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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2017

OR

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

For the transition period from ________ to __________

Commission file number 000-54957

OWENS REALTY MORTGAGE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	46-0778087
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2221 Olympic Boulevard Walnut Creek, California	94595
(Address of Principal Executive Offices)	(Zip Code)

(925) 935-3840
Registrant's Telephone Number, Including Area Code

NOT APPLICABLE
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 3, 2017
Common Stock, $.01 par value	10,041,938 shares

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

OWENS REALTY MORTGAGE, INC.
Consolidated Balance Sheets
(UNAUDITED)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 24,368,069	$ 434,243
Restricted cash	3,500,000	6,500,000
Loans, net of allowance for loan losses of $2,138,356 in 2017 and $2,706,822 in 2016	134,916,587	126,975,489
Interest and other receivables	2,264,324	2,164,335
Other assets, net of accumulated depreciation and amortization of $296,015 in 2017 and $251,729 in 2016	827,459	803,676
Deferred financing costs, net of accumulated amortization of $225,041 in 2017 and $107,744 in 2016	67,059	171,855
Deferred tax assets, net	5,159,150	7,248,977
Investment in limited liability company	2,187,803	2,140,482
Real estate held for sale	56,808,874	75,843,635
Real estate held for investment, net of accumulated depreciation of $3,135,917 in 2017 and $3,151,427 in 2016	25,559,767	37,279,763
Total assets	$ 255,659,092	$ 259,562,455
LIABILITIES AND EQUITY		
LIABILITIES:		
Dividends payable	$ 1,012,782	$ 1,402,496
Due to Manager	334,648	360,627
Accounts payable and accrued liabilities	1,737,443	3,699,859
Deferred gain on sale of real estate	209,662	209,662
Lines of credit payable	—	4,976,000
Notes and loans payable on real estate	29,780,790	33,385,934
Total liabilities	33,075,325	44,034,578
Commitments and Contingencies (Note 14)		
EQUITY:		
Stockholders' equity:		
Preferred stock, $.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2017 and December 31,2016	—	—
Common stock, $.01 par value per share, 50,000,000 shares authorized, 11,198,119 shares issued, 10,063,913 and 10,247,477 shares outstanding at September 30, 2017 and December 31, 2016	111,981	111,981
Additional paid-in capital	182,437,522	182,437,522
Treasury stock, at cost – 1,134,206 and 950,642 shares at September 30, 2017 and December 31, 2016	(16,049,176)	(12,852,058)
Retained earnings	56,083,440	45,830,432
Total stockholders' equity	222,583,767	215,527,877
Total liabilities and equity	$ 255,659,092	$ 259,562,455

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

OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Income
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Interest income on loans	$ 2,963,394	$ 2,256,816	$ 8,151,798	$ 6,495,836
Rental and other income from real estate properties	1,265,961	2,191,357	3,392,168	6,782,758
Other income	48,138	45,804	138,222	133,114
Total revenues	4,277,493	4,493,977	11,682,188	13,411,708
Expenses:				
Management fees to Manager	827,281	808,247	2,781,474	2,398,911
Servicing fees to Manager	93,179	73,477	270,834	218,083
General and administrative expense	510,574	338,696	1,540,260	1,242,040
Rental and other expenses on real estate properties	1,251,217	2,045,722	3,890,536	5,885,029
Depreciation and amortization	302,925	305,105	916,668	958,025
Interest expense	471,942	960,861	1,120,917	2,649,616
(Recovery of) provision for loan losses	(396,980)	(38,966)	(221,700)	347,029
Impairment losses on real estate properties	367,831	1,094,071	649,457	3,204,221
Total expenses	3,427,969	5,587,213	10,948,446	16,902,954
Operating income (loss)	849,524	(1,093,236)	733,742	(3,491,246)
Gain on sales of real estate, net	582,496	20,195,367	14,460,030	25,034,182
Net income before income taxes	1,432,020	19,102,131	15,193,772	21,542,936
Income tax (expense) benefit	(1,275,700)	260,848	(2,089,827)	7,629,683
Net income	156,320	19,362,979	13,103,945	29,172,619
Less: Net income attributable to non-controlling interests	—	(3,630,318)	—	(3,586,963)
Net income attributable to common stockholders	$ 156,320	$ 15,732,661	$ 13,103,945	$ 25,585,656
Per common share data:				
Basic and diluted earnings per common share	$ 0.02	$ 1.54	$ 1.28	$ 2.50
Basic and diluted weighted average number of common shares outstanding	10,173,448	10,247,477	10,222,529	10,247,477
Dividends declared per share of common stock	$ 0.10	$ 0.08	$ 0.28	$ 0.24

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

OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2017 and 2016
(UNAUDITED)

	Common Stock		Additional	Treasury Stock		Retained	Total	Non-	Total
	Shares	Amount	Paid-in Capital	Shares	Amount	Earnings	Stockholders' Equity	controlling Interests	Equity
Balances, December 31, 2015	11,198,119	$ 111,981	$ 182,437,522	(950,642)	$ (12,852,058)	$ 25,282,553	$ 194,979,998	$ 4,528,849	$ 199,508,847
Net income	—	—	—	—	—	25,585,656	25,585,656	3,586,963	29,172,619
Dividends declared	—	—	—	—	—	(2,459,394)	(2,459,394)	—	(2,459,394)
Contribution from non-controlling interest	—	—	—	—	—	—	—	44,207	44,207
Distributions to non-controlling interests	—	—	—	—	—	—	—	(8,127,335)	(8,127,335)
Balances, September 30, 2016	11,198,119	$ 111,981	$ 182,437,522	(950,642)	$ (12,852,058)	$ 48,408,815	$ 218,106,260	$ 32,684	$ 218,138,944
Balances, December 31, 2016	11,198,119	$ 111,981	$ 182,437,522	(950,642)	(12,852,058)	$ 45,830,432	$ 215,527,877	$ —	$ 215,527,877
Net income	—	—	—	—	—	13,103,945	13,103,945	—	13,103,945
Dividends declared	—	—	—	—	—	(2,850,937)	(2,850,937)	—	(2,850,937)
Purchase of treasury stock	—	—	—	(183,564)	(3,197,118)	—	(3,197,118)	—	(3,197,118)
Balances, September 30, 2017	11,198,119	$ 111,981	$ 182,437,522	(1,134,206)	$ (16,049,176)	$ 56,083,440	$ 222,583,767	$ —	$ 222,583,767

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

OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Cash Flows
(UNAUDITED)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,103,945	$ 29,172,619
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sales of real estate, net	(14,460,030)	(25,034,182)
Deferred income tax expense (benefit)	2,089,827	(7,629,683)
Income from investment in limited liability company	(137,321)	(133,114)
(Recovery of) provision for loan losses	(221,700)	347,029
Impairment losses on real estate properties	649,457	3,204,221
Depreciation and amortization of real estate and related assets	916,668	958,025
Amortization of deferred financing costs to interest expense	218,131	413,612
Changes in operating assets and liabilities:		
Interest and other receivables	(72,989)	(422,026)
Other assets	(51,899)	(476,830)
Accounts payable and accrued liabilities	(2,168,626)	(1,891,375)
Due to Manager	(25,979)	(87,192)
Net cash used in operating activities	(160,516)	(1,578,896)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal collected on loans	47,258,022	41,563,690
Investments in loans	(55,004,420)	(49,373,485)
Investment in real estate properties	(10,390,293)	(17,388,416)
Net proceeds from disposition of real estate properties and other assets	54,365,711	85,734,829
Purchases of furniture, fixtures and equipment	(16,170)	(29,887)
Transfer from restricted cash, net	3,000,000	725,371
Distribution received from investment in limited liability company	90,000	87,000
Net cash provided by investing activities	39,302,850	61,319,102
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on notes payable	10,091,209	16,117,737
Repayments on notes payable	(13,873,448)	(33,384,892)
Advances on lines of credit	16,300,000	62,972,415
Repayments on lines of credit	(21,276,000)	(83,887,915)
Payment of deferred financing costs	(12,500)	(254,582)
Distributions to non-controlling interests	—	(8,127,335)
Contributions from non-controlling interest	—	44,207
Purchase of treasury stock	(3,197,118)	—
Dividends paid	(3,240,651)	(3,773,051)
Net cash used in financing activities	(15,208,508)	(50,293,416)
Net increase in cash and cash equivalents	23,933,826	9,446,790
Cash and cash equivalents at beginning of period	434,243	1,255,842
Cash and cash equivalents at end of period	$ 24,368,069	$ 10,702,632
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (excluding amounts capitalized)	$ 927,708	$ 2,297,766
Cash paid during the period for interest that was capitalized	472,357	317,153
Supplemental Disclosures of Non-Cash Activity		
Increase in real estate from loan foreclosures	$ —	$ 700,800

Decrease in loans, net of allowance for loan losses, from loan foreclosures	—	(631,232)
Decrease in interest and other receivables from loan foreclosures	—	(69,568)
Capital expenditures financed through accounts payable	(206,210)	(3,450,656)
Deferred financing costs paid from construction loan	—	399,558
Amortization of deferred financing costs capitalized to construction project	(76,260)	(69,526)
Dividends declared but not paid	(1,012,782)	(819,798)

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

NOTE 1 – ORGANIZATION

Owens Realty Mortgage, Inc. (the "Company") was incorporated on August 9, 2012, under the laws of the State of Maryland. The Company is authorized to issue 50,000,000 shares of its $0.01 par value common stock ("Common Stock"). In addition, the Company is authorized to issue 5,000,000 shares of preferred stock at $0.01 par value per share. The Company was created to effect the merger (the "Merger") of Owens Mortgage Investment Fund, a California Limited Partnership ("OMIF") with and into the Company as described in the Registration Statement on Form S-4, as amended, of the Company, declared effective on February 12, 2013 (File No. 333-184392). The Merger was part of a plan to reorganize the business operations of OMIF so that it could elect to qualify as a real estate investment trust for Federal income tax purposes. The Merger was approved by OMIF limited partners on April 16, 2013 and was completed on May 20, 2013.

