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

Form 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 28, 2020

Shepherd's Finance, LLC

(Exact name of registrant as specified in its charter)

Commission File Number: 333-224557

Delaware
(State or other jurisdiction
of incorporation)

36-4608739
(IRS Employer
Identification No.)

13241 Bartram Park Blvd., Suite 2401, Jacksonville, Florida 32258
(Address of principal executive offices, including zip code)

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

None.
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act (17 CFR 230.405) or Rule 12b-2 of the Exchange Act (17 CFR 240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 1.01. Entry into a Material Definitive Agreement.

On March 28, 2020, Shepherd's Finance, LLC (the "Registrant") entered into Amendment No. 2 to the Second Amended and Restated Limited Liability Company Agreement (the "Amendment") to provide for the election or reelection of managers of Registrant's board of managers for terms of one year, two years, three years, or for terms as otherwise approved by the Registrant's voting members.

The preceding description is qualified in its entirety by the Amendment attached as Exhibit 3.1 to this Current Report on Form 8-K (this "Form 8-K").

Item 7.01. Regulation FD Disclosure.

On March 31, 2020, the Registrant issued a press release discussing the Registrant's financial results for the year ended December 31, 2019 and the potential impact of the novel coronavirus (COVID-19) pandemic on the Registrant. A copy of the press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated herein solely for purposes of this Item 7.01 disclosure.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the information in this Item 7.01 disclosure, including Exhibit 99.1 and information set forth therein, is deemed to have been furnished and shall not be deemed to be "filed" under the Securities Exchange Act of 1934.

Item 8.01. Other Events.

The Registrant faces risks related to COVID-19, which has caused significant disruptions to the economy. In December 2019, COVID-19 emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally, including in the United States and in all of the markets in which the Registrant lends. The Registrant's operating results depend significantly on the homebuilding industry.

As a result of the potential impact of COVID-19 and based on the Registrant's expectation that home values will likely decrease in the near future, the Registrant suspended originations of new loans in order to maintain liquidity and preserve financial flexibility. As of March 26, 2020, the Registrant has approximately \$15 million in unfunded commitments to builders. The Registrant told all of its borrowers that it will fund all loans where the underlying home is already under construction, and has advised them to build as quickly as possible to bring the homes on the market as soon as possible. For loans where the borrower has not yet begun construction of the underlying home, the Registrant has told the borrowers that the Registrant will not fund construction and they should therefore not start construction. As a result of these actions, the Registrant expects unfunded commitments to be reduced to approximately \$10 million. The Registrant expects to fund some of the unfunded commitment using its secured debt. The Registrant expects that the suspension of originations of new loans will last at least until the end of May 2020, at which time the Registrant expects to reevaluate its policies in this respect.

As of March 27, 2020, the Registrant has over \$3 million in cash on hand, which is higher than the Registrant's average cash on hand. The Registrant has received approximately \$5 million from loans that were paid off in March 2020, which is a higher amount of payoffs than usual. The Registrant utilized a portion of that amount to pay back secured lenders, a portion to fund construction on current loans, and a portion to pay back some investors in accordance with their note terms. The Registrant's top priorities are paying its investors principal and interest in accordance with the terms of such investments, and funding the partially built homes in accordance with the Registrant's lending agreements.

The Registrant's business, financial condition, liquidity, results of operations, and prospects could be adversely impacted by COVID-19, including the Registrant's ability to repay its Notes. The ultimate extent of the impact of the COVID-19 outbreak on the Registrant's business, financial condition, liquidity, results of operations, and prospects will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 outbreak and the actions to contain or treat its impact, among others.

Forward Looking Statements

This Form 8-K may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements can generally be identified by the Registrant's use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from the expectations, intentions, beliefs, plans, or predictions of the future expressed or implied by such forward-looking statements. The Registrant undertakes no obligation to update these statements following the date of this Form 8-K, except as required by law. In addition, the Registrant, through its senior management, may make from time to time forward-looking public statements concerning the matters described herein. Such forward-looking statements are necessarily estimates reflecting the best judgment of the Registrant's senior management based upon current information and involve a number of risks and uncertainties. Certain factors that could affect the accuracy of such forward-looking statements are identified in the public filings made by the Registrant with the Securities and Exchange Commission, and forward-looking statements contained in this Form 8-K or in other public statements of the Registrant or its senior management should be considered in light of those factors.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

- 3.1 [Amendment No. 2 to the Second Amended and Restated Limited Liability Company Agreement of Shepherd's Finance, LLC](#)
 - 99.1 [Shepherd's Finance, LLC Press Release, dated March 31, 2020](#)
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Signature(s)

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 hereunto duly authorized.

