately $4,645 and $1,739 in Notes proceeds as of September 30, 2014 and December 31, 2013, respectively. We anticipate continuing our capital raising efforts during the remainder of 2014, focusing on the efforts that have proven fruitful. The Company's ability to fund its operations remains dependent upon the ability of our largest borrower, whose loan commitments represent 60% and 98% of our total outstanding loan commitments as of September 30, 2014 and December 31, 2013, respectively, to continue paying interest and/or principal and our ability to obtain additional financing, as needed, from the members, general public and other entities. The risk of our largest customer not paying interest is mitigated in the short term by having an interest escrow, which had a balance of $121 and $255 as of September 30, 2014 and December 31, 2013, respectively. While a default by this large customer could impact our cash flow and/or profitability in the long term, we believe that in the short term, a default might impact profitability, but not liquidity, as we are generally not receiving interest payments from the customer while he is performing (interest is being credited from his interest escrow).

We generated net income of $182 and $0 for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014 and December 31, 2013, we had cash on hand of $202 and $722, respectively, and our outstanding debt totaled $6,096 and $3,239, respectively, which was unsecured. As of September 30, 2014 and December 31, 2013, the amount that we have not loaned, but are obligated to potentially lend to our customers based on our agreements with them, was $2,315 and $1,449, respectively. Our availability on our line of credit from our members was $1,500 as of both September 30, 2014 and December 31, 2013, although there is no obligation of the affiliates to lend money up to the note amount.

Our current plan is to expand the commercial lending program by using current liquidity and available funding (including funding from our Notes program). We have anticipated the costs of this expansion and the continuing costs of maintaining our public company status, and we anticipate generating, through normal operations, the cash flows and liquidity necessary to meet our operating, investing and financing requirements. As noted above, the two most significant factors driving our current plans are the continued payments of principal and/or interest by our largest borrower and the public offering of Notes. If actual results differ materially from our current plan or if expected financing is not available, we believe we have the ability and intent to obtain funding and generate net worth through additional debt or equity infusions of cash, if needed. There can be no assurance, however, that we will be able to implement our strategies or obtain additional financing under favorable terms, if at all.

2. Summary of Significant Accounting Policies

Segment Reporting

We report all ongoing operations in one segment, commercial lending.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. It is reasonably possible that market conditions could deteriorate, which could materially affect our consolidated financial position, results of operations and cash flows. Among other effects, such changes could result in the need to increase the amount of our allowance for loan losses.

Revenue Recognition

Interest income generally is recognized on an accrual basis. The accrual of interest is generally discontinued on all loans past due 90 days or more. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes that the accrued interest is recoverable through liquidation of collateral. Interest received on nonaccrual loans is applied against principal. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

Advertising

Advertising costs are expensed as incurred and are included in selling, general, and administrative. Advertising expenses were $1 and $46 for the nine months ended September 30, 2014 and 2013, respectively.

Cash and Cash Equivalents

Management considers highly-liquid investments with original maturities of three months or less to be cash equivalents.

Fair Value Measurements

The Company has established a framework for measuring fair value under U.S. GAAP using a hierarchy, which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value measurements are an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Three levels of inputs are used to measure fair value, as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 – unobservable inputs, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 3.

Loans Receivable

Loans are stated at the amount of unpaid principal, net of any allowances for loan losses, and adjusted for (1) the net unrecognized portion of direct costs and nonrefundable loan fees associated with lending, and (2) deposits made by the borrowers used as collateral for a loan and due back to the builder at or prior to loan payoff. The net amount of nonrefundable loan origination fees and direct costs associated with the lending process, including commitment fees, is deferred and accreted to interest income over the lives of the loans using a method that approximates the interest method. The majority of the Company's loans are secured by real estate in a suburb of Pittsburgh, Pennsylvania. Accordingly, the ultimate collectability of a substantial portion of these loans is susceptible to changes in market conditions in that area.

Past due loans are loans contractually past due 30 days or more as to principal or interest payments. A loan is classified as nonaccrual, and the accrual of interest on such loan is discontinued, when the contractual payment of principal or interest becomes 90 days past due. In addition, a loan may be placed on nonaccrual at any other time management has serious doubts about further collectability of principal or interest according to the contractual terms, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection or well-secured (i.e. the loan has sufficient collateral value). Loans are restored to accrual status when the obligation is brought current or has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Once a loan is 90 days past due, management begins a workout plan with the borrower or commences its foreclosure process on the collateral.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio.

We establish a collective reserve for all loans which are not more than 60 days past due at the end of a quarter. This collective reserve takes into account both historical information and a qualitative analysis of housing and other economic factors that may impact our future realized losses. For loans to one borrower with committed balances less than 10% of our total committed balances on all loans extended to all customers, we individually analyze for impairment all loans which are more than 60 days past due at the end of a quarter. For loans to one borrower with committed balances equal to or greater than 10% of our total committed balances on all loans extended to all customers, we individually analyze all loans for impairment. The analysis of loans, if required, includes a comparison of estimated collateral value to the principal amount of the loan. For impaired loans, if the value determined is less than the principal amount due (less any builder deposit), then the difference is included in the allowance for loan loss. As values change, estimated loan losses may be provided for more or less than the previous period, and some loans may not need a loss provision based on payment history. For homes which are partially complete, we appraise on an as-is and completed basis, and use the one that more closely aligns with our planned method of disposal for the property.

For loans that are individually evaluated for impairment, appraisals have been prepared within the last 13 months. There are also broker's opinions of value ("BOV") prepared, if the appraisal is more than six months old. The lower of any BOV prepared in the last six months, or appraisal done in the last 13 months, is used, unless we determine a BOV to be invalid based on the comparable sales used. If we determine a BOV to be invalid, we will use the appraised value. Appraised values are adjusted down for estimated costs associated with asset disposal.

Deferred Financing Costs, Net

We defer certain costs associated with financing activities related to the issuance of debt securities (deferred financing costs). These costs consist primarily of professional fees incurred related to the transactions. Deferred financing costs are amortized into interest expense over the life of the related debt. We make estimates for average duration of future investments. If these estimates are determined to be incorrect in the future, the rate at which we are amortizing the deferred offering costs as interest expense would be adjusted and could have a material impact on the consolidated financial statements.

Certain private offering costs of $11 were incurred in 2012, but because no funds were received from the private offering, the costs were written-off in the third quarter of 2013.

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Deferred financing costs, beginning balance	$ 669	$ 598	$ 598
Additions	49	82	73
Write-offs	–	(11)	(11)
Deferred financing costs, ending balance	$ 718	$ 669	$ 660
Less accumulated amortization	(71)	(20)	(16)
Deferred financing costs, net	$ 647	$ 649	$ 644

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

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Accumulated amortization, beginning balance	$ 20	$ 2	$ 2
Additions	51	18	14
Accumulated amortization, ending balance	$ 71	$ 20	$ 16

Income Taxes

The entities included in the condensed consolidated financial statements are organized as pass-through entities under the Internal Revenue Code. As such, taxes are the responsibility of the members. Other significant taxes for which the Company is liable are recorded on an accrual basis.

The Company applies Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*. This ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements and requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's consolidated financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions with respect to income tax at the LLC level not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the appropriate period. Management concluded that there are no uncertain tax positions that should be recognized in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations for years prior to 2011.

The Company's policy is to record interest and penalties related to taxes in interest expense on the consolidated statements of operations. There have been no significant interest or penalties assessed or paid.

Risks and Uncertainties

The Company is subject to many of the risks common to the commercial lending and real estate industries, such as general economic conditions, decreases in home values, decreases in housing starts, and high unemployment. These risks, which could have a material and negative impact on the Company's consolidated financial condition, results of operations, and cash flows include, but are not limited to, declines in housing starts, unfavorable changes in interest rates, and competition from other lenders. At September 30, 2014, our loans were primarily concentrated in a suburb of Pittsburgh, Pennsylvania, so the housing starts and prices in that area are more significant to our business than other areas until and if more loans are created in other markets.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of loans receivable. As of September 30, 2014 and December 31, 2013, 60% and 98%, respectively, of our loan commitments consist of loans to one borrower, and the collateral is in one real estate market.

3. Fair Value

At September 30, 2014 and December 31, 2013, the Company had no assets measured at fair value on a recurring or nonrecurring basis. The Company has determined that the carrying value of financial instruments approximates fair value, as outlined below:

Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Loans Receivable and Commitments to Extend Credit

For variable rate loans that reprice frequently with no significant change in credit risk, estimated fair values are based on carrying values at September 30, 2014 and December 31, 2013. The estimated fair values for other loans are calculated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities and approximate carrying values of these instruments at September 30, 2014 and December 31, 2013. For unfunded commitments to extend credit, because there would be no adjustment between fair value and carrying amount for the amount if actually loaned, there is no adjustment to the amount before it is loaned. The amount for commitments to extend credit is not listed in the tables below because there is no difference between carrying value and fair value, and the amount is not recorded on the consolidated balance sheets as a liability.