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with the Company's taxable year ended December 31, 2012. As a REIT, the Company is permitted to deduct distributions made to its stockholders, allowing its operating income represented by such distributions to avoid taxation at the entity level and to be taxed generally only at the stockholder level. The Company currently intends to distribute substantially all of its REIT taxable income, excluding net capital gains. As a REIT, however, the Company is subject to separate, corporate-level tax, including potential 100% penalty taxes under various circumstances, as well as certain state and local taxes. In addition, the Company's taxable REIT subsidiaries are subject to full corporate income tax. Furthermore, the Company's ability to continue to qualify as a REIT will depend upon its continuing satisfaction of various requirements, such as those related to the diversity of its stock ownership, the nature of its assets, the sources of its income and the distributions to its stockholders, including a requirement that the Company distribute to its stockholders at least 90% of its REIT taxable income on an annual basis (determined without regard to the dividends paid deduction and by excluding net capital gain).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of the management of the Company, the accompanying unaudited financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial information included therein. Certain information and footnote disclosures presented in the annual consolidated financial statements are not included in these interim financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Form 10-K of ORM for the year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC") on March 15, 2017. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the operating results to be expected for the full year ending December 31, 2017. The Company evaluates subsequent events up to the date it files its Form 10-Q with the SEC.

Basis of Presentation

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned taxable REIT subsidiaries ("TRSs") and its majority- and wholly-owned limited liability companies. The Company is in the business of providing mortgage lending services and manages its business as one operating segment. Due to foreclosure activity, the Company also owns and manages real estate assets.

Certain reclassifications, not affecting previously reported net income or total stockholders' equity, have been made to the previously issued consolidated financial statement balances to conform to the current period presentation.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates are inherently imprecise and actual results could differ significantly from such estimates.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-01, "Business Combinations (Topic 805) – Clarifying the Definition of a Business", or ASU 2017-01. The amendments in ASU 2017-01 clarify the definition of a business by more clearly outlining the requirements for an integrated set of assets and activities to be considered a business and by establishing a practical framework to determine when the integrated set of assets and activities is a business. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for transactions not yet reflected in the financial statements. The Company does not believe that adoption of ASU 2017-01 will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash", or ASU 2016-18. The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and cash equivalents together when reconciling the beginning and end of period total amounts shown on the statement of cash flows. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted and requires adoption on a retrospective basis to each period presented. The adoption of ASU 2016-18 will result in the Company including its restricted cash with cash and cash equivalents when reconciling the beginning and ending amounts shown on its consolidated statement of cash flows.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments", or ASU 2016-15. The amendments in ASU 2016-15 reflect eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted and requires adoption on a retrospective basis to each period presented, unless it is impracticable to apply, in which case, the amendment is required to be applied prospectively as of the earliest date practicable. Presently, the Company believes that the only impact from the adoption of ASU 2016-15 will be that distributions it receives from its equity method investment will be reported in cash flows from operating activities rather than investing activities on its consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments", or ASU 2016-13. The amendments in ASU 2016-13 eliminate the probable and incurred credit loss recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss. This standard is effective for interim and annual reporting beginning after December 15, 2019, with early adoption permitted for interim and annual reporting beginning after December 15, 2018. While the Company is currently evaluating the impact that ASU 2016-13 will have on its consolidated financial statements, the adoption is not expected to result in a material increase in the amount of allowance for loan losses based on the short maturity of loans in the Company's portfolio. However, if the Company makes longer term loans, the impact may be greater.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," or ASU 2014-09. ASU 2014-09 broadly amends the accounting guidance for revenue recognition. ASU 2014-09's effective date was deferred one year by ASU 2015-14, and it is now effective for the first interim or annual period beginning after December 15, 2017, and is to be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of the initial application. Early adoption is not permitted. The Company expects that the majority of its revenue will not be impacted by the adoption of this accounting standard since the standard will not change its accounting policy for the recognition of interest income. The Company does not anticipate its revenue from real estate properties and related disclosures will be significantly impacted by this standard, as rental income from leasing arrangements is specifically excluded from ASU 2014-09, and will be evaluated with the adoption of the lease accounting standard, ASU 2016-02, discussed below. The Company anticipates the primary effects of the new standard will be associated with the Company's non-lease revenue streams, which represent less than 4% of consolidated total revenues. In addition, under ASU 2014-09, gain or loss on the sale of real estate when such sale is financed by the Company will be impacted for future transactions entered into and management expects that the Company will need to reevaluate two past real estate sales transactions and retroactively apply the provisions of ASU 2014-09 as of January 1, 2018, which is not likely to result in a material change to the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" or ASU 2016-02, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 amends existing guidance related to leases, primarily by requiring the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under the current accounting guidance. This standard is effective for interim and annual reporting beginning after December 15, 2018, with early adoption permitted. The Company does not currently have any lease obligations. The Company expects that its operating leases where it is the lessor will be accounted for on its balance sheet similar to its current accounting with the underlying leased asset recognized as real estate. The Company expects that executory costs and certain other non-lease components will need to be accounted for separately from the lease component of the lease with the lease component continuing to be recognized on a straight-line basis over the lease term and the executory costs and certain other non-lease components being accounted for under the new revenue recognition guidance in ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments- Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities", or ASU 2016-1. ASU 2016-01 enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This Update contains several provisions, including but not limited to 1) requiring equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; 2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminating the requirement to disclose the method(s) and significant assumptions used to estimate fair value; and 4) requiring separate presentation of financial assets and liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. ASU 2016-1 also changes certain financial statement disclosure requirements, including requiring disclosures of the fair value of financial instruments be made on the basis of exit price. ASU 2016-1 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management does not expect adoption of this accounting standard will have a significant impact on the Company's consolidated financial statements, however management expects the requirement to use an exit price methodology could impact the disclosures the Company makes related to fair value of its financial instruments. Disclosure of the fair value of loans is likely to be impacted the most by this change.

Significant Accounting Policies

The significant accounting policies used in the preparation of these interim consolidated financial statements are disclosed in the Company's consolidated financial statements for the year ended December 31, 2016 included in its 2016 annual report on Form 10-K. There have been no significant changes to those significant accounting policies during the nine months ended September 30, 2017.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are generally stated at the principal amount outstanding. Advances under the terms of a loan to pay property taxes, insurance, legal and other costs are generally capitalized and reported as interest and other receivables. The Company's portfolio consists primarily of real estate loans generally collateralized by first, second and third deeds of trust. Interest income on loans is accrued by the simple interest method. A loan is generally placed on nonaccrual status when the loan becomes greater than ninety days delinquent in monthly payments and/or when full payment of principal and interest is not expected. When a loan is classified as nonaccrual, interest accruals discontinue and all past due interest is included in the recorded investment in the impaired loan that is measured as described below. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest. Cash receipts on nonaccrual loans are used to reduce any outstanding accrued interest, and then are recorded as interest income, except when such payments are specifically designated as principal reduction or when management does not believe the Company's investment in the loan is fully recoverable. The Company does not incur origination costs and does not earn or collect origination fees from borrowers as OFG is entitled to all such fees (see Note 9).

Loans and the related accrued interest and advances are analyzed by management on a periodic basis for ultimate recovery. The allowance for loan losses is management's estimate of probable credit losses inherent in the Company's loan portfolio that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components: specific reserves related to impaired loans that are individually evaluated for impairment and general reserves for inherent losses related to loans that are not considered impaired and are collectively evaluated for impairment.

Regardless of a loan type, a loan is considered impaired when, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. All loans determined to be impaired are individually evaluated for impairment. When a loan is considered impaired, management estimates impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, management may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. These valuations are generally updated during the fourth quarter but may be updated during interim periods if deemed appropriate by management.

A restructuring of a debt constitutes a troubled debt restructuring ("TDR") if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDR's are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not considered impaired and are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial real estate, residential real estate and land loans. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans that are individually evaluated for impairment and loans that are not considered impaired and are collectively evaluated for impairment, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet. The allowance for loans that are not considered impaired consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses, and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Land Loans – These loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete the projects within the specified costs and time lines. Trends in the construction industry significantly impact the credit quality of these loans as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values generally determine the economic viability of construction projects.

Commercial and Residential Real Estate Loans –Adverse economic developments or an overbuilt market impact commercial and residential real estate projects and may result in troubled loans. Trends in vacancy rates of properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Management monitors the credit quality of the Company's loan portfolio on an ongoing basis using certain credit quality indicators including a loan's delinquency status and internal asset classification. A loan is considered classified when it meets the definition of impaired as described above.