SHEPHERD'S FINANCE, LLC

Date: March 31, 2020

By: */s/ Daniel M. Wallach*

Daniel M. Wallach

Chief Executive Officer and Manager

**AMENDMENT NO. 2
TO THE
SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT
OF
SHEPHERD'S FINANCE, LLC**

In accordance with Section 14.09 of the Second Amended and Restated Limited Liability Company Agreement, effective as of March 16, 2017, as amended (the “**Operating Agreement**”), of Shepherd’s Finance, LLC, a Delaware limited liability company (the “**Company**”), the Operating Agreement is hereby amended by this Amendment No. 2 (this “**Amendment**”). Capitalized terms used and not otherwise defined in this Amendment shall have the meanings set forth in the Operating Agreement.

The parties to this Amendment hereby agree as follows:

A. Amendment to § 8.02(a). Section 8.02(a) of the Operating Agreement is hereby replaced in its entirety with the following:

(a) The Company and the Members shall take such actions as may be required to ensure that the Board at all times consists of at least three Managers. The Managers shall be elected by the Voting Members to staggered terms of one year, two years, or three years each, or such other period of time, as set forth in the resolutions of the Voting Members upon such elections. The Board or Members holding at least a majority of the votes eligible to be cast by the then-outstanding Voting Units may increase or decrease the number of Managers from time to time, provided that no such decrease would terminate or shorten the term of office of any Manager then in office. At all times, a majority of the Managers must be persons who qualify as an “independent director” under NYSE Listed Company Manual Section 303A.02 (the “**Independent Managers**”).

B. Continuation of Operating Agreement. The Operating Agreement and this Amendment shall be read together and shall have the same force and effect as if the provisions of the Operating Agreement and this Amendment were contained in one document. Any provisions of the Operating Agreement not amended by this Amendment shall remain in full force and effect as provided in the Operating Agreement immediately prior to the date hereof. In the event of a conflict between the provisions of this Amendment and the Operating Agreement, the provisions of this Amendment shall control.

C. Governing Law. All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Amendment shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any jurisdiction other than those of the State of Delaware.

D. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail, or other means of Electronic Transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment. The signature pages to this Amendment shall be deemed and may be used as counterpart signature pages to the Operating Agreement.

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties to this Amendment have executed this Amendment effective as of March 28, 2020.

THE COMPANY:

Shepherd's Finance, LLC

By: /s/ Daniel M. Wallach

Daniel M. Wallach, Chief Executive Officer

THE MEMBERS (COMMON):

Daniel M. Wallach and Joyce S. Wallach

/s/ Daniel M. Wallach

Daniel M. Wallach

/s/ Joyce S. Wallach

Joyce S. Wallach

2007 Daniel M. Wallach Legacy Trust

By: /s/ Daniel M. Wallach

Daniel M. Wallach, Trustee

Eric A. Rauscher

/s/ Eric A. Rauscher

William Myrick

/s/ William Myrick

Kenneth R. Summers

/s/ Kenneth R. Summers

Barbara L. Harshman

/s/ Barbara L. Harshman



Shepherd's Finance, LLC Reports 2019 Results

JACKSONVILLE, FL – March 31, 2020 (GLOBE NEWSWIRE) – Shepherd's Finance, LLC ("Shepherd's," the "Company," "we," or "our") announced its operating results for the year ended December 31, 2019.

2019 Financial Highlights

- *Loan Growth* – Loans receivable, net increased approximately \$8.9 million, or 19.1%, to approximately \$55.4 million as of December 31, 2019, compared to approximately \$46.5 million as of December 31, 2018.
- *Interest and Fee Income Growth* – Interest and fee income on loans increased approximately \$2.4 million, or 30.5%, to \$10.1 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. The growth resulted from an increase in loan balances and an increase in interest rates from 2% to 3% starting with new loans originated in the third quarter of 2018.
- *Net Income* – Net income increased approximately \$0.3 million, or 51.8%, to \$1.0 million for the year ended December 31, 2019 compared to the year ended December 31, 2018.