Customer Interest Escrow

The customer interest escrow does not yield interest to the customer, but because: 1) the customer loans are demand loans, 2) there is no way to estimate how long the escrow will be in place, and 3) the interest rate which could be used to discount this amount is negligible, the fair value approximates the carrying value at both September 30, 2014 and December 31, 2013.

Borrowings under Credit Facilities

The fair value of the Company's borrowings under credit facilities is estimated based on the expected cash flows discounted using the current rates offered to the Company for debt of the same remaining maturities. As all of the borrowings under credit facilities or the Notes are either payable on demand or at similar rates to what the Company can borrow funds for today, the fair value of the borrowings is determined to approximate carrying value at September 30, 2014 and December 31, 2013.

Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments and the level of the fair value hierarchy (as discussed in Note 2) within which the fair value measurements are categorized at the periods indicated:

September 30, 2014

	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets					
Cash and cash equivalents	$ 202	$ 202	$ 202	$ –	$ –
Loans receivable, net	7,532	7,532	–	–	7,532
Financial Liabilities					
Customer interest escrow	217	217	–	–	217
Notes payable unsecured	6,096	6,096	–	–	6,096

December 31, 2013

	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets					
Cash and cash equivalents	$ 722	$ 722	$ 722	$ –	$ –
Loans receivable, net	4,045	4,045	–	–	4,045
Financial Liabilities					
Customer interest escrow	255	255	–	–	255
Notes payable unsecured	3,239	3,239	–	–	3,239

4. Financing Receivables

Financing receivables are comprised of the following:

	September 30, 2014	December 31, 2013
Commercial loans, gross	$ 8,250	$ 4,652
Less: Deferred loan fees	(516)	(571)
Less: Deposits	(182)	(36)
Less: Allowance for loan losses	(20)	–
Commercial loans, net	$ 7,532	$ 4,045

Roll forward of commercial loans:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Beginning balance	$ 4,045	$ 3,604	$ 3,604
Additions	5,333	3,331	2,308
Payoffs/Sales	(1,735)	(2,992)	(2,671)
Change in builder deposit	(146)	(36)	(8)
Change in loan loss provision	(20)	–	–
New loan fees	(281)	(121)	(61)
Earned loan fees	336	259	193
Ending balance	$ 7,532	$ 4,045	$ 3,365

Commercial Construction and Development Loans

Pennsylvania Loans

On December 30, 2011, pursuant to a credit agreement by and between us, Benjamin Marcus Homes, LLC ("BMH"), Investor's Mark Acquisitions, LLC ("IMA") and Mark L. Hoskins ("Hoskins") (collectively, the "Hoskins Group") (as amended, the "Credit Agreement"), we originated two new loan assets, one to BMH as borrower (the "BMH Loan") and one to IMA as borrower (the "New IMA Loan"). Pursuant to the Credit Agreement and simultaneously with the origination of the BMH Loan and the New IMA Loan, we also assumed the position of lender on an existing loan to IMA (the "Existing IMA Loan") and assumed the position of borrower on another existing loan in which IMA serves as the lender (the "SF Loan"). Throughout this report, we refer to the BMH Loan, the New IMA Loan, and the Existing IMA Loan collectively as the "Pennsylvania Loans." When we assumed the position of the lender on the Existing IMA Loan, we purchased a loan which was originated by the borrower's former lender, and assumed that lender's position in the loan and maintained the recorded collateral position in the loan. The borrower's former lender and the seller of the BMH property are the same independent third party. The BMH Loan, the New IMA Loan and the Existing IMA Loan are all cross-defaulted and cross-collateralized with each other. Further, IMA and Hoskins serve as guarantors of the BMH Loan, and BMH and Hoskins serve as guarantors of the New IMA Loan and the Existing IMA Loan. As such, we are currently primarily reliant on a single developer and homebuilder for our revenues.

In April, July, September, and December 2013, and in March 2014, we entered into amendments to the Pennsylvania Loans. As a result of these amendments, BMH was allowed to borrow for the construction of homes on lots 204, 205, and 206 of the Hamlets subdivision and lots 2 and 5 of the Tuscany subdivision, both located in a suburb of Pittsburgh, Pennsylvania, and to borrow for the purchase of lot 5 of the Hamlets subdivision. The construction loans for lots 2 and 5 of the Tuscany subdivision are for $660 and $748, respectively. Each of the construction loans is evidenced by a promissory note and is secured by a first mortgage on the home or homes financed under such loan. Each of the construction loans is subject to a loan fee of 5% of the full amount of the loan, and bears interest at a rate of our cost of funds plus 2%. Unlike the development loans extended pursuant to the Credit Agreement, the release prices paid for each of the lots securing the construction loans are not applied to fund the balance of the Interest Escrow established pursuant to the Credit Agreement, and interest on the construction loans is not paid from the Interest Escrow. The outstanding balance of the construction loans for lots 2 and 5 of the Tuscany subdivision is not included when calculating the amount outstanding pursuant to Section 2.05(f) of the Credit Agreement.

As a result of these amendments to the Credit Agreement, we also issued a letter of credit for $155 to a sewer authority relating to BMH Loan (the "Letter of Credit"), and we allowed a fully funded mortgage in the amount of $1,146 to be placed in superior position to our mortgage, with the $1,146 proceeds being used to reduce the balance of BMH's outstanding loan with us. The terms and conditions of the Pennsylvania Loans are set forth in further detail below.

A detail of the financing receivables for the Pennsylvania Loans at September 30, 2014 is as follows:

Item	Term	Interest Rate	Funded to borrower	Estimated collateral values
BMH Loan	Demand(1)	COF +2% (7% Floor)		
Land for phases 4 and 5			$ –	$ 1,515
Lots			142	200(7)
Interest Escrow			450	121
Loan Fee			750	–
Excess Paydown			(117)(5)	
Lot 2 Windermere			126	126
Construction loan lot 5 Tuscany			406	845
Construction loan lot 2 Tuscany			345	658
Total BMH Loan			**2,102**	**3,465**
IMA Loans				
New IMA Loan (loan fee)	Demand(1)	COF +2% (7% Floor)	250	–
New IMA Loan (advances)	Demand(1)	COF +2% (7% Floor)	1,576	–
Existing IMA Loan	Demand(2)	7%	1,687	2,644(3)
Total IMA Loans			**3,513**	**2,644**
Unearned Loan Fee			(386)	–
SF Loan Payable			–	1,500
Total			**$ 5,229**	**$ 7,609**

A detail of the financing receivables for the Pennsylvania Loans at December 31, 2013 is as follows:

Item	Term	Interest Rate	Funded to borrower	Estimated collateral values
BMH Loan	Demand[(1)]	COF +2% (7% Floor)		
Land for phases 3, 4, and 5			$ –	$ 1,042[(4)]
Lot 5 Hamlets			142	180
Interest Escrow			450	255
Loan Fee			750	–
Excess Paydown			(394)[(5)]	
Construction loan lot 118 Whispering Pines			138	120
Construction loan lot 5 Tuscany			37	–
Total BMH Loan			**1,123**	**1,597**
IMA Loans				
New IMA Loan (loan fee)	Demand[(1)]	COF +2% (7% Floor)	250	–
New IMA Loan (advances)	Demand[(1)]	COF +2% (7% Floor)	1,479	–
Existing IMA Loan	Demand[(2)]	7%	1,687	2,299[(6)]
Total IMA Loans			**3,416**	**2,299**
Unearned Loan Fee			(567)	–
SF Loan Payable			–	1,500
Total			**$ 3,972**	**$ 5,396**

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(1) These are the stated terms; however, in practice, principal will be repaid upon the sale of each developed lot.

(2) These are the stated terms; however, in practice, principal will be repaid upon the sale of each developed lot after the BMH loan and the New IMA loan are satisfied.

(3) Estimated collateral value is equal to the appraised value of the remaining lots of $3,328, net of the net estimated costs to finish the development of $246 and the second mortgage amount of $438.

(4) Estimated collateral value is equal to the raw ground appraised value of $1,910 plus improvements of $278, net of the outstanding first mortgage of $1,146.

(5) Excess Paydown is the amount of initial funding of the Interest Escrow and/or Loan Fee that has/have been repaid to date. These amounts are available to be reborrowed in the future.

(6) Estimated collateral value is equal to the appraised value of $4,140, net of estimated costs to finish the development of $561, the appraised value of sold lots of $0, and the second mortgage amount of $1,280.

(7) Estimated collateral value is equal to the lots' appraised value of $2,336 minus remaining improvements of $830, net of the outstanding first mortgage of $1,146 and a third mortgage payoff of $160.