The following tables show the changes in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2017 and 2016 and the allocation of the allowance for loan losses and loans as of September 30, 2017 and December 31, 2016 by portfolio segment and by impairment methodology:

2017	Commercial	Residential	Land	Total
Allowance for loan losses:				
		Three Months Ended September 30, 2017		
Beginning balance	$ 1,149,989	$ 1,017,016	$ 454,450	$ 2,621,455
Charge-offs	—	(86,119)	—	(86,119)
Reversal of provision	(147,516)	(40,040)	(209,424)	(396,980)
Ending Balance	$ 1,002,473	$ 890,857	$ 245,026	$ 2,138,356
		Nine Months Ended September 30, 2017		
Beginning balance	$ 864,971	$ 1,331,318	$ 510,533	$ 2,706,822
Charge-offs	—	(373,766)	—	(373,766)
Recoveries	27,000	—	—	27,000
Provision (Reversal)	110,502	(66,695)	(265,507)	(221,700)
Ending balance	$ 1,002,473	$ 890,857	$ 245,026	$ 2,138,356
		September 30, 2017		
Ending balance: individually evaluated for impairment	$ —	$ 358,946	$ —	$ 358,946
Ending balance: collectively evaluated for impairment	$ 1,002,473	$ 531,911	$ 245,026	$ 1,779,410
Ending balance	$ 1,002,473	$ 890,857	$ 245,026	$ 2,138,356
Loans:				
Ending balance: individually evaluated for impairment	$ —	$ 2,244,163	$ —	$ 2,244,163
Ending balance: collectively evaluated for impairment	$ 118,727,116	$ 11,988,664	$ 4,095,000	$ 134,810,780
Ending balance	$ 118,727,116	$ 14,232,827	$ 4,095,000	$ 137,054,943

2016	Commercial	Residential	Land	Total
Allowance for loan losses:				
	Three Months Ended September 30, 2016			
Beginning balance	$ 764,900	$ 604,329	$ 411,692	$ 1,780,921
Charge-offs	—	—	—	—
Provision	(50,112)	11,146	—	(38,966)
Ending Balance	$ 714,788	$ 615,475	$ 411,692	$ 1,741,955
	Nine Months Ended September 30, 2016			
Beginning balance	$ 1,140,530	$ 455,587	$ 246,329	$ 1,842,446
Charge-offs	(447,520)	—	—	(447,520)
Provision	21,778	159,888	165,363	347,029
Ending balance	$ 714,788	$ 615,475	$ 411,692	$ 1,741,955
	As of December 31, 2016			
Ending balance: individually evaluated for impairment	$ —	$ 732,712	$ —	$ 732,712
Ending balance: collectively evaluated for impairment	$ 864,971	$ 598,606	$ 510,533	$ 1,974,110
Ending balance	$ 864,971	$ 1,331,318	$ 510,533	$ 2,706,822
Loans:				
Ending balance: individually evaluated for impairment	$ —	$ 4,883,866	$ —	$ 4,883,866
Ending balance: collectively evaluated for impairment	$ 102,442,111	$ 14,117,811	$ 8,238,523	$ 124,798,445
Ending balance	$ 102,442,111	$ 19,001,677	$ 8,238,523	$ 129,682,311

The following tables show an aging analysis of the loan portfolio by the time monthly payments are past due as of September 30, 2017 and December 31, 2016. All of the loans that were 90 or more days past due in payments as listed below were on non-accrual status of September 30, 2017 and December 31, 2016.

September 30, 2017	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
Commercial	$ 1,145,000	$ —	$ —	$ 1,145,000	$ 117,582,116	$ 118,727,116
Residential	—	—	2,244,163	2,244,163	11,988,664	14,232,827
Land	—	—	—	—	4,095,000	4,095,000
	$ 1,145,000	$ —	$ 2,244,163	$ 3,389,163	$ 133,665,780	$ 137,054,943

The above table as of September 30, 2017 includes eight past maturity loans in the Current Loan category of approximately $7,644,000 ($1,585,000 Commercial all of which was 60-89 days past maturity and $6,059,000 Residential of which $4,119,000 was less than 30 days past maturity and $1,940,000 was greater than 90 days past maturity). These loans were current in making monthly interest payments and in the process of being extended, paid off or refinanced. In addition, of the delinquent loans above, $1,145,000 of Commercial loans and $2,026,432 of Residential loans were past maturity.

December 31, 2016	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
Commercial	$ —	$ —	$ —	$ —	$ 102,442,111	$ 102,442,111
Residential	1,983,247	—	4,883,866	6,867,113	12,134,564	19,001,677
Land	1,080,000	—	—	1,080,000	7,158,523	8,238,523
	$ 3,063,247	$ —	$ 4,883,866	$ 7,947,113	$ 121,735,198	$ 129,682,311

The above table as of December 31, 2016 includes seven past maturity loans in the Current Loan category of approximately $8,686,000 ($3,675,000 Commercial of which $2,500,000 was less than 30 days and $1,175,000 was 30-59 days past maturity and $5,011,000 Residential all of which was greater than 90 days past maturity). These loans were current in making monthly interest payments and in the process of being extended, paid off or refinanced. In addition, of the delinquent loans above, $6,639,000 of Residential loans were past maturity.

The following tables show information related to impaired loans as of and for the three and nine months ended September 30, 2017:

	As of September 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ —	$ —	$ —
Residential	217,731	217,731	—
Land	—	—	—
	$ 217,731	$ 217,731	$ —
With an allowance recorded:			
Commercial	$ —	$ —	$ —
Residential	2,513,249	2,026,432	358,946
Land	—	—	—
	$ 2,513,249	$ 2,026,432	$ 358,946
Totals:			
Commercial	$ —	$ —	$ —
Residential	2,730,980	2,244,163	358,946
Land	—	—	—
	$ 2,730,980	$ 2,244,163	$ 358,946

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	$ —	$ —	$ —	$ —
Residential	218,940	4,841	222,503	14,734
Land	—	—	—	—
	$ 218,940	$ 4,841	$ 222,503	$ 14,734
With an allowance recorded:				
Commercial	$ —	$ —	$ —	$ —
Residential	2,702,068	—	3,631,609	—
Land	—	—	—	—
	$ 2,702,068	$ —	$ 3,631,609	$ —
Totals:				
Commercial	$ —	$ —	$ —	$ —
Residential	2,921,008	4,841	3,854,112	14,734
Land	—	—	—	—
	$ 2,921,008	$ 4,841	$ 3,854,112	$ 14,734

The following tables show information related to impaired loans as of December 31, 2016 and for the three and nine months ended September 30, 2016:

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ —	$ —	$ —
Residential	228,349	228,349	—
Land	—	—	—
	$ 228,349	$ 228,349	$ —
With an allowance recorded:			
Commercial	$ —	$ —	$ —
Residential	5,145,712	4,655,517	732,712
Land	—	—	—
	$ 5,145,712	$ 4,655,517	$ 732,712
Totals:			
Commercial	$ —	$ —	$ —
Residential	5,374,061	4,883,866	732,712
Land	—	—	—
	$ 5,374,061	$ 4,883,866	$ 732,712

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	$ 1,444,271	$ 19,093	$ 1,926,261	$ 19,093
Residential	6,846,012	5,117	6,616,418	15,548
Land	—	—	—	—
	$ 8,290,283	$ 24,210	$ 8,542,679	$ 34,641
With an allowance recorded:				
Commercial	$ —	$ —	$ 1,153,713	$ —
Residential	—	—	—	—
Land	—	—	—	—
	$ —	$ —	$ 1,153,713	$ —
Totals:				
Commercial	$ 1,444,271	$ 19,093	$ 3,079,974	$ 19,093
Residential	6,846,012	5,117	6,616,418	15,548
Land	—	—	—	—
	$ 8,290,283	$ 24,210	$ 9,696,392	$ 34,641

The recorded investment balances presented in the above tables include amounts advanced in addition to principal on impaired loans (such as property taxes, insurance and legal charges) that are reimbursable by borrowers and are included in interest and other receivables in the accompanying consolidated balance sheets. Interest income recognized on a cash basis for impaired loans approximates the interest income recognized as reflected in the tables above. The average recorded investment and interest income recognized on impaired loans with no related allowance recorded presented in the above tables are disclosed as such, even if these impaired loans may have had an allowance recorded at some point during the period. In addition, the calculations of average recorded investment and interest income recognized in the above tables include loans that had been outstanding for some period of time during the period, but for which there was no recorded investment at the end of the year.

Troubled Debt Restructurings

The Company has allocated approximately $359,000 and $733,000 of specific reserves on loans totaling approximately $2,731,000 and $5,374,000 (recorded investments before allowance for loan losses) to borrowers whose loan terms had been modified in troubled debt restructurings as of September 30, 2017 and December 31, 2016, respectively. The Company has not committed to lend additional amounts to any of these borrowers.

No loans were modified as troubled debt restructurings during the three and nine months ended September 30, 2017 and 2016, nor were there loans modified as troubled debt restructurings within the previous twelve months for which there was a payment default during the three and nine months ended September 30, 2017 and 2016.

NOTE 4 – INVESTMENT IN LIMITED LIABILITY COMPANY

During 2008, the Company entered into an operating agreement (the "Operating Agreement") of 1850 De La Cruz LLC, a California limited liability company ("1850"), with Nanook Ventures LLC ("Nanook"), an unrelated party. The purpose of the joint venture is to own and operate certain industrial land and buildings located in Santa Clara, California. At the time of closing in July 2008, the two properties were separately contributed to two new limited liability companies, Nanook Ventures One LLC and Nanook Ventures Two LLC that are wholly owned by 1850. The Company and Nanook are the Members of 1850 and NV Manager, LLC is the manager.

The Company received distributions from 1850 of $0 and $90,000 during the three and nine months ended September 30, 2017, respectively, and $0 and $87,000 during the three and nine months ended September 30, 2016, respectively. The net income to the Company from its investment in 1850 De La Cruz was approximately $47,000 and $46,000 during the three months ended September 30, 2017 and 2016, respectively, and $137,000 and $133,000 during the nine months ended September 30, 2017 and 2016, respectively, and is included in Other Income in the accompanying consolidated statements of income.