The Chief Executive Officer of Shepherd's, Daniel M. Wallach, commented: "Through the end of April 2019 we had experienced a great deal of growth in new loan balances; however, we lowered originations beginning in May 2019 to ensure we had ample liquidity to cover our unfunded commitments. We intend to increase originations in 2020 once the housing market has settled from the COVID-19 virus. Until then, we are not originating new loans. In addition, we also focused on our nonperforming loan and foreclosed asset balances." Mr. Wallach continued to state, "We significantly decreased our foreclosed assets which negatively impacted our net income results for the year."

Results of Operations

- Net interest income after loan loss provision increased approximately \$0.9 million, or 25.5%, to \$4.4 million for year ended December 31, 2019, compared to the year ended December 31, 2018. The increase was primarily due to higher weighted average outstanding loan balances of \$53.3 million for the year ended December 31, 2019, compared to \$41.3 million for the year ended December 31, 2018. The increase was partially offset by an additional increase of interest in both our secured and unsecured borrowing, which resulted in an average cost of funds of 10.81% for the year ended December 31, 2019 compared to 10.06% for the year ended December 31, 2018.
 - Non-interest income was \$0.2 million and less than \$0.1 million for the years ended December 31, 2019 and 2018, respectively. The increase resulted from the reclass of seven assets from loans receivable, net to foreclosed assets as of December 31, 2019 compared to the year ended December 31, 2018.
 - Non-interest expense increased approximately \$0.6 million, or 21.5%, to \$3.3 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase in non-interest expense related primarily to an increase in selling, general and administrative expenses for salaries and related expenses which increased \$364,000, or 17.9%, to \$2.4 million for the year ended December 31, 2019 compared to the year ended December 31, 2018.
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Balance Sheet Management

- We had approximately \$1.9 million in cash as of December 31, 2019 compared to approximately \$1.4 million as of December 31, 2018.
- Loans receivable, net totaled approximately \$55.4 million as of December 31, 2019 compared to approximately \$46.5 million as of December 31, 2018. As of December 31, 2019, loans receivable, net included approximately \$1.5 million of impaired loans compared to approximately \$2.5 million as of December 31, 2018. As of December 31, 2019, we had a total of four impaired construction loans compared to 23 as of December 31, 2018.
- Foreclosed assets totaled approximately \$4.9 million as of December 31, 2019 compared to approximately \$6.0 million as of December 31, 2018. Foreclosed assets decreased approximately \$1.1 million as of December 31, 2019 compared to the year ended December 31, 2018 due primarily to the sale of our largest foreclosed asset with sale proceeds of approximately \$4.5 million, which was offset by the addition of 27 loans reclassified from loans receivable, net for approximately \$3.4 million. Of the 27 new foreclosed assets, 26 that were reclassified in 2019 were the result of the death of two separate borrowers.
- Notes payable unsecured, net totaled approximately \$26.5 million as of December 31, 2019 compared to approximately \$22.6 million as of December 31, 2018. A significant portion of our notes payable unsecured, net was from our public notes offerings, constituting approximately \$20.3 million and \$17.1 million as of December 31, 2019 and December 31, 2018, respectively.
- Notes payable secured, net totaled approximately \$27.0 million as of December 31, 2019 compared to approximately \$23.3 million as of December 31, 2018. The increase resulted primarily from higher balances on our loan purchase and sale agreements of approximately \$8.0 million as of December 31, 2019 compared to the year ended December 31, 2018. The increase in notes payable secured, net was offset by the payoff of our line of credit with London Financial of approximately \$3.5 million using proceeds from the sale of our largest foreclosed asset.

Interest Rates for the Subordinated Notes Program - Shepherd's offers the following interest rates for its public notes offering, effective as of March 13, 2020:

<u>Maturity (Duration)</u>	<u>Annual Interest Rate</u>	<u>Annual Effective Yield (i)</u>	<u>Effective Yield to Maturity (ii)</u>
12 Months	7.00%	7.23%	7.23%
24 Months	9.00%	9.38%	19.64%
36 Months	5.00%	5.12%	16.15%
48 Months	10.00%	10.47%	48.94%