The loans are collectively cross-collateralized and, therefore, treated as one loan for the purpose of calculating the effective interest rate and for available remedies upon an instance of default. As lots are released, a specific release price is repaid by the borrower, with 10% of that amount being used to fund the Interest Escrow (except for the construction funding for homes). The customer will make cash interest payments only when the Interest Escrow is fully depleted, except for construction funding for homes, where the customer makes interest payments monthly.

The loans created in 2011 had a $1,000 loan fee. The expenses incurred related to issuing the loan were approximately $76, which were netted against the loan amount. The remaining $924, which is netted against the gross loan amount, is being recognized over the expected life of the loans using the straight-line method in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs*. During 2013 and 2014, eight construction loans to the same customer were executed with $162 in loan fees, which fees are being recognized over the expected life of each advance. Income of $228 and $191 was recognized during the nine month periods ended September 30, 2014 and 2013, respectively. The effective annual rate on the loans for the nine month periods ended September 30, 2014 and 2013 was 14.72% and 13.09%, respectively The aggregate unearned loan fee was $386 and $567 as of September 30, 2014 and December 31, 2013, respectively.

The Company has a credit agreement with its largest borrower which includes a maximum exposure on all three loans, as described in the chart below. This limit does not include construction loans.

Commercial Loans – Real Estate Development Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for land development as of September 30, 2014. The Pennsylvania loans below are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral[(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
Pennsylvania	1	3	$ 5,980	$ 4,893(3)	$ 4,738	79%	$ 1,000
Total	**1**	**3**	**$ 5,980**	**$ 4,893**	**$ 4,738**	**79%**	**$ 1,000**

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third party mortgage balances.

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

(3) The commitment amount includes a portion of the letter of credit which, when added to the current outstanding balance, is greater than the $4,750 maximum commitment amount per the Credit Agreement.

The following is a summary of our loan portfolio to builders for land development as of December 31, 2013. The Pennsylvania loans below are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral[(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio[(2)]	Loan Fee
Pennsylvania	1	3	$ 5,275	$ 4,750	$ 4,364	83%	$ 1,000
Total	**1**	**3**	**$ 5,275**	**$ 4,750**	**$ 4,364**	**83%**	**$ 1,000**

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third party mortgage balances.

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

Commercial Loans – Construction Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for home construction loans as of September 30, 2014. Some of the Pennsylvania loans are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral [(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio[(2)]	Loan Fee
Colorado	1	2	$ 985	$ 672	$ 614	68%	5%
Georgia	1	3	520	433	215	83%	5%
Florida	1	2	680	384	217	56%	5%
Louisiana	1	2	1,230	861	583	70%	5%
New Jersey	1	1	390	273	182	70%	5%
Pennsylvania	2	4	2,826	1,850	1,064	65%	5%
South Carolina	2	7	1,975	1,200	637	61%	5%
Total	**9**	**21**	**$ 8,606**	**$ 5,673**	**$ 3,512**	**66%[(3)]**	**5%**

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

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

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

The following is a summary of our loan portfolio to builders for home construction loans as of December 31, 2013. Some of the Pennsylvania loans are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral [(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
New Jersey	1	1	186	130	84	70%	5%
Pennsylvania	1	2	1,825	1,220	204	67%	5%
Total	**2**	**3**	**$ 2,011**	**$ 1,350**	**$ 288**	**67%[(3)]**	**5%**

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

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

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

Credit Quality Information

The following table presents credit-related information at the “class” level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, the Company considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

The following table summarizes finance receivables by the risk ratings that regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Risk ratings are reviewed on a regular basis and are adjusted as necessary for updated information affecting the borrowers’ ability to fulfill their obligations.

The definitions of these ratings are as follows:

- Pass – finance receivables in this category do not meet the criteria for classification in one of the categories below.

- Special mention – a special mention asset exhibits potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.

- Classified – a classified asset ranges from: 1) assets that are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to 2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

Finance Receivables – By Classification:

	September 30, 2014	**December 31, 2013**
Pass	$ 7,029	$ 4,045
Special mention	503	–
Classified – accruing	–	–
Classified – nonaccrual	–	–
Total	$ 7,532	$ 4,045

Finance Receivables – Method of impairment calculation:

	September 30, 2014	**December 31, 2013**
Individually evaluated, but not impaired	$ 5,229	$ 3,972
Not individually evaluated	2,303	73
Total evaluated collectively for loan losses	$ 7,532	$ 4,045

At September 30, 2014 and December 31, 2013, there were no loans acquired with deteriorated credit quality, past due loans, impaired loans, or loans on nonaccrual status.

5. Borrowings

Affiliate Loans

In December 2011, the Company entered into two secured revolving lines of credit with affiliates, both of whom are members. These loans have an interest rate of the affiliates' cost of funds, which was 3.91% and 3.71% as of September 30, 2014 and December 31, 2013, respectively. They are demand notes. The maximum that can be borrowed under these notes is $1,500, at the discretion of the lenders. The actual amount borrowed was $0 as of both September 30, 2014 and December 31, 2013, leaving $1,500 in potential credit availability on those dates. There is no obligation of the affiliates to lend money up to the note amount. The security for the lines of credit includes all of the assets of the Company. The weighted average balance of affiliate borrowings outstanding was $36 and $587 for the nine months ended September 30, 2014 and 2013, respectively, and the interest expense was $1 and $17 for the same periods, respectively.

SF Loan

The SF Loan, under which we are the borrower, is an unsecured loan in the original principal amount of $1,500, of which $1,500 was outstanding on both September 30, 2014 and December 31, 2013. Interest on the SF Loan accrues annually at a rate of 5.0%. Payments of interest only are due on a monthly basis, with the principal amount due on the date that the BMH Loan and the New IMA Loan are paid in full. We may prepay the SF Loan in part or in full at any time without penalty, subject to the terms and conditions set forth in the underlying promissory note. Pursuant to the Credit Agreement, payments on the SF Loan are used to fund the interest escrow. Further, pursuant to the Amended and Restated Commercial Pledge Agreement by and between us, IMA and BMH, IMA has pledged its interest in the SF Loan as collateral for IMA's obligations under the New IMA Loan and the Existing IMA Loan. Management's intentions related to offsetting our payments of principal or interest against amounts due to us from the lender are undetermined; therefore, this amount has been presented on a gross basis on the consolidated balance sheets at September 30, 2014 and December 31, 2013.

Notes Program

Borrowings through our public offering were $4,596 and $1,739 at September 30, 2014 and December 31, 2013, respectively. The effective interest rate on the borrowings at September 30, 2014 and December 31, 2013 was 7.24% and 6.72%, respectively, not including the amortization of deferred financing costs. There are limited rights of early redemption. We generally offer four durations at any given time, ranging anywhere from 12 to 48 months. The following table shows the roll forward of our Notes program:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Notes outstanding, beginning of period	$ 1,739	$ 2	$ 2
Notes issued	2,906	1,737	799
Note repayments / redemptions	(49)	–	–
Notes outstanding, end of period	$ 4,596	$ 1,739	$ 801

The following table shows the maturity of outstanding Notes as of September 30, 2014.

Year Maturing	Amount Maturing
2014	$381
2015	164
2016	942
2017	762
2018	2,347
Total	$4,596

6. Members' Capital

There is currently one class of units (class A common units) with two members, both of whom have no personal liability. All members have voting rights in proportion to their capital account. There were 2,629 class A common units outstanding at both September 30, 2014 and December 31, 2013. There are two additional authorized unit classes: class A preferred units and class B profit units. Once class B profit units are issued, the existing class A common units will become class A preferred units. Class A preferred units will receive preferred treatment in terms of distributions and liquidation proceeds.

The members' capital balances by class are as follows:

Class	September 30, 2014	December 31, 2013
A Common Units	$ 2,009	$ 1,904
Members' Capital	$ 2,009	$ 1,904

7. Related Party Transactions

Notes and Accounts Payable to Affiliates

The Company has a loan agreement with two of our affiliates, as more fully described in Note 5 – *Affiliate Loans*.

The Company has a loan agreement with the Hoskins Group, as more fully described in Note 5 – *SF Loan*.