NOTE 5 - REAL ESTATE HELD FOR SALE

Real estate properties held for sale as of September 30, 2017 and December 31, 2016 consist of properties acquired through foreclosure classified by property type as follows:

	September 30, 2017	December 31, 2016
Residential	$ 24,364,833	$ —
Land (including land under development)	13,775,522	73,140,659
Retail	7,632,893	—
Golf course	1,999,449	1,970,437
Marina	3,336,400	—
Assisted care	5,699,777	—
Office	—	732,539
	$ 56,808,874	$ 75,843,635

Note: The ZRV mixed-use residential/retail project was completed during 2017. Thus, the related book value included in Land as of December 31, 2016 was transferred to the Residential and Retail categories as of September 30, 2017 in the table above.

Transfers

During the three and nine months ended September 30, 2017, the Company transferred three properties (one land, one marina and one assisted care) and six properties (three land, two marina and one assisted care) with book values totaling approximately $9,240,000 and $11,085,000, respectively, from "Held for Investment" to "Held for Sale" as the properties were listed for sale and sales are expected within a one year period. An impairment loss of $154,000 was recorded on one marina property as a result of the transfer during the three months ended September 30, 2017.

There were no transfers of property between "Held for Investment" and "Held for Sale" during the three months ended September 30, 2016, other than the transfer of $6,066,000 of land basis discussed further in the "Sales" section below. During the nine months ended September 30, 2016, the Company transferred four properties with book values totaling approximately $10,052,000 (one land, one office unit, one golf course and one condominium) from "Held for Investment" to "Held for Sale" as the properties were listed for sale and sales were expected within a one year period. No impairment losses were recorded as a result of the transfers.

Impairment Losses

During the three and nine months ended September 30, 2017, the Company recorded an impairment loss of approximately $154,000 on the marina property located in Isleton, California due to a reduction in the net fair market value estimated by management at the time the property was listed for sale and transferred from Held for Investment.

During the three and nine months ended September 30, 2017, the Company recorded impairment losses of approximately $214,000 and $495,000, respectively, on the marina property located in Bethel Island, California due to an agreement signed by the Company to sell the property at a price that was lower than the book value of the property during the second quarter and a reduction in the agreed-upon sales price during the third quarter.

During the three and nine months ended September 30, 2016, the Company recorded an impairment loss of approximately $1,094,000 on the medical office condominium complex located in Gilbert, Arizona related to an agreement signed by the Company to sell the property at a price that is less than the book value. In addition, during the nine months ended September 30, 2016, the Company recorded an impairment loss of approximately $2,110,000 on the unimproved residential and commercial land located in Gypsum, Colorado due to a reduction in the net fair market value estimated by management and a decrease in the listing price of the property.

Sales

During the three and nine months ended September 30, 2017, the Company sold one and seven condominium units located in South Lake Tahoe, California (and held within ZRV) for aggregate net sales proceeds of approximately $1,701,000 and $10,579,000, respectively, resulting in total net gain of approximately $330,000 and $997,000, respectively.

During the three and nine months ended September 30, 2017, the Company sold one unit in the office condominium complex located in Roseville, California and 1,000 square feet of commercial floor coverage area for aggregate net sales proceeds of approximately $586,000 and gain totaling approximately $252,000.

During the nine months ended September 30, 2017, the Company also sold three real estate properties (two land and one office) for aggregate net sales proceeds of approximately $43,201,000, resulting in net gain totaling approximately $13,211,000.

During the three months ended September 30, 2016, the Company sold four real estate properties (two residential properties and two improved, residential lots in a 75 lot development) for aggregate net sales proceeds of approximately $79,256,000, resulting in gain on sales of real estate totaling approximately $20,195,000 ($16,479,000 to the Company after approximately $3,716,000 gain attributable to non-controlling interest).

During the nine months ended September 30, 2016, the Company sold six properties for aggregate net sales proceeds of approximately $85,735,000, resulting in gain on sales of real estate totaling approximately $25,034,000 ($21,318,000 to the Company after approximately $3,716,000 gain attributable to non-controlling interest).

Foreclosure Activity

There were no foreclosures during the three and nine months ended September 30, 2017.

During the nine months ended September 30, 2016, the Company foreclosed on one loan secured by an office property located in Oakdale, California with a principal balance of approximately $1,079,000 and obtained the property via the trustee’s sale. In addition, accrued interest and advances made on the loan (for items such as legal fees and delinquent property taxes) in the total amount of approximately $70,000 were capitalized to the basis of the property. It was determined that the fair value of the property was lower than the Company’s investment in the loan and a specific loan allowance was previously established of approximately $495,000. This amount was then recorded as a charge-off against the allowance for loan losses at the time of foreclosure, after a reduction of the previously established allowance in the amount of approximately $48,000 as a result of an updated appraisal obtained (net charge-off of $448,000). The property, along with a unit in the building purchased by the Company in 2015, was contributed into a new taxable REIT subsidiary, East G, LLC, in June 2016. The property was sold during 2017 and the LLC was dissolved.

NOTE 6 - REAL ESTATE HELD FOR INVESTMENT

Real estate held for investment as of September 30, 2017 and December 31, 2016 consisted of properties acquired through foreclosure classified by property type as follows:

	September 30, 2017	December 31, 2016
Retail	$ 16,783,873	$ 16,829,995
Land	2,844,504	4,234,806
Residential	2,369,105	2,405,439
Assisted care	—	5,820,709
Office	3,562,285	3,962,869
Marina	—	4,025,945
	$ 25,559,767	$ 37,279,763

The balances of land and the major classes of depreciable property for real estate held for investment as of September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017	December 31, 2016
Land and land improvements	$ 5,977,198	$ 11,520,339
Buildings and improvements	22,718,486	28,910,851
Less: Accumulated depreciation	(3,135,917)	(3,151,427)
	$ 25,559,767	$ 37,279,763

It is the Company’s intent to sell its real estate properties held for investment, but expected sales of these properties are not probable to occur within the next year.

Depreciation expense was approximately $288,000 and $286,000 for the three months ended September 30, 2017 and 2016, respectively, and $872,000 and $904,000 for the nine months ended September 30, 2017 and 2016, respectively.

Certain of the Company’s real estate properties held for sale and investment are leased to tenants under noncancellable leases with remaining terms ranging from one to eight years. Certain of the leases require the tenant to pay all or some operating expenses of the properties. The future minimum rental income from noncancellable operating leases due within the five years subsequent to September 30, 2017 and thereafter is as follows:

Twelve months ending September 30:	
2018	$ 2,208,825
2019	1,807,328
2020	839,429
2021	730,588
2022	600,176
Thereafter (through 2024)	1,119,267
Total	$ 7,305,613

NOTE 7 – LINE OF CREDIT PAYABLE

The Company borrows funds under the revolving California Bank & Trust ("CB&T") line of credit and, until its termination in September 2016, a line of credit that was in place with Opus Bank ("Opus"). As of September 30, 2017 and December 31, 2016, the outstanding balances and total commitments under the CB&T Line of Credit consisted of the following:

	September 30, 2017		December 31, 2016	
	Outstanding Balance	Total Current Commitment	Outstanding Balance	Total Current Commitment
CB&T Line of Credit	$ —	$ 38,936,606	$ 4,976,000	$ 22,625,000

CB&T Line of Credit

In February 2014, the Company entered into a Credit Agreement and Advance Formula Agreement and related agreements with CB&T as the lender (the "CB&T Credit Facility").The agreements were amended and restated in April 2015, March 2016 and June 2017 to add First Bank and Umpqua Bank as additional lenders and to increase the maximum borrowings available (total commitment) under the facility to the lesser of a $75,000,000 maximum or the amount determined pursuant to a borrowing base calculation described in the Advance Formula Agreement (the "Total Current Commitment"). Borrowings under the CB&T Credit Facility mature on March 1, 2018. The Company is required to keep $3,500,000 in a non-interest bearing account with CB&T that is reported as restricted cash in the accompanying consolidated balance sheets.

Such borrowings bear interest payable monthly at the prime rate of interest established by CB&T from time-to-time plus one quarter percent (.25%) per annum (4.5% at September 30, 2017). Upon a default such interest rate increases by 2.00%. The original CB&T Credit Facility required the payment of an origination fee of $100,000 and other issuance costs totaling $177,000 that were capitalized to deferred financing costs and were being amortized to interest expense using the straight-line method through the maturity date of the CB&T Credit Facility (fully amortized as of September 30, 2016). The First Amendment required the payment of an origination fee and other costs totaling $255,000 that were capitalized to deferred financing costs and are being amortized to interest expense using the straight-line method through the new maturity date. The Company is also subject to certain ongoing administrative fees and expenses. Interest expense on the CB&T Credit Facility was approximately $40,000 and $307,000 during the three months ended September 30, 2017 and 2016, respectively (including $40,000 and $32,000, respectively, in amortization of deferred financing costs) and $271,000 and $799,000 during the nine months ended September 30, 2017 and 2016, respectively (including $117,000 and $98,000, respectively, in amortization of deferred financing costs).

Borrowings are secured by certain assets of the Company. These collateral assets will include the grant to the lenders of first-priority deeds of trust on certain real property assets and trust deeds of the Company to be identified by the parties from time-to-time and all personal property of the Company, which collateral includes the assets described in the Security Agreement and in other customary collateral agreements that will be entered into by the parties from time-to-time. As of September 30, 2017, the carrying amount and classification of loans securing the CB&T Credit Facility were as follows:

Loans:	**September 30, 2017**
Commercial	$ 56,160,649
Residential	2,945,107
Total	$ 59,105,756

The CB&T Credit Facility agreements contain financial covenants which are customary for a loan of this type. Management is not aware of any breach of these covenants as of September 30, 2017.