- (i) The Annual Effective Yield is determined by taking the Annual Interest Rate as a decimal and dividing it by 12 for a monthly rate, then taking that rate plus 1 and multiplying that by itself 11 more times, then subtracting the one back off and converting back to a percentage. For instance, for an Annual Interest Rate of 7.00%, we take .07/12 which is 0.0058 plus 1 which is 1.0058, and then multiply 1.0058 by itself 11 more times which yields 1.0723, then subtracting off the 1, leaving 0.0723, and finally converting to a percentage, which gives us an Annual Effective Yield of 7.23%.
- (ii) The Effective Yield to Maturity is determined by taking the Annual Interest Rate as a decimal and dividing it by 12 for a monthly rate, then taking that rate plus 1 and multiplying that by itself by (the total number of months of the investment minus one) times, then subtracting the one back off and converting back to a percentage. For instance, for a 48 month investment with an Annual Interest Rate of 10.00%, we take .10/12 which is 0.0083333 plus 1 which is 1.0083333, and then multiply 1.0083333 by itself 47 more times which yields 1.4894, then subtracting off the 1, leaving 0.4894, and finally converting to a percentage, which gives us an Effective Yield To Maturity of 48.94%.

About Shepherd's Finance, LLC

Shepherd's Finance, LLC is headquartered in Jacksonville, Florida and is focused on commercial lending to participants in the residential construction and development industry. As of December 31, 2019, Shepherd's Finance, LLC had approximately \$55.4 million in loan assets with 250 construction and development loans in 21 states with 70 borrowers. For more information, please visit <http://www.shepherdsfinance.com>.

Forward Looking Statements

This press release may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from the expectations, intentions, beliefs, plans, or predictions of the future expressed or implied by such forward-looking statements. The Company undertakes no obligation to update these statements following the date of this press release, except as required by law. In addition, the Company, through its senior management, may make from time to time forward-looking public statements concerning the matters described herein. Such forward-looking statements are necessarily estimates reflecting the best judgment of the Company's senior management based upon current information and involve a number of risks and uncertainties. Certain factors that could affect the accuracy of such forward-looking statements are identified in the public filings made by the Company with the Securities and Exchange Commission, and forward-looking statements contained in this press release

or in other public statements of the Company or its senior management should be considered in light of those factors. This is neither an offer nor a solicitation to purchase securities.

Shepherd's Finance, LLC
Consolidated Balance Sheets
As of December 31, 2019, and 2018

(in thousands of dollars)

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,883	\$ 1,401
Accrued interest receivable	1,031	568
Loans receivable, net	55,369	46,490
Foreclosed assets	4,916	5,973
Premises and equipment	936	1,051
Other assets	202	327
Total assets	<u>\$ 64,337</u>	<u>\$ 55,810</u>
Liabilities and Members' Capital		
Customer interest escrow	\$ 643	\$ 939
Accounts payable and accrued expenses	466	724
Accrued interest payable	2,533	2,140
Notes payable secured, net of deferred financing costs	26,991	23,258
Notes payable unsecured, net of deferred financing costs	26,520	22,635
Due to preferred equity member	37	32
Total liabilities	<u>\$ 57,190</u>	<u>\$ 49,728</u>
Commitments and Contingencies (Note 10)		
Redeemable Preferred Equity		
Series C preferred equity	\$ 2,959	\$ 2,385
Members' Capital		
Series B preferred equity	1,470	1,320
Class A common equity	2,718	2,377
Members' capital	<u>\$ 4,188</u>	<u>\$ 3,697</u>
Total liabilities, redeemable preferred equity and members' capital	<u>\$ 64,337</u>	<u>\$ 55,810</u>

Shepherd's Finance, LLC
Consolidated Statements of Operations
For the years ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Net Interest Income		
Interest and fee income on loans	\$ 10,131	\$ 7,764
Interest expense:		
Interest related to secured borrowings	2,948	2,114
Interest related to unsecured borrowings	2,832	2,182
Interest expense	\$ 5,780	\$ 4,296
Net interest income	4,351	3,468
Less: Loan loss provision	222	89
Net interest income after loan loss provision	4,129	3,379
Non-Interest Income		
Gain on foreclosure of assets	\$ 203	\$ 19
Total non-interest income	203	19
Income	4,332	3,398
Non-Interest Expense		
Selling, general and administrative	\$ 2,394	\$ 2,030
Depreciation and amortization	92	82
Loss on the sale of foreclosed assets	274	103
Impairment loss on foreclosed assets	558	515
Total non-interest expense	3,318	2,730
Net income	\$ 1,014	\$ 668
Earned distribution to preferred equity holder	457	292
Net income attributable to common equity holders	\$ 557	\$ 376