The Company has accepted new investments under the Notes program from employees, managers, members and relatives of managers and members, with $705 outstanding at September 30, 2014. The larger of these investments are detailed below:

Investor	Relationship to Shepherd's Finance	Amount invested as of September 30, 2014	December 31, 2013	Weighted average interest rate as of September 30, 2014	Interest earned during the nine month period ended September 30, 2014	Interest earned during the nine month period ended September 30, 2013
Bill Myrick	Independent Manager	$ 135	$ 63	7.22%	$ 6	$ –
R. Scott Summers	Son of Independent Manager	100	25	7.47%	4	–
Wallach Family Irrevocable Educational Trust	Trustee is Member	200	–	7.00%	4	–
David and Carole Wallach	Parents of Member	100	100	7.00%	6	2

8. Commitments and Contingencies

In the normal course of business there may be outstanding commitments to extend credit that are not included in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon and some of the funding may come from the earlier repayment of the same loan (in the case of revolving lines), the total commitment amounts do not necessarily represent future cash requirements. The financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Unfunded commitments to extend credit, which have similar collateral, credit risk and market risk to our outstanding loans, were $2,315 and $1,449 at September 30, 2014 and December 31, 2013, respectively.

In September 2013, the Company issued a Letter of Credit for $155 to a sewer authority relating to BMH Loan. Refer to the chart in Note 4 – *Commercial Loans – Real Estate Development Loan Portfolio Summary* for further details describing this commitment.

The property securing the BMH Loan is subject to a mortgage in the amount of $1,146, which is held by United Bank and guaranteed by 84 FINANCIAL, L.P. The subordinated mortgage balance is subtracted from the appraised value of the land in the land valuation detail of the Pennsylvania financing receivables at September 30, 2014 and December 31, 2013 in Note 4.

The property securing the New IMA Loan and the Existing IMA Loan, as described in Note 4, is subject to a mortgage in the amount of $1,290, which is held by an unrelated third party. In connection with the closing of the New IMA Loan and the Existing IMA Loan, the holder of this mortgage entered into an agreement to amend, restate and further subordinate such mortgage. This subordination agreement also provides that, in the event of a foreclosure on and liquidation of the property securing the New IMA Loan and the Existing IMA Loan, we are entitled to receive liquidation proceeds up to $2,225, which excludes the collateral securing the BMH Loan, at which point the holder of this mortgage is entitled to receive liquidation proceeds up to the amount necessary to satisfy its outstanding mortgage, and we are then entitled to any remainder of the liquidation proceeds. The subordinated mortgage balance is subtracted from the appraised value of the finished lots in the lot valuation in Note 4.

9. Subsequent Events

Management of the Company has evaluated subsequent events through November 5, 2014, the date these interim condensed consolidated financial statements were issued.

Under the Notes offering, the Company issued an additional $642 subsequent to September 30, 2014 and had redemptions of $15. The total debt issued and outstanding pursuant to the Notes offering as of November 5, 2014 is $5,223. Of the $5,223, $705 is from managers, members, and their respective affiliates.

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our interim condensed consolidated financial statements and the notes thereto contained elsewhere in this report. The following MD&A should also be read in conjunction with our audited annual consolidated financial statements and related notes and other consolidated financial data included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I.

Overview

Shepherd's Finance, LLC and subsidiaries (the "Company", "we" or "our") is a finance company that engages in commercial lending to residential homebuilders, financing construction of single family homes (construction loans) and residential development (acquisition and development loans). The loans are extended to residential homebuilders and, as such, are commercial loans.

The Company's primary sources of liquidity are the continued extension of Notes to the general public interest income and/or principal repayments related to the loans, as well as funds borrowed from affiliated creditors. The Notes to the general public are unsecured subordinated debt. On October 4, 2012 our public Notes offering was declared effective by the SEC, and, as of both September 30, 2014 and December 31, 2013, our offering was effective in 38 states. We currently have four sources of capital available: a secured line of credit from affiliates with balances due of $0 as of both September 30, 2014 and December 31, 2013, unsecured Notes through our Notes offering with balances of $4,596 and $1,739 as of the same periods, other unsecured debt with balances of $1,500 at both September 30, 2014 and December 31, 2013, and equity, which was $2,009 and $1,904 for the same periods, respectively. Eventually, we intend to replace the lines of credit from affiliates with secured debt from a bank or through other liquidity. Currently the secured lines of credit from affiliates are demand loans collateralized by a lien against all of our assets and are senior in right of payment to our Fixed Rated Subordinated Notes.

We had $7,532 and $4,045 in loan assets as of September 30, 2014 and December 31, 2013, respectively. Our loan to value (loan amount divided by collateral amount) for construction loans was 66% and 67%, and for development loans was 79% and 88% as of September 30, 2014 and December 31, 2013, respectively. We extended new funds of $5,333 and $2,308 during the nine months ended September 30, 2014 and 2013, respectively, and received principal paybacks of $1,735 and $2,671 during those same periods.

Critical Accounting Estimates

To assist in evaluating our interim condensed consolidated financial statements, we describe below the critical accounting estimates that we use. We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used, would have a material impact on our consolidated financial condition or results of operations.

Loan Losses

Nature of estimates required

Loan losses, as applicable, are accounted for both on the interim condensed consolidated balance sheets and the interim condensed consolidated statements of operations. On the interim condensed consolidated statements of operations, management estimates the amount of losses to capture during the current year. This current period amount incurred is referred to as the loan loss provision. The calculation of our allowance for loan losses, which appears on our interim condensed consolidated balance sheets, requires us to compile relevant data for use in a systematic approach to assess and estimate the amount of probable losses inherent in our commercial lending operations and to reflect that estimated risk in our allowance calculations. We use the policy summarized as follows:

We establish a collective reserve for all loans which are not more than 60 days past due at the end of a quarter. This collective reserve takes into account both historical information and a qualitative analysis of housing and other economic factors that may impact our future realized losses. For loans to one borrower with committed balances less than 10% of our total committed balances on all loans extended to all customers, we individually analyze for impairment all loans which are more than 60 days past due at the end of a quarter. For loans to one borrower with committed balances equal to or greater than 10% of our total committed balances on all loans extended to all customers, we individually analyze all loans for impairment. The analysis of loans, if required, includes a comparison of estimated collateral value to the principal amount of the loan. For impaired loans, if the value determined is less than the principal amount due (less any builder deposit), then the difference is included in the allowance for loan loss. As values change, estimated loan losses may be provided for more or less than the previous period, and some loans may not need a loss provision based on payment history. For homes which are partially complete, we appraise on an as-is and completed basis, and use the one that more closely aligns with our planned method of disposal for the property.

For loans that are individually evaluated for impairment, appraisals have been prepared within the last 13 months. There are also broker's opinions of value ("BOV") prepared, if the appraisal is more than six months old. The lower of any BOV prepared in the last six months, or appraisal done in the last 13 months, is used, unless we determine a BOV to be invalid based on the comparable sales used. If we determine a BOV to be invalid, we will use the appraised value. Appraised values are adjusted down for estimated costs associated with asset disposal.

Appraisers are state certified, and are selected by first attempting to utilize the appraiser who completed the original appraisal report. If that appraiser is unavailable or not affordable, we use another appraiser who appraises routinely in that geographic area. BOVs are created by real estate agents. We try to first select an agent we have worked with, and then, if that fails, we select another agent who works in that geographic area.

Amortization of Deferred Financing Costs

We amortize our deferred financing costs based on the effective interest method. As such, we make estimates for the duration of the future investment proceeds we anticipate receiving from our Notes offering. If this estimate is determined to be incorrect in the future, the rate at which we are amortizing the deferred financing costs as interest expense is adjusted.

Currently we anticipate a consistent average duration of 39 months for the Notes. An increasing average duration over the remaining anticipated length of the Notes offering would decrease the amount of amortization reflected in the next 12 months, and a decreasing average duration of investments over the remaining anticipated length would increase the amount reflected in the next 12 months.

Sensitivity analysis for average duration

Change in Anticipated Average Duration		**Resulting adjustment needed to Interest Expense during the next 12 months Higher/(Lower)**
Decreasing the average duration to 30 months for all remaining months of origination	$	28
Increasing the average duration to 48 months for all remaining months of origination	$	(21)

Accounting and Auditing Standards Applicable to "Emerging Growth Companies"

We are an "emerging growth company" under the recently enacted JOBS Act. For as long as we are an "emerging growth company," we are not required to: (1) comply with any new or revised financial accounting standards that have different effective dates for public and private companies until those standards would otherwise apply to private companies, (2) provide an auditor's attestation report on management's assessment of the effectiveness of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, (3) comply with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer or (4) comply with any new audit rules adopted by the PCAOB after April 5, 2012, unless the SEC determines otherwise. We intend to take advantage of such extended transition period. Since we will not be required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies, our consolidated financial statements may not be comparable to the financial statements of companies that comply with public company effective dates. If we were to subsequently elect to instead comply with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Consolidated Results of Operations

Key financial and operating data for the three and nine months ended September 30, 2014 and 2013 are set forth below. For a more complete understanding of our industry, the drivers of our business, and our current period results, this discussion should be read in conjunction with our condensed consolidated financial statements, including the related notes and the other information contained in this document and the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Below is a summary of our income statement for the following periods:

(in thousands of dollars)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest Income				
Interest and fee income on loans	$ 328	$ 169	$ 768	$ 445
Interest expense	131	51	280	114
Net interest income	197	118	488	331
Less: Loan loss provision	17	–	20	–
Net interest income	180	118	468	331
Non-Interest Expense				
Selling, general and administrative	87	77	286	331
Total non-interest expense	87	77	286	331
Net income (loss)	$ 93	$ 41	$ 182	$ –

Interest Spread

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

(in thousands of dollars)	For the Three Months Ended September 30, 2014		For the Three Months Ended September 30, 2013		For the Nine Months Ended September 30, 2014		For the Nine Months Ended September 30, 2013	
Interest Income		*		*		*		*
Interest income on loans	$ 188	10%	$ 93	8%	$ 432	9%	$ 253	7%
Fee income on loans	140	7%	76	6%	336	7%	192	6%
Interest and fee income on loans	328	17%	169	14%	768	16%	445	13%
Interest expense related parties	1	0%	5	0%	1	0%	17	0%
Interest expense unsecured	101	5%	30	3%	228	5%	72	2%
Amortization offering costs	29	2%	16	1%	51	1%	25	1%
Interest expense	131	7%	51	4%	280	6%	114	3%
Net interest income (spread)	197	10%	118	10%	488	10%	331	10%
Weighted average outstanding loan asset balance	$ 7,509		$ 4,730		$ 6,410		$ 4,548	

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

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

• ***Difference between the interest rate received (on our loan assets) and the interest rate paid (on our borrowings).*** The loans we have originated have interest rates which are based on our cost of funds, with a minimum cost of funds of 5%. The margin is fixed at 2%. Future loans are anticipated to be originated at approximately the same 2% margin. This component is also impacted by the lending of money with no interest cost (our equity). Our interest income was 10% and 8% for the three months ended September 30, 2014 and 2013, respectively. Our interest cost (expressed as a percentage of our loan assets) was 7% and 4% for the three months ended September 30, 2014 and 2013, respectively. These amounts are less than our actual borrowing rate, as some of the funds we lend are funded by equity that has no borrowing cost. The difference was 3% and 4% for each of the three month periods, respectively. We expect the relationship between interest income and expense for the remainder of 2014 to be generally consistent with the three month period ended September 30, 2014. Our interest income was 9% and 7% for the nine months ended September 30, 2014 and 2013, respectively. Our interest cost (expressed as a percentage of our loan assets) was 6% and 3% for the nine months ended September 30, 2014 and 2013 respectively. The difference was 3% and 4% for each of the nine month periods, respectively.

• ***Fee income.*** Fee income is displayed in the table above. Fee income as a percentage of loan assets increased from 6% in the nine months ended September 30, 2013 to 7% for the nine months ended September 30, 2014. The increase is due to a low percentage of outstanding vs. committed amounts on construction loans in the earlier part of 2014 and a higher mix of construction loans vs. development loans in 2014 as compared to 2013. Our construction loans yield a higher fee income percentage than our development loans because they tend to not be as fully funded, and the durations are shorter. In the future, we anticipate creating loans with fees ranging between 4 and 5% of the maximum loan amount.

• ***Amount of nonperforming assets.*** We had no nonperforming loan assets at September 30, 2014 and December 31, 2013. On September 30, 2014 and December 31, 2013, we carried cash balances of $202 and $722, respectively. The 2013 cash balance was mostly the result of us receiving a large amount of investment pursuant to our Notes offering late in the period, and such amount not having been used to fund loans to our customers before the end of the period. Low percentages of outstanding vs. committed construction loan balances also cause us to carry higher cash balances. The increase in the outstanding percentage on construction loans from 21% as of December 31, 2013 to 62% as of September 30, 2014 helped reduce our cash balance as of September 30, 2014. To mitigate the negative spread on unused borrowed funds (idle cash), we use our line of credit when possible to handle daily liquidity. We would like to have a secured line of credit with a credit limit of 20% of our loan assets, and generally carry a balance of 10% of our loan assets on that line. This way, as money comes in from Notes or loan payoffs, it can be used to pay down the line, and as money goes out for Note redemptions and new loans created, money can be drawn on the line. This would help reduce any negative spread on idle cash. We have unfunded loan commitments outstanding as of September 30, 2014 and December 31, 2013 of $2,315 and $1,449 respectively.

Loan Loss Provision

To date, we have not held any nonperforming loans and have incurred no loan loss charge offs; however, there is certain risk associated with lending activity and as such we can reasonably anticipate a loan loss in the future. We have recorded $17 and $20 in the three and nine month periods ended September 30, 2014 in loss reserve related to our collective reserve (loans not individually impaired), as compared to $0 for the same periods in 2013.

SG&A Expenses

The following table displays a comparison of our SG&A Expenses:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Selling, general and administrative expenses				
Legal and Accounting	$ 26	$ 23	$ 114	$ 122
Salaries and related expenses	27	19	65	53
Website / Management Information Systems	1	1	2	11
Board related expenses	18	19	56	57
Advertising	1	2	1	46
Rent and Utilities	5	5	13	11
Printing	2	2	10	11
Other	7	6	25	20
Total SG&A	$ 87	$ 77	$ 286	$ 331

We had reductions in the first nine months of 2014 compared to 2013 in legal and accounting costs and advertising. The reduction specifically in accounting is an efficiency savings. The decrease in advertising is a result of changing the methods we use to attract new investors. Website costs decreased due to the Company handling much of its website design itself, rather than hiring a third party. Payroll costs are higher due to bonuses and profit sharing. Other costs increased primarily due to an increase in travel costs. Printing costs are both for printing of investor related material and for the filing of documents electronically with the SEC.

The increase in SG&A cost in the third quarter 2014 as compared to the third quarter 2013 was due to increases in profit sharing and bonuses. We anticipate SG&A costs for the fourth quarter of 2014 to be similar to the third quarter of 2014.

Consolidated Financial Position

Cash and Cash Equivalents

We try to carry a small cash balance. At September 30, 2014 and December 31, 2013, we had $202 and $722, respectively in cash. When we create new loans, they typically do not have significant outstanding loan balances for several months. This ramping up of outstanding balances, as well as taking substantial investments at the end of the 2013 caused the cash balances we had at the end of that period.

Deferred Financing Costs, Net

Gross deferred financing costs were $718 and $669 as of September 30, 2014 and December 31, 2013, respectively. The accumulated amortization of those costs was $71 and $20 as of the same dates. Certain private offering costs of $11 were incurred in 2012, but because no funds were received from the private offering, the costs were written-off in the third quarter of 2013. We expect that the gross deferred financing amount will continue to increase over time as more of the anticipated financing costs are deferred when paid, and expensed over the life of the debt associated with the financing using the effective interest method. We also expect that the amortization expense and the accumulated amortization will increase in the fourth quarter of 2014.

The following is a roll forward of deferred financing costs:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Deferred financing costs, beginning balance	$ 669	$ 598	$ 598
Additions	49	82	73
Write-offs	–	(11)	(11)
Deferred financing costs, ending balance	$ 718	$ 669	$ 660
Less accumulated amortization	(71)	(20)	(16)
Deferred financing costs, net	$ 647	$ 649	$ 644

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

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Accumulated amortization, beginning balance	$ 20	$ 2	$ 2
Additions	51	18	14
Accumulated amortization, ending balance	$ 71	$ 20	$ 16

Loans Receivable

In December 2011, we originated two new loans and assumed a lender's position on a third loan, which, net of unearned loan fees, had total balances of $4,375 and $3,853 as of September 30, 2014 and December 31, 2013, respectively (these numbers do not include the construction loans mentioned below). These loans were all to third party borrowers that are affiliated with each other, and are cross-collateralized. No individual impairment has been deemed necessary for these loans. In April, July, September, and December 2013, and in March 2014, we entered into amendments to the Pennsylvania Loans. As a result of these amendments, Benjamin Marcus Homes, LLC ("BMH") was allowed to borrow for the construction of homes on lots 204, 205, and 206 of the Hamlets subdivision and lots 2 and 5 of the Tuscany subdivision, both located in a suburb of Pittsburgh, Pennsylvania, and to borrow for the purchase of lot 5 of the Hamlets subdivision. The construction loan for lot 5 of the Tuscany subdivision is for an amount up to $748, and the construction loan for lot 2 of the Tuscany subdivision is for an amount up to $660. Each of the construction loans is evidenced by a promissory note and is secured by a first mortgage on the home or homes financed under such loan. Each of the construction loans is subject to a loan fee of 5% of the full amount of the loan, and bears interest at a rate of our cost of funds plus 2%. Unlike the development loans extended pursuant to the Credit Agreement, the release prices paid for each of the lots securing the construction loans are not applied to fund the balance of the Interest Escrow established pursuant to the Credit Agreement, and interest on the construction loans is not paid from the Interest Escrow. The outstanding balance of the construction loans for lots 2 and 5 of the Tuscany subdivision is not included when calculating the amount outstanding pursuant to Section 2.05(f) of the Credit Agreement.