Opus Bank Line of Credit

In April 2014, the Company entered into a Secured Revolving Credit Loan Agreement (the "Opus Credit Agreement") and related agreements with Opus as the lender (the "Opus Credit Facility"). The Company repaid the Opus Credit Facility in full in September 2016 and the facility has terminated.

The Opus Credit Facility required the payment of an origination fee of $100,000 and other issuance costs totaling $231,000 that were capitalized as deferred financing costs and were being amortized to interest expense using the straight-line method through the maturity date. The Company was also subject to certain ongoing administrative fees and expenses. Interest expense on the Opus Credit Facility was approximately $130,000 during the three months ended September 30, 2016 (including $64,000 in amortization of deferred financing costs) and $364,000 during the nine months ended September 30, 2016 (including $103,000 in amortization of deferred financing costs). The amount of unamortized deferred financing costs expensed immediately on termination of the Opus Credit Facility was approximately $45,000 for the three and nine months ended September 30, 2016.

NOTE 8 - NOTES AND LOANS PAYABLE ON REAL ESTATE

The Company had the following notes and loans payable outstanding as of September 30, 2017 and December 31, 2016:

	September 30, 2017	Interest Rate	December 31, 2016	Interest Rate	Payment Terms/Frequency	Maturity Date
Tahoe Stateline Venture, LLC Loan Payable	$ 13,341,886	3.47%	$ 13,634,889	3.47%	Amortizing Monthly	January 2021
Zalanta Construction Loan Payable	16,724,325	5.75%	20,213,560	5.25%	Interest Monthly Principal Quarterly	August 2018
Principal amount	$ 30,066,211		$ 33,848,449			
Less unamortized deferred financing costs	(285,421)		(462,515)			
Notes and loans payable, net	$ 29,780,790		$ 33,385,934			

The following table shows maturities by year on these notes and loans payable as of September 30, 2017:

Twelve months ending September 30:	
2018	$ 17,127,030
2019	416,904
2020	431,603
2021	12,090,674
2022	—
Thereafter	—
Total	$ 30,066,211

Tahoe Stateline Venture, LLC Loan Payable

In December 2014, Tahoe Stateline Ventures, LLC ("TSV") entered into a Credit Agreement (the "Credit Agreement") and related documents with RaboBank, N.A. as the lender ("Lender") providing TSV with a loan (the "TSV Loan") of up to $14,500,000. TSV borrowed $10,445,000 at the first closing under the TSV Loan and an additional $3,830,000 was borrowed in September 2015.

The maturity date of the TSV Loan is January 1, 2021 (the "Maturity Date"). All outstanding borrowings under the TSV Loan documents bear interest initially at a rate of 3.47% per annum (the "Long Term Adjustable Rate"), provided that on January 1, 2018 the Long Term Adjustable Rate will be reset to Lender's then current market rate for three year fixed rate loans from comparable commercial real estate secured transactions, as determined by Lender in its sole discretion. Upon a default under the TSV Loan documents, the interest rate on the outstanding principal balance increases by an additional five percent (5.00%) per annum and the rate on any other outstanding obligations thereunder increases to ten percent (10.00%) per annum. Prepayments under the TSV Loan documents are subject to certain prepayment fees; provided that during the 90 day period immediately prior to January 1, 2018, and the 90 day period immediately prior to the Maturity Date, TSV may prepay the entire unpaid balance of the Loan in full, without any prepayment fee or penalty.

During the term of the TSV Loan, TSV will make equal combined payments of principal and accrued interest on the first day of each month in an amount calculated to fully amortize the original principal amount over a period of 300 months, subject to certain adjustments and the balance of the TSV Loan is due on the Maturity Date.

The Credit Agreement required the payment of a closing fee of $108,750 and certain administrative fees totaling approximately $218,000. The majority of these costs were paid out of proceeds from the loan and capitalized to deferred financing costs and are being amortized to interest expense using the effective interest method through the Maturity Date. During the three months ended September 30, 2017 and 2016, approximately $125,000 and $128,000, respectively, of interest expense was incurred (including approximately $9,000 and $9,000, respectively, of deferred financing costs amortized to interest expense). During the nine months ended September 30, 2017 and 2016, approximately $378,000 and $388,000, respectively, of interest expense was incurred (including approximately $27,000 and $27,000, respectively, of deferred financing costs amortized to interest expense).

The TSV Loan documents contain financial covenants which are customary for loans of this type. Management is not aware of any breach of these covenants as of September 30, 2017.

Zalanta Construction Loan Payable

In August 2016, Zalanta Resort at the Village, LLC (“ZRV”) and Zalanta Resort at the Village - Phase II, LLC (“ZRV II” and, together with ZRV, the “Borrowers”) entered into a Construction Loan Agreement (the “Loan Agreement”) and related documents with Western Alliance Bank as the lender (“Lender”) providing the Borrowers with a loan (the “ZRV Loan”) of up to $31,000,000, subject to the terms and conditions of the ZRV Loan documents, for the purpose of financing the construction of a new mixed-use retail and residential condominium building (the “Project”) on land (the “Premises”) owned by ZRV in South Lake Tahoe.

Borrowings under the ZRV Loan documents are only for payment or reimbursement of approved Project costs and such borrowings are subject to customary conditions for loans of this type. The borrowings under the ZRV Loan may not exceed the lesser of (i) 60% of the value of the Project, determined on an “as is” basis; or (ii) 65% of the Borrowers’ total costs of the Project, to be calculated in accordance with the Loan Agreement. All outstanding borrowings under the ZRV Loan will bear interest at the Wall Street Journal Prime Rate plus 1.50% (calculated on a floating daily basis) (the “Note Rate”), but in no event will the Note Rate be lower than the floor rate of five percent (5.0%) per annum. The Note Rate as of September 30, 2017 was 5.75%. Upon a default under the Loan Agreement, the Note Rate increases by an additional five percent (5.0%) per annum.

Interest payments are payable monthly from an established interest reserve. In addition, commencing on August 18, 2017 and continuing on the last day of each quarter thereafter during the term of the ZRV Loan, Borrowers are required to make a quarterly repayment of $6 million of principal (the “Curtailment Requirement”). Any repayments in excess of $6 million during one quarter can be applied to the Curtailment Requirement in the succeeding quarter(s). The balance of the ZRV Loan is due on August 3, 2018.

Borrowings are secured by: (i) a first mortgage lien on the Premises and certain additional property (the “Additional Premises”) held by ZRV II and all improvements, amenities and appurtenances to the Premises and the Additional Premises, (ii) an assignment of all personal property, sales contracts, rents, leases, and ground leases associated with the Premises, and (iii) all design, development, service, management, leasing and construction contracts associated with the Premises. In addition, ZRV established a deposit account with Lender of $3,000,000 to be held as additional collateral for the ZRV Loan that was reported as restricted cash in the accompanying consolidated balance sheets. This deposit was released in September 2017 and the $3,000,000 applied as a repayment of the loan payable.

The ZRV Loan documents contain provisions that allow for the sale of individual condominiums in the Project during the term of the ZRV Loan and the removal of those units from the collateral base, in exchange for payment of proceeds of the sales to Lender. Any such payment of sales proceeds to Lender will be applied to reduce the principal balance of the ZRV Loan and will reduce the quarterly Curtailment Requirement. Principal payments totaling approximately $4,802,000 and $13,580,000 were made during the three and nine months ended September 30, 2017, respectively, from the sale of one and seven condominium units, respectively, and from the released deposit account.

The Loan Agreement required the payment of an origination fee of $310,000 and other issuance costs totaling approximately $400,000. The majority of these costs were paid out of the loan proceeds and capitalized to deferred financing costs and are being amortized to the Project using the straight-line method through the maturity date. During the nine months ended September 30, 2017, approximately $76,000 of deferred financing costs was amortized to the Project. During the nine months ended September 30, 2017, approximately $472,000 of interest was incurred which was capitalized to the Project. During the three and nine months ended September 30, 2017, approximately $307,000 and $472,000, respectively, of interest was expensed (including approximately $50,000 and $74,000 of deferred financing costs amortized to interest expense). During the three and nine months ended September 30, 2016, approximately $33,000 of deferred financing costs was amortized to the Project. During the three and nine months ended September 30, 2016, approximately $72,000 of interest was incurred which was capitalized to the Project.

The ZRV Loan documents contain financial covenants which are customary for loans of this type. Management is not aware of any breach of these covenants as of September 30, 2017.

NOTE 9 - TRANSACTIONS WITH AFFILIATES

In consideration of the management services rendered to the Company pursuant to the management agreement between the Company and OFG (the “Management Agreement”), OFG is entitled to receive from the Company a management fee payable monthly, subject to a maximum of 2.75% per annum of the average unpaid balance of the Company’s loans (the “Existing Management Fee”).

All of the Company’s loans are serviced by OFG, in consideration for which OFG receives a monthly fee, which, when added to all other fees paid in connection with the servicing of a particular loan, does not exceed the lesser of the customary, competitive fee paid in the community where the loan is placed for the provision of such mortgage services on that type of loan, or up to 0.25% per annum of the unpaid principal balance of the loans.

OFG, at its sole discretion may, on a monthly basis, adjust the Existing Management Fee and servicing fees as long as they do not exceed the allowable limits calculated on an annual basis. Even though the fees for a month may exceed $^{1}/_{12}$ of the maximum limits, at the end of the calendar year the sum of the fees collected for each of the 12 months must be equal to or less than the stated limits. Management fees amounted to approximately $827,000 and $808,000 for the three months ended September 30, 2017 and 2016, respectively, and $2,781,000 and $2,399,000 for the nine months ended September 30, 2017 and 2016, respectively, and are included in the accompanying consolidated statements of income. Servicing fees amounted to approximately $93,000 and $73,000 for the three months ended September 30, 2017 and 2016, respectively, and $271,000 and $218,000 for the nine months ended September 30, 2017 and 2016, respectively, and are included in the accompanying consolidated statements of income. As of September 30, 2017 and December 31, 2016, the Company owed management and servicing fees to OFG in the amount of approximately $300,000 and $324,000, respectively.

During the six months ended June 30, 2017 and the year ended December 31, 2016, OFG elected to take the maximum compensation that it is able to take pursuant to the Company’s charter. However, in August 2017, the Board and the Manager agreed to adjust the management fee payable for the interim period commencing July 1, 2017 and ending on the final day of the month in which the Company's next stockholders' meeting is held (the "Adjustment Period") as follows:

During each month in the Adjustment Period, the Existing Management Fee to be paid monthly is to be reduced (but not increased) to the amount of the "Interim Management Fee" calculated as follows:

1. The "Interim Management Fee" is equal to (i) one-twelfth (1/12) multiplied by (ii) 1.50% of the "Opening Stockholders' Equity Balance" (defined below), with such Opening Stockholders' Equity Balance to be adjusted by the Manager in the following manner:

   (A) at the end of a calendar month to reflect any changes that result from any of the events specified in clause (A) in the definition of "Stockholders' Equity" (defined below) during such calendar month from the Opening Stockholders' Equity Balance; and

   (B) at the end of a calendar quarter to reflect any changes that result from the components specified in clauses (B), (C) or (D) in the definition of "Stockholders' Equity" (defined below) for such calendar quarter from the Opening Stockholders' Equity Balance.

   Since the Management Fee is to be paid monthly during the Adjustment Period, and the components of Stockholders' Equity specified in clauses (B), (C) and (D) in the definition of "Stockholders' Equity" will not be known until the end of the quarter in question, the Manager shall use the prior quarter's value as an estimate for each monthly payment and will effect a reconciliation at the end of the quarter, so that the actual aggregate Management Fee paid for each quarter will be based on the values of the components specified in clauses (B), (C) and (D) in the definition of "Stockholders' Equity" at the end of that particular quarter as if the components specified in clauses (B), (C) and (D) were known at each month end.

2. As used in the calculation of the Interim Management Fee, "Stockholders' Equity" means:

   (A) the sum of the net proceeds from any issuances of the Company's equity securities since inception (including the book value of the Company's Common Stock and Additional Paid-in Capital at inception of the Company) less any amount that the Company pays for repurchases of its equity securities (determined as of the most recent month end), plus

   (B) the Company's consolidated retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less

   (C) any unrealized gains, losses or other items that do not affect realized net income as of the most recently completed calendar quarter as adjusted to exclude

   (D) one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between the Manager and the Company's Independent Directors and after approval by a majority of the Company's Independent Directors.

3. As used in the calculation of the Interim Management Fee, "Opening Stockholders' Equity Balance" means Stockholders' Equity at the end of the most recently completed calendar quarter. "Independent Directors" means the members of the Company's Board of Directors who are not officers, employees or directors of the Manager or any person directly or indirectly controlling or controlled by the Manager, and who are otherwise "independent" in accordance with the applicable rules of the NYSE American.

4. The Manager shall compute each installment of the Interim Management Fee reasonably promptly at the end of each calendar month during the Adjustment Period. A copy of the computations, including a comparison of the Interim Management Fee to the Existing Management Fee, made by the Manager to calculate such installment shall thereafter promptly be delivered to the Board of Directors.

5. There will be no change to the loan servicing fees or expense reimbursements payable by the Company to the Manager, and the Manager would also continue to receive the fees paid by our borrowers to the Manager.

For the quarter ended September 30, 2017, the Company incurred "Interim Management Fees" payable to OFG of approximately $827,000. The "Existing Management Fees" under the Management Agreement would have been approximately $1,025,000, thus, saving the Company approximately $198,000 during the quarter ended September 30, 2017.

Pursuant to the charter, OFG receives all late payment charges from borrowers on loans owned by the Company. The amounts paid to or collected by OFG for such charges totaled approximately $15,000 and $2,000 for the three months ended September 30, 2017 and 2016, respectively, and $37,000 and $8,000 for the nine months ended September 30, 2017 and 2016, respectively. In addition, the Company remits other miscellaneous fees to OFG, which are collected from loan payments, loan payoffs or advances from loan principal (i.e. funding, demand and partial release fees). The amounts paid to or collected by OFG for such fees totaled approximately $4,000 and $5,000, respectively, during the three months ended September 30, 2017 and 2016 and $14,000 and $14,000, respectively, during the nine months ended September 30, 2017 and 2016, respectively.

OFG originates all loans the Company invests in and receives loan origination and extension fees from borrowers. During the three and nine months ended September 30, 2017, OFG earned approximately $157,000 and $1,313,000, respectively, on loans originated or extended of approximately $7,369,000 and $70,380,000, respectively. In addition, OFG refunded $194,000 in fees to borrowers who repaid their loans early during the quarter ended September 30, 2017. During the three and nine months ended September 30, 2016, OFG earned approximately $120,000 and $1,372,000, respectively, on loans originated or extended of approximately $5,140,000 and $59,305,000, respectively.

OFG is reimbursed by the Company for the actual cost of goods, services and materials used for or by the Company and paid by OFG and the salary and related salary expense of OFG's non-management and non-supervisory personnel performing services for the Company which could be performed by independent parties (subject to certain limitations in the Management Agreement). The total amounts reimbursed to OFG by the Company for such services were $96,000 and $113,000 during the three months ended September 30, 2017 and 2016, respectively, and $286,000 and $332,000 during the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and December 31, 2016, there was $34,000 and $36,000 payable to OFG for such services. The Company also reimbursed certain of OFG's officers for allowed expenses in the total amount of $2,000 and $0 during the nine months ended September 30, 2017 and 2016, respectively.

The Company paid Investor's Yield, Inc. (a wholly owned subsidiary of OFG) approximately $1,000 and $3,000 during the nine months ended September 30, 2017 and 2016, respectively, in fees primarily related to loan conveyances and certain foreclosure proceedings on Company loans.

NOTE 10 – STOCKHOLDERS' EQUITY

Dividends

On March 16, 2017, the board of directors declared a $0.08 per share dividend on the Company's shares of Common Stock to holders of record as of March 31, 2017. The dividend was paid on April 13, 2017 and totaled $819,798.

On June 13, 2017, the board of directors declared a $0.10 per share dividend on the Company's shares of Common Stock to holders of record as of June 30, 2017. The dividend was paid on July 13, 2017 and totaled $1,024,748.

On September 13, 2017, the board of directors declared a $0.10 share dividend on the Company's shares of Common Stock to holders of record as of September 30, 2017. The dividend was paid on October 13, 2017 and totaled $1,012,782 (or $1,006,391 net of $6,391 of dividends earned by the Company on treasury shares).

As of September 30, 2017, the Company had net capital gains from the sales of real estate properties in 2017 totaling approximately $3,306,000. It is the intention of management to retain substantially all net capital gains within the Company and not distribute them as is permitted for a REIT. However, the retained net capital gains will be taxable to shareholders and will require the Company to make a tax payment to the U.S Treasury Department on behalf of shareholders at the highest corporate tax rate (currently 35%), which are to be reflected as tax payments on shareholders' tax returns. Such payments will be recorded as dividends in the Company's financial statements in the fourth quarter of 2017.

Stock Repurchase Programs

On December 11, 2015, the Board of Directors authorized a Rule 10b5-1 stock repurchase plan (the "2016 Repurchase Plan") under which the Company could purchase up to $7.5 million of its Common Stock. Under the 2016 Repurchase Plan, repurchases were to be funded from available working capital, and the repurchased shares were to return to the status of authorized but unissued shares of Common Stock. The 2016 Repurchase Plan provided for stock repurchases to commence on April 1, 2016 and was subject to certain price, volume and timing constraints specified in the brokerage agreement. No shares were repurchased under the 2016 Repurchase Plan and it expired on March 31, 2017.

On June 9, 2017, the Board of Directors authorized a Rule 10b5-1 stock repurchase plan (the "2017 Repurchase Plan") under which the Company may purchase up to $10 million of its Common Stock. Under the 2017 Repurchase Plan, repurchases will be funded from available working capital, and the repurchased shares will return to the status of authorized but unissued shares of Common Stock. The 2017 Repurchase Plan provides for stock repurchases to commence on July 13, 2017 and is subject to certain price, volume and timing constraints specified in the brokerage agreement. There is no guarantee as to the exact number of shares that will be repurchased by the Company. The 2017 Repurchase Plan is set to expire on January 15, 2018, although the Company may terminate the Repurchase Plan at any time. During the quarter ended September 30, 2017, the Company repurchased 183,564 shares of its Common Stock under the 2017 Repurchase Plan for a total cost of approximately $3,197,000 (including commissions) and an average cost of $17.42 per share and repurchased another 12,774 shares in October 2017 (subsequent to quarter end) for a total cost of approximately $230,000 (including commissions) and an average cost of $17.99 per share.