As a result of these amendments to the Credit Agreement, we also issued a letter of credit for $155 to a sewer authority relating to BMH Loan (the "Letter of Credit"), and we allowed a fully funded mortgage in the amount of $1,146 to be placed in superior position to our mortgage, with the $1,146 proceeds being used to reduce the balance of BMH's outstanding loan with us. We chose to allow the $1,146 pay down of our loan with a superior mortgage because: (1) it has allowed for the faster development of both the Hamlets and Tuscany subdivisions, decreasing the amount of risk time we will have; (2) it did not substantially alter the dollars we have at risk; and (3) it increased our return as a percentage of loan assets, as the Pennsylvania Loans should be paid down quicker. Also in our loans receivable balance is another loan to the same customer in a different subdivision (Windemere) with a balance net of unrecognized loan fee of $121 and $0 as of September 30, 2014 and December 31, 2013, respectively. This loan has a loan fee of 5% of the loan amount, and an interest rate of our cost of funds plus 2%. The collateral for the Windemere Loan is a lot.

We have other borrowers, all of whom borrow money for the purpose of building new homes.

Commercial Loans – Real Estate Development Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for land development as of September 30, 2014. The Pennsylvania loans below are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral[(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
Pennsylvania	1	3	$ 5,980	$ 4,893(3)	$ 4,738	79%	$1,000
Total	**1**	**3**	**$ 5,980**	**$ 4,893**	**$ 4,738**	**79%**	**$1,000**

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third party mortgage balances.

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

(3) The commitment amount includes a portion of the letter of credit which, when added to the current outstanding balance, is greater than the $4,750 maximum commitment amount per the Credit Agreement.

The following is a summary of our loan portfolio to builders for land development as of December 31, 2013. The Pennsylvania loans below are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral[(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
Pennsylvania	1	3	$ 5,275	$ 4,750	$ 4,364	83%	$1,000
Total	**1**	**3**	**$ 5,275**	**$ 4,750**	**$ 4,364**	**83%**	**$1,000**

(1) The value is determined by the appraised value adjusted for remaining costs to be paid and third party mortgage balances.

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

Commercial Loans – Construction Loan Portfolio Summary

The following is a summary of our loan portfolio to builders for home construction loans as of September 30, 2014. Some of the Pennsylvania loans are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral [(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
Colorado	1	2	$ 985	$ 672	$ 614	68%	5%
Georgia	1	3	520	433	215	83%	5%
Florida	1	2	680	384	217	56%	5%
Louisiana	1	2	1,230	861	583	70%	5%
New Jersey	1	1	390	273	182	70%	5%
Pennsylvania	2	4	2,826	1,850	1,064	65%	5%
South Carolina	2	7	1,975	1,200	637	61%	5%
Total	**9**	**21**	**$ 8,606**	**$ 5,673**	**$ 3,512**	**66%[(3)]**	**5%**

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

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

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

The following is a summary of our loan portfolio to builders for home construction loans as of December 31, 2013. Some of the Pennsylvania loans are included as part of the Pennsylvania Loans discussed above.

State	Number of Borrowers	Number of Loans	Value of Collateral [(1)]	Commitment Amount	Amount Outstanding	Loan to Value Ratio [(2)]	Loan Fee
New Jersey	1	1	186	130	84	70%	5%
Pennsylvania	1	2	1,825	1,220	203	67%	5%
Total	**9**	**21**	**$ 2,011**	**$ 1,350**	**$ 288**	**67%[(3)]**	**5%**

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

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

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

The following is a roll forward of commercial loans:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Beginning balance	$ 4,045	$ 3,604	$ 3,604
Additions	5,333	3,331	2,308
Payoffs/Sales	(1,735)	(2,992)	(2,671)
Change in builder deposit	(146)	(36)	(8)
Change in loan loss provision	(20)	–	–
New loan fees	(281)	(121)	(61)
Earned loan fees	336	259	193
Ending balance	$ 7,532	$ 4,045	$ 3,365

The loans created in 2011 had a $1,000 loan fee. The expenses incurred related to issuing the loan were approximately $76, which were netted against the loan amount. The remaining $924, which is netted against the gross loan amount, is being recognized over the expected life of the loans using the straight-line method in accordance with Accounting Standards Codification 310-20, *Nonrefundable Fees and Other Costs*. During 2013 and 2014, eight construction loans to the same customer were executed with $162 in loan fees, which fees are being recognized over the expected life of each advance. Income of $228 and $191 was recognized during the nine month periods ended September 30, 2014 and 2013, respectively. The effective annual rate on the loans for the nine month periods ended September 30, 2014 and 2013 was 14.72% and 13.09%, respectively. The aggregate unearned loan fee was $386 and $567 as of September 30, 2014 and December 31, 2013, respectively.

While the remaining balance of the unearned loan fee related to our existing loans will decline to $0 over the life of those loans, we expect total unearned loan fees to increase in the future along with our commercial lending program.

Below is an aging schedule of loans receivable as of September 30, 2014, on a recency basis:

	No. Accts.	Unpaid Balances	%
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	24	$ 7,532	100%
60-89 days	–	–	0%
90-179 days	–	–	0%
180-269 days	–	–	0%
Subtotal	24	$ 7,532	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	–	$ –	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. "Total received" to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	–	$ –	0%
Total	24	$ 7,532	100%

Below is an aging schedule of loans receivable as of September 30, 2014, on a contractual basis:

	No. Accts.	Unpaid Balances	%
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	24	$ 7,532	100%
60-89 days	–	–	0%
90-179 days	–	–	0%
180-269 days	–	–	0%
Subtotal	24	$ 7,532	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	–	$ –	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. "Total received" to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	–	$ –	0%
Total	24	$ 7,532	100%

Below is an aging schedule of loans receivable as of December 31, 2013, on a recency basis:

	No. Accts.	Unpaid Balances	%
Current loans (current accounts and accounts on which more than 50% of an original contract payment was made in the last 59 days)	6	$ 4,045	100%
60-89 days	–	–	0%
90-179 days	–	–	0%
180-269 days	–	–	0%
Subtotal	6	$ 4,045	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	–	$ –	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. "Total received" to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	–	$ –	0%
Total	6	$ 4,045	100%

Below is an aging schedule of loans receivable as of December 31, 2013, on a contractual basis:

	No. Accts.	Unpaid Balances	%
Contractual Terms - All current Direct Loans and Sales Finance Contracts with installments past due less than 60 days from due date.	6	$ 4,045	100%
60-89 days	–	–	0%
90-179 days	–	–	0%
180-269 days	–	–	0%
Subtotal	6	$ 4,045	100%
Interest only accounts (Accounts on which interest, deferment, extension and/or default charges were received in the last 60 days)	–	$ –	0%
Partial Payment accounts (Accounts on which the total received in the last 60 days was less than 50% of the original contractual monthly payment. "Total received" to include interest on simple interest accounts, as well as late charges on deferment charges on pre-computed accounts.)	–	$ –	0%
Total	6	$ 4,045	100%

Customer Interest Escrow

The Pennsylvania Loans called for a funded Interest Escrow account, which was funded with proceeds from the Pennsylvania Loans. The initial funding on that Interest Escrow was $450. The balance as of September 30, 2014 and December 31, 2013 was $121 and $255, respectively. To the extent the balance is available in the Interest Escrow, interest due on certain loans is deducted from the Interest Escrow on the date due. The Interest Escrow is increased by 10% of lot payoffs on the same loans, and by interest on the SF Loan. All of these transactions are noncash to the extent that the total escrow amount does not need additional funding. The Interest Escrow is also used to contribute to the reduction of the $400 subordinated mortgage upon certain lot sales of the collateral of that loan.

Nine other loans active as of September 30, 2014 also have interest escrows. The balance cumulative of those interest escrows was $96 and $0 as of September 30, 2014 and December 31, 2013, respectively.

Roll forward of interest escrow:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
Beginning balance	$ 255	$ 329	$ 329
+ SF Loan interest	56	75	56
+ Additions from lot payoffs	98	188	188
+ Additions from new loan closings	131	–	–
- Interest and fees	(323)	(325)	(242)
- Amount used to reduce $400 loan balance	–	(12)	(12)
Ending balance	$ 217	$ 255	$ 319

Notes Payable Unsecured

At the same time that we extended the Pennsylvania Loans in December 2011, we assumed a note payable to our borrowing customer for $1,500, which was the balance at both September 30, 2014 and December 31, 2013. This loan is unsecured and has the same priority as the Notes. It is also collateral for the loans we extended to this customer. In addition, we owed $4,596 and $1,739 in Notes payable under our Notes offering as of September 30, 2014 and December 31, 2013, respectively. We expect our Notes payable unsecured balance to increase as we raise funds in our Notes offering.