NOTE 11 – CONTINGENCY RESERVES

In accordance with the charter, the Company is required to maintain cash, cash equivalents and marketable securities as contingency reserves in an aggregate amount of 1-1/2% of Capital as defined in the charter. Although the Manager believes the contingency reserves are adequate, it could become necessary for the Company to sell or otherwise liquidate certain of its investments or other assets to cover such contingencies on terms which might not be favorable to the Company, which could lead to unanticipated losses upon sale of such assets.

The contingency reserves required per the charter as of September 30, 2017 and December 31, 2016 were approximately $3,733,000 and $3,738,000, respectively, and are reported as restricted cash and/or cash and cash equivalents in the accompanying consolidated balance sheets.

NOTE 12 - INCOME TAXES

The Company operates in such a manner as to qualify as a REIT, under the provisions of the Code; therefore, applicable REIT taxable income is included in the taxable income of its shareholders, to the extent distributed by the Company. To maintain REIT status for federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its shareholders as well as comply, generally, with certain other qualification requirements as defined under the Code. As a REIT, the Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

Taxable income from non-REIT activities managed through the Company's taxable REIT subsidiaries ("TRSs") (Lone Star Golf, Inc., Zalanta Resort at the Village, LLC and East G, LLC) is subject to federal, state and local income taxes. The Company did not record a provision for current income taxes related to Lone Star for the nine months ended September 30, 2017 and the years ended December 31, 2016 and 2015 as it was in a net loss position. In addition, deferred taxes related to temporary differences in book and taxable income, as well as net operating losses of Lone Star, were not significant and the deferred taxes would likely not be realizable due to Lone Star's loss history.

During 2016, the Company established a new entity, East G, LLC ("East G") and contributed an office property that was obtained via foreclosure of a loan in 2016 in to this new entity along with a unit in the same building that had been purchased in 2015. The Company converted East G into a TRS. No taxes have been recorded. Deferred taxes related to temporary differences in book and taxable income and tax loss carryforwards are not significant and the deferred taxes will not be realized. The Company sold the East G property during 2017 and dissolved the LLC.

During 2016, the Company converted Zalanta Resort at the Village, LLC ("ZRV") into a TRS and contributed two additional real estate assets into ZRV. These properties included 75 improved, residential lots previously held within Baldwin Ranch Subdivision, LLC and a medical office condominium complex previously held within AMFU, LLC. The conversion of ZRV into a TRS and contribution of the additional real estate assets resulted in the Company recording a deferred tax asset and income tax benefit in the amount of approximately $7,630,000 primarily due to a $20,513,000 aggregate difference between the book and tax basis of the subject real estate assets as of September 30, 2016.

The components of the income tax expense (benefit) as it relates to the Company's taxable income (loss) from domestic TRSs during the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three and Nine Months Ended September 30, 2017		
	Federal	**State and Local**	**Total**
Three Months:			
Deferred expense	$ 1,050,920	$ 224,780	$ 1,275,700
Income tax expense	$ 1,050,920	$ 224,780	$ 1,275,700
Nine Months:			
Deferred expense	$ 1,846,792	$ 243,035	$ 2,089,827
Income tax expense	$ 1,846,792	$ 243,035	$ 2,089,827

	Three and Nine Months Ended September 30, 2016		
	Federal	**State and Local**	**Total**
Three Months:			
Deferred expense (benefit)	$ 193,509	$ (454,357)	$ (260,848)
Income tax expense (benefit)	$ 193,509	$ (454,357)	$ (260,848)
Nine Months:			
Deferred expense (benefit)	$ (6,242,655)	$ (1,387,028)	$ (7,629,683)
Income tax expense (benefit)	$ (6,242,655)	$ (1,387,028)	$ (7,629,683)

A reconciliation of the income tax provision (benefit) based upon the statutory tax rates to the effective rates of our taxable REIT subsidiaries is as follows for the nine months ended September 30, 2017 and 2016:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**
Tax (benefit) expense at Federal statutory rate	$ (58,503)	$ (377,277)	$ 28,646	$ (377,277)
State income tax expense, net of federal effect	148,355	(299,876)	163,289	(915,439)
Real estate basis differences	—	—	—	(6,725,771)
Other	117	27,590	(19,706)	89
Change in valuation allowance	1,185,731	388,715	1,917,598	388,715
Income tax expense (benefit)	$ 1,275,700	$ (260,848)	$ 2,089,827	$ (7,629,683)

Significant components of the Company's deferred tax assets (liabilities) are as follows as of September 30, 2017 and December 31, 2016:

Deferred tax assets (liabilities):	**As of September 30, 2017**	**As of December 31, 2016**
Real estate basis differences	$ 6,051,703	$ 6,154,411
Net operating losses	1,978,163	1,889,310
Total deferred tax assets	8,029,866	8,043,721
Valuation allowance	(2,870,716)	(794,744)
Net deferred tax assets	$ 5,159,150	$ 7,248,977

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes, as well as operating loss and tax credit carryforwards. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses and tax planning strategies available.

Management has estimated future taxable gains and losses on sale of ZRV real estate assets to determine how much of the deferred tax assets are realizable. This realizability analysis is inherently subjective and actual results could differ from these estimates. Based on an assessment of all factors, it was determined that a valuation allowance of $2,871,000 and $795,000 related to Federal and State NOLs and differences in the book and tax basis of assets in ZRV was required as of September 30, 2017 and December 31, 2016, respectively, as management does not expect that ZRV will generate enough taxable income in the future to realize all of the NOL and basis benefits. The Company's Federal and California NOLs within ZRV totaled $5,737,000 and $474,000, respectively, as of September 30, 2017. ZRV has Arizona NOLs of $3,511,000 as of September 30, 2017; however, ZRV did not record a deferred tax asset related to the Arizona NOLs as it does not expect to file another Arizona tax return, and thus, the NOLs will not be used. All of the NOLs expire in 2036 and 2037.

NOTE 13 – FAIR VALUE

The Company discloses fair value of its financial and nonfinancial assets and liabilities pursuant to ASC 820 – *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is defined in ASC 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity, such as the Company's own data or assumptions.

Level 3 inputs include unobservable inputs that are used when there is little, if any, market activity for the asset or liability measured at fair value. In certain cases, the inputs used to measure fair value fall into different levels of the fair value hierarchy. In such cases, the level in which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

The following is a description of the Company's valuation methodologies used to measure and disclose the fair values of its financial and nonfinancial assets and liabilities on a nonrecurring basis. There were no assets or liabilities measured at fair value on a recurring basis.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and a specific allowance for loan losses is established. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is identified as impaired, management measures impairment in accordance with ASC 310-10-35. The fair value of impaired loans is estimated by either an observable market price (if available) or the fair value of the underlying collateral, if collateral dependent. The fair value of the loan's collateral is determined by third party appraisals (by licensed appraisers), broker price opinions, comparable property sales or other indications of value. Those impaired loans not requiring an allowance represent loans for which the fair value of the collateral exceed the recorded investments in such loans. At September 30, 2017 and December 31, 2016, all impaired loans were evaluated based on the fair value of the collateral by obtaining third party appraisals that valued the collateral primarily by utilizing an income or market approach or some combination of the two. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Because appraisals used by management generally include significant unobservable inputs and market data, the Company records the impaired loan as nonrecurring Level 3. Unobservable market data included in appraisals often includes adjustments to comparable property sales for such items as location, size and quality to estimate fair values using a sales comparison approach. Unobservable market data also includes cash flow assumptions and capitalization rates used to estimate fair values under an income approach.

Real Estate Held for Sale and Investment

Real estate held for sale and investment includes properties acquired through foreclosure of the related loans. When property is acquired, any excess of the Company's recorded investment in the loan and accrued interest income over the estimated fair market value of the property, net of estimated selling costs, is charged against the allowance for loan losses. Subsequently, real estate properties held for sale are carried at the lower of carrying value or fair value less costs to sell. The Company periodically compares the carrying value of real estate held for investment to expected future cash flows as determined by internally or third party generated valuations (including third party appraisals that primarily utilize an income or market approach or some combination of the two) for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds future undiscounted cash flows, the assets are reduced to fair value. As fair value is generally based upon an appraisal that may include observable data, unobservable data, or a combination thereof, the Company records these assets as nonrecurring Level 2 or Level 3 based on the same factors discussed in the impaired loans section above.

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2017 and December 31, 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Nonrecurring:				
Impaired loans:				
Residential	$ 2,154,303	$ —	$ —	$ 2,154,303
Total impaired loans	$ 2,154,303	$ —	$ —	$ 2,154,303
Real estate properties:				
Commercial	$ 3,336,400	—	—	3,336,400
Total real estate properties	$ 3,336,400	$ —	$ —	$ 3,336,400
December 31, 2016				
Nonrecurring:				
Impaired loans:				
Residential	$ 4,413,000	$ —	$ —	$ 4,413,000
Total impaired loans	$ 4,413,000	$ —	$ —	$ 4,413,000
Real estate properties:				
Land	$ 139,498	$ —	$ —	$ 139,498
Commercial	732,539			732,539
Total real estate properties	$ 872,037	$ —	$ —	$ 872,037

The recovery of loan losses based on the fair value of loan collateral less estimated selling costs for the impaired loans above totaled approximately $0 and $0 during the three months ended September 30, 2017 and 2016, respectively, and $0 and $38,000 during the nine months ended September 30, 2017 and 2016, respectively. Impairment losses were recorded on real estate properties in the amounts of approximately $368,000 and $1,094,000 during the three months ended September 30, 2017 and 2016, respectively, and $649,000 and $3,204,000 during the nine months ended September 30, 2017 and 2016 respectively.

There were no liabilities measured at fair value on a non-recurring basis at September 30, 2017 and December 31, 2016. During the three and nine months ended September 30, 2017 and 2016, there were no transfers into or out of Levels 1 and 2.