Notes Payable Related Party

In order to minimize the amount of idle cash on our balance sheet and maximize the loans receivable which create interest spread, we have two lines of credit from affiliates, which had a combined outstanding balance of $0 as of both September 30, 2014 and December 31, 2013. We had $1,500 available to us on the affiliate lines as of both September 30, 2014 and December 31, 2013, although there is no obligation of the affiliates to lend money up to the note amount. We intend to have a line of credit or multiple lines of credit in the future, and intend to eventually replace these lines from affiliates with lines from unrelated financial institutions. However, we can make no assurance that we will obtain a line of credit with an unrelated financial institution on favorable terms or at all.

Contractual Obligations

We currently have three notes outstanding outside of the public offering. The two notes to affiliates are demand notes established on December 30, 2011, with balances of $0 as of both September 30, 2014 and December 31, 2013, respectively. The third note is an unsecured note for $1,500, which is due at the time one of our customers repays its debt. The balance of this note has not changed since we became the borrower on December 30, 2011. As of September 30, 2014, Notes issued pursuant to the public offering have contractual due dates of:

Year Maturing	Amount Maturing
2014	$ 381
2015	164
2016	942
2017	762
2018	2,347
Total	$ 4,596

We are obligated to lend money to customers based on agreements we have with them. We do not always have the maximum amount obligated outstanding at any given time. The amount we have not loaned, but are obligated to lend, under certain conditions is a potential liquidity use. This amount was $2,315 as of September 30, 2014 and $1,449 as of December 31, 2013. See Note 8 of our interim condensed consolidated September 30, 2014 financial statements for more information on contractual obligations.

Liquidity and Capital Resources

Our operations are subject to certain risks and uncertainties, particularly related to the concentration of our current operations, the majority of which are to a single customer and geographic region, as well as the evolution of the current economic environment and its impact on the United States real estate and housing markets. Both the concentration of risk and the economic environment could directly or indirectly cause or magnify losses related to certain transactions and access to and cost of adequate financing.

The Company's anticipated primary sources of liquidity going forward are the continued extension of Notes to the general public, interest income and/or principal repayments related to the loans, as well as funds borrowed from affiliated creditors. Our public Notes offering, which allows us to borrow money, was declared effective by the SEC on October 4, 2012 and has been registered and declared effective in 38 states as of both September 30, 2014 and December 31, 2013. We began to advertise in March 2013 and received an aggregate of approximately $4,645 and $1,739 in Notes proceeds as of September 30, 2014 and December 31, 2013, respectively. We anticipate continuing our capital raising efforts during the remainder of 2014, focusing on the efforts that have proven fruitful. The Company's ability to fund its operations remains dependent upon the ability of our largest borrower, whose loan commitments represent 60% and 98% of our total outstanding loan commitments as of September 30, 2014 and December 31, 2013, respectively, to continue paying interest and/or principal and our ability to obtain additional financing, as needed, from the members, general public and other entities. The risk of our largest customer not paying interest is mitigated in the short term by having an interest escrow, which had a balance of $121 and $255 as of September 30, 2014 and December 31, 2013, respectively. While a default by this large customer could impact our cash flow and/or profitability in the long term, we believe that in the short term, a default might impact profitability, but not liquidity, as we are generally not receiving interest payments from the customer while he is performing (interest is being credited from his interest escrow).

We generated net income (loss) of $182 and $0 for the nine months ended September 30, 2014 and 2013 respectively. At September 30, 2014 and December 31, 2013, we had cash on hand of $202 and $722, respectively, and our outstanding debt totaled $6,096 and $3,239, respectively, which was unsecured. As of September 30, 2014 and December 31, 2013, the amount that we have not loaned, but are obligated to potentially lend to our customers based on our agreements with them, was $2,315 and $1,449, respectively. Our availability on our line of credit from our members was $1,500 as of both September 30, 2014 and December 31, 2013, although there is no obligation of the affiliates to lend money up to the note amount.

Our current plan is to expand the commercial lending program by using current liquidity and available funding (including funding from our Notes program). We have anticipated the costs of this expansion and the continuing costs of maintaining our public company status, and we anticipate generating, through normal operations, the cash flows and liquidity necessary to meet our operating, investing and financing requirements. As noted above, the two most significant factors driving our current plans are the continued payments of principal and/or interest by our largest borrower and the public offering of Notes. If actual results differ materially from our current plan or if expected financing is not available, we believe we have the ability and intent to obtain funding and generate net worth through additional debt or equity infusions of cash, if needed. There can be no assurance, however, that we will be able to implement our strategies or obtain additional financing under favorable terms, if at all.

Our business of borrowing money and re-lending it to generate interest spread is our primary use of capital resources. There are several risks in any financing company of this nature, and we will discuss significant risks here and how they relate to our Company and what, if any, mitigation techniques we have or may employ.

First, any financial institution needs to match the maturities of its borrowings with the maturities of its assets. The bulk of most financial institutions' borrowings are in the form of public investments or deposits. These generally have maturities that are either set periods of time, or upon the demand of the investor/depositor. The risk is that either obligations come due before funds are available to be paid out (a shortage of liquidity) or that funds are repaid before the obligation comes due (idle cash, as described herein). To mitigate these risks, we are not offering demand deposits (for instance, a checking account). Instead, we are offering Notes with varying maturities between one and four years, which we believe will be longer than the average life of the loans we will extend. However, we have the option to repay the Notes early if we wish without penalty. These items protect us against this risk of matching of debt and asset maturity.

Second, financial institutions must have daily liquidity on their debt side, to offset variations in loan balances on a daily basis. Borrowers can repay their Notes at any time, and they will request draws as they are ready for them. Further, construction loans are not funded 100% initially, so there are contractual obligations on the lender's part to fund loans in the future. Most financial institutions mitigate this risk by having a secured line of credit from the Federal Reserve Bank. We have the same risk from customer repayments and draws as banks, and we intend to mitigate this risk by obtaining a secured line of credit with a bank. Our current debt financing consists of the two demand loans from our members, the SF Loan, and our unsecured Notes from the public offering. The loan balance from our members on both September 30, 2014 and December 31, 2013 was $0. The loan balance from our public offering on September 30, 2014 and December 31, 2013 was $4,596 and $1,739, respectively. The loan balance on the SF Loan was $1,500 on both September 30, 2014 and December 31, 2013. If we are able to refinance the demand loans with a bank line of credit, we intend to maintain the outstanding balance on the line at approximately 10% of our committed loan amount. Failure to refinance the demand loans in the future with a larger bank line of credit may result in a lack of liquidity, or low loan production. Future lines of credit from banks will have expiration dates or be demand loans, which will have risks associated with those maturities.

Third, financial institutions have the risk of swings in market rates on borrowing and lending, which can make borrowing money to fund loans to their customers or fund their operations costly. The rates at which institutions can borrow are not necessarily tied to the rates at which they can lend. In our case, we are lending to customers using a rate which varies monthly with our cost of funds. So while we somewhat mitigate this risk, we are still open to the problem of, at the time of originating loans, wanting to originate new loans at a rate that would be profitable, but that rate not being competitive in the market. Lack of lending may cause us to repay Notes early and lose interest spread dollars, hurting our profitability and ability to repay.

We currently generate liquidity from (or may in the future):

- borrowings in the form of the demand loans from our members;
- proceeds from the Notes;
- repayments of loan receivables;
- interest and fee income;
- borrowings from lines of credit with banks (not in place yet);
- sale of property obtained through foreclosure (none to date); and
- other sources as we determine in the future.

We currently (or may in the future) use liquidity to:

- make payments on other borrowings, including loans from affiliates;
- pay Notes on their scheduled due date and Notes that we are required to redeem early;
- make interest payments on the Notes; and
- to the extent we have remaining net proceeds and adequate cash on hand, fund any one or more of the following activities:
  - to extend commercial construction loans to homebuilders to build single or multi-family homes or develop lots;
  - to make distributions to equity owners;
  - for working capital and other corporate purposes;
  - to purchase defaulted secured debt from financial institutions at a discount;
  - to purchase defaulted unsecured debt from suppliers to homebuilders at a discount and then secure it with real estate or other collateral;
  - to purchase real estate, in which we will operate our business; and
  - to redeem Notes which we have decided to redeem prior to maturity.

The Company's anticipated primary sources of liquidity going forward is the continued extension of Notes to the general public, interest income and principal repayments related to loans it extends, as well as funds borrowed from affiliated creditors. Therefore, the Company's ability to fund its operations is dependent upon these sources of liquidity.

Inflation, Interest Rates, and Housing Starts

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

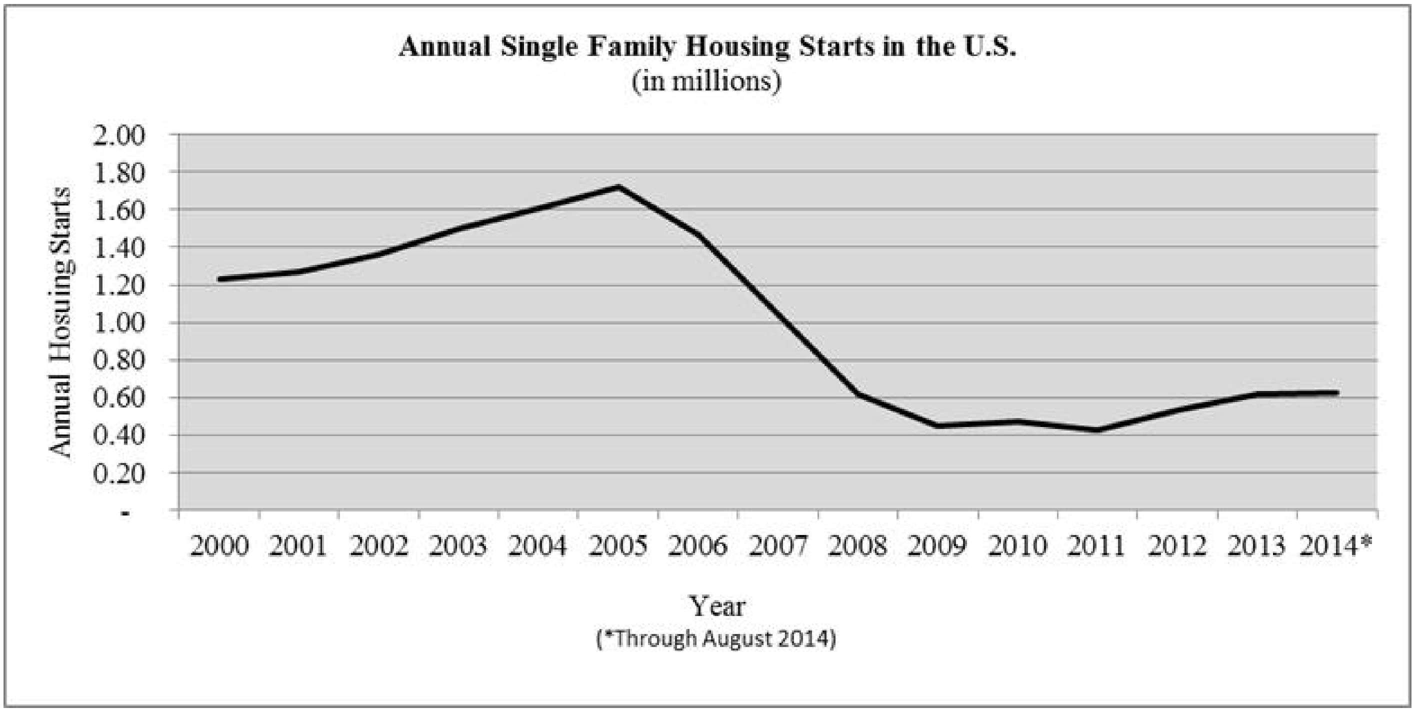
Housing inflation has a positive impact on our operations. When we lend initially, we are lending a percentage of a home's expected value, based on historical sales. If those estimates prove to be low (in an inflationary market), the percentage we loaned of the value actually decreases, reducing potential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

Interest rates have several impacts on our business. First, rates affect housing (starts, home size, etc.). High long term interest rates may decrease housing starts, having the effects listed above. Higher interest rates will also affect our investors. We believe that there will be a spread between the rate our Notes yield to our investors and the rates the same investors could get on deposits at FDIC insured institutions. We also believe that the spread may need to widen if these rates rise. For instance, if we pay 7% above average CD rates when CDs are paying 0.5%, when CDs are paying 3%, we may have to have a larger than 7% difference. This may cause our lending rates, which are based on our cost of funds, to be uncompetitive. High interest rates may also increase builder defaults, as interest payments may become a higher portion of operating costs the builder. Below is a chart showing average CD rates as reported by the Federal Reserve Board. The Board has stopped issuing this information in 2014, as rates are so low. We will monitor and update once the Federal Reserve Board begins to update again.

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Jan	3.363%	1.688%	1.132%	1.693%	3.674%	5.217%	5.145%	2.730%	0.488%	0.319%	0.313%	0.268%
Feb	3.077%	1.643%	1.113%	1.836%	3.837%	5.266%	4.958%	2.572%	0.407%	0.327%	0.315%	0.262%
Mar	2.828%	1.586%	1.098%	1.996%	3.996%	5.301%	4.748%	2.428%	0.337%	0.331%	0.316%	0.255%
Apr	2.607%	1.533%	1.085%	2.163%	4.158%	5.324%	4.543%	2.265%	0.288%	0.325%	0.321%	0.248%
May	2.423%	1.483%	1.083%	2.332%	4.318%	5.338%	4.323%	2.091%	0.278%	0.305%	0.328%	0.240%
Jun	2.263%	1.419%	1.118%	2.492%	4.483%	5.336%	4.108%	1.893%	0.288%	0.280%	0.336%	0.229%
Jul	2.107%	1.358%	1.162%	2.658%	4.640%	5.324%	3.898%	1.690%	0.293%	0.266%	0.341%	0.220%
Aug	1.961%	1.303%	1.212%	2.833%	4.774%	5.333%	3.673%	1.483%	0.295%	0.263%	0.338%	0.216%
Sep	1.868%	1.247%	1.277%	3.000%	4.897%	5.343%	3.517%	1.204%	0.298%	0.268%	0.331%	0.214%
Oct	1.820%	1.194%	1.355%	3.174%	4.997%	5.323%	3.453%	0.864%	0.300%	0.276%	0.319%	0.212%
Nov	1.767%	1.171%	1.451%	3.345%	5.081%	5.293%	3.236%	0.685%	0.305%	0.288%	0.304%	0.210%
Dec	1.726%	1.151%	1.563%	3.512%	5.153%	5.268%	2.965%	0.556%	0.312%	0.304%	0.283%	0.206%

Source: Derivation of Rates Reported by Federal Reserve Board-Copyright 2014 MoneyCafe.com (01/2002-06/2013) and Mortgage-X (07/2013-12/2013).

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



Source: U.S. Census Bureau

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable.

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

(a) None.

(b) We registered up to $700,000,000 in Fixed Rate Subordinated Notes in our public offering (SEC File No. 333-181360, effective October 4, 2012). As of September, 2014, we had issued $4,645,000 in Notes pursuant to our public offering. From October 4, 2012 through September 30, 2014, we incurred expenses of $281,000 in connection with the issuance and distribution of the Notes, which were paid to third parties. These expenses were not for underwriters or discounts, but were for advertising, printing, and professional services. Net offering proceeds as of September 30, 2014 were $4,364,000, 88% of which was used to increase loan balances, 1% of which reduced the secured debt from affiliates, and 11% went to increase cash available for loans.

(c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) During the quarter ended September 30, 2014, there was no information required to be disclosed in a report on Form 8-K which was not disclosed in a report on Form 8-K.

(b) During the quarter ended September 30, 2014, there were no material changes to the procedures by which members may recommend nominees to our board of managers.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

The following exhibits are included in this report on Form 10-Q for the period ended September 30, 2014 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Name of Exhibit
3.1	Certificate of Conversion, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, filed on May 11, 2012, Commission File No. 333-181360
3.2	Certificate of Formation, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, filed on May 11, 2012, Commission File No. 333-181360
3.3	Amended and Restated Operating Agreement, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, filed on May 11, 2012, Commission File No. 333-181360
4.1	Indenture Agreement (including Form of Note) dated October 4, 2012, incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K, filed on March 8, 2013, Commission File No. 333-181360
31.1*	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document
101.LAB**	XBRL Labels Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

* Filed herewith.

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

SIGNATURES

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

SHEPHERD'S FINANCE, LLC
(Registrant)

Dated: November 5, 2014

By: /s/ Daniel M. Wallach
Daniel M. Wallach
Chief Executive Officer and Manager

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Daniel M. Wallach, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Shepherd's Finance, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2014

By: /s/ Daniel M. Wallach
Daniel M. Wallach
Chief Executive Officer and Manager
(Principal Executive Officer and Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

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

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Shepherd's Finance, LLC, (the "Company"), in connection with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2014 (the "Report") hereby certifies, to his knowledge, that:

(i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2014

By: /s/ Daniel M. Wallach
Daniel M. Wallach
Chief Executive Officer and Manager
(Principal Executive Officer and Principal Financial Officer)