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis at September 30, 2017 and December 31, 2016:

September 30, 2017:

Description	Fair Value	Valuation Technique	Significant Unobservable Inputs	Input/Range	Weighted Average
Impaired Loans:					
Residential	$ 2,154,303	Appraisal	Comparable Sales Adjustment	(4.6)% to 4.2%	N/A
Real Estate Properties:					
Commercial	$ 3,336,400	Appraisal	Comparable Sales Adjustment	(16.7)% to (40.6)%	(23.5)%

December 31, 2016:

Description	Fair Value	Valuation Technique	Significant Unobservable Inputs	Input/Range	Weighted Average
Impaired Loans:					
Residential	$ 4,413,000	Comparable Sales	Comparable Sales Adjustment	(4.6)% to 4.2%	N/A
Real Estate Properties:					
Land	$ 139,498	Appraisal	Comparable Sales Adjustment	(33.7)%	N/A
Commercial	732,539	Appraisal	Comparable Sales Adjustment	(5.0)% to 5.0%	N/A
			Capitalization Rate	7.3%	N/A

Where only one percentage for input/range is presented in the above table there was only one unobservable input of that type for one loan or property. Adjustments to comparable sales included items such as market conditions, location, size, condition, access/frontage and intended use. A weighted average of an unobservable input is presented in the table above only to the extent there was multiple impaired loans or real estate properties within that class measured at fair value on a nonrecurring basis.

The approximate carrying amounts and estimated fair values of financial instruments at September 30, 2017 and December 31, 2016 are as follows:

	Carrying Value	Fair Value Measurements at September 30, 2017 Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 24,368,000	$ 24,368,000	$ —	$ —	$ 24,368,000
Restricted cash	3,500,000	3,500,000	—	—	3,500,000
Loans, net	134,917,000	—	—	130,730,000	130,730,000
Investment in limited liability company	2,188,000	—	—	2,650,000	2,650,000
Accrued interest and advances receivable	1,435,000	—	—	1,435,000	1,435,000
Financial liabilities					
Accrued interest payable	$ 112,000	$ —	$ 73,000	$ 39,000	$ 112,000
Line of credit payable	—	—	—	—	—
Notes and loans payable	29,781,000	—	16,724,000	12,610,000	29,334,000

	Carrying Value	Fair Value Measurements at December 31, 2016 Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 434,000	$ 434,000	$ —	$ —	$ 434,000
Restricted cash	6,500,000	6,500,000	—	—	6,500,000
Loans, net	126,975,000	—	—	126,652,000	126,652,000
Investment in limited liability company	2,140,000	—	—	2,650,000	2,650,000
Accrued interest and advances receivable	1,328,000	—	—	1,328,000	1,328,000
Financial liabilities					
Accrued interest payable	$ 137,000	$ —	$ 97,000	$ 40,000	$ 137,000
Line of credit payable	4,976,000		4,976,000	—	4,976,000
Notes and loans payable	33,386,000	—	20,213,000	13,499,000	33,712,000

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instruments:

Cash, cash equivalents and restricted cash: The carrying value of cash and cash equivalents and restricted cash approximates the fair value because of the liquidity and/or relatively short maturity of these instruments and are classified as Level 1.

Loans, net: Except as it relates to impaired loans measured at fair value on a nonrecurring basis discussed previously, the fair value of loans is estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality but are often unobservable resulting in a Level 3 classification. Accrued interest and advances receivable relate to loans and are thus classified as Level 3.

Investment in limited liability company**:** The fair value of the Company's investment in limited liability company is estimated based on an appraisal obtained and is classified as Level 3 because the appraisal itself and/or adjustments thereto include unobservable data similar to the unobservable data discussed in the disclosures related to assets measured at fair value on a nonrecurring basis.

Line of credit payable: The fair value of the Company's line of credit is estimated based upon a discounted cash flow model using comparable market indicators of current pricing for the same or similar issue or on the current rate offered to the Company for debt of the same remaining maturity and is generally observable resulting in a Level 2 classification. Accrued interest payable associated with the lines of credit is also classified as Level 2.

Notes and loans payable: The fair values of the Company's notes and loans payable and related accrued interest payable are estimated based upon a discounted cash flow model using comparable market indicators of current pricing for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities resulting in either a Level 2 or Level 3 classification. Generally, Level 2 inputs are used for notes and loans payable with maturities of one year or less or that have been entered into in relatively close proximity to the balance sheet date and Level 3 inputs are used for other notes and loans payable. Accrued interest payable associated with the notes and loans payable is also classified as either Level 2 or Level 3.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of September 30, 2017, the Company has commitments to advance additional funds to borrowers of construction, rehabilitation and other loans in the total amount of approximately $29,772,000 (including approximately $4,221,000 in interest reserves).

Legal Proceedings

The Company is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following discussion provides information to assist you in understanding our financial condition and results of operations. This discussion and analysis contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "may," "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "project" or similar expressions, it intends to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties, as more particularly set forth in our filings with the SEC, including those described in the "Forward Looking Statements" and "Risk Factors" sections of our Annual Report on Form 10-K for the year ended December 31, 2016, and in Part II, Item 5 of our quarterly report on Form 10-Q for the quarter ended June 30, 2017, that could cause actual results to differ materially from those projected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview and Background

We are a specialty finance company that focuses on the origination, investment and management of commercial real estate mortgage loans. We provide customized, short-term capital to small and middle-market investors and developers who require speed and flexibility. We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We are externally managed and advised by Owens Financial Group, Inc. ("OFG" or the "Manager"), a specialized commercial real estate management company that has originated, serviced and managed alternative commercial real estate investments since 1951.

The Company is a Maryland corporation formed to reorganize the business of its predecessor, OMIF, into a publicly traded REIT. OMIF was a California Limited Partnership registered with the SEC that was formed in 1983 for the purposes of funding and servicing short-term commercial real estate loans. Beginning in 2009, OMIF experienced liquidity issues as its borrowers were unable to access credit sources to pay off its loans. OMIF eventually foreclosed on a substantial portion of its loan portfolio, repositioning many of the properties for investment or eventual sale. OMIF also experienced a significant increase in capital withdrawal requests that it was unable to honor due to insufficient cash, net of reserves and restrictions under the terms of its bank line of credit. In addition, OMIF was restricted by provisions within the partnership agreement from making additional investments in mortgage loans while qualified redemption requests remained pending and unpaid. In addition to increasing investor liquidity through public listing of its stock, the Company was created to provide the opportunity for resuming mortgage lending activities, with the goal of increasing income to stockholders.

On May 20, 2013, OMIF merged with and into the Company with the Company as the surviving entity, succeeding to and continuing the operations of OMIF. The Company now, by virtue of the Merger, directly or indirectly owns all of the assets and business formerly owned by OMIF. The Company is a deemed successor issuer to OMIF pursuant to Rule 12g-3(a) under the Exchange Act, and on July 1, 2013, the Company's Common Stock was listed on the NYSE American exchange. For accounting purposes, the Merger was treated as a transfer of assets and exchange of shares between entities under common control. The accounting basis used to initially record the assets and liabilities in the Company was the carryover basis of OMIF.

Our primary sources of revenue are interest income earned on our loan portfolio and revenues we generate from our operating real estate assets. We have resumed originating loans and believe the Company is well positioned to capitalize on lending opportunities as the economy continues to recover. However, there can be no assurances that we will be able to identify and make loans to suitable commercial real estate borrowers or have adequate capital and liquidity to fund such loans.

Our operating results are affected primarily by:

- the level of foreclosures and related loan and real estate losses experienced;
- the income or losses from foreclosed properties prior to the time of disposal;
- the amount of cash available to invest in loans;
- the amount of borrowing to finance loan investments and our cost of funds on such borrowing;
- the level of real estate lending activity in the markets serviced;
- the ability to identify and lend to suitable borrowers;
- the interest rates we are able to charge on loans; and
- the level of delinquencies on loans.

Between 2008 and 2013, we experienced increased delinquent loans and foreclosures which created substantial losses. As a result, we owned significantly more real estate than in the past, which has reduced cash flow and net income. As of September 30, 2017, approximately 8% of our loans are impaired and/or past maturity. As of September 30, 2017, we own approximately $82 million (book value) of real estate held for sale or investment, which is approximately 32% of total assets. During the nine month period ended September 30, 2017, we sold six real estate properties for aggregate net sales proceeds of $54,366,000 and net gains totaling $14,460,000. We will continue to attempt to sell certain of our properties but may need to sell them for losses or wait until market values recover. In addition, under the REIT tax rules, we may be subject to a "prohibited transaction" penalty tax on tax gains from the sale of our properties in certain circumstances. In addition, we are also limited in the number and dollar amount of properties we can sell in a given year under the REIT tax rules.

Although management currently believes that only one of our delinquent loans will result in a credit loss to the Company (and has caused the Company to record a specific allowance for loan losses on such loan), real estate values could decrease further. Management continues to perform frequent evaluations of such collateral values using internal and external sources, including the use of updated independent appraisals. As a result of these evaluations, the allowance for loan losses and our investments in real estate could change in the near term, and such changes could be material.

Our website can be found at www.owensmortgage.com. We make available through the website, access to our annual and quarterly financial statements, current reports on Form 8-K, and amendments to those reports, as well as proxy statements and other periodic reports and filings submitted to the SEC. We also provide access to certain Company presentations, fact sheets, press releases and corporate governance information.

Business Strategy

Our primary business objective is to provide our stockholders with attractive risk-adjusted returns by producing consistent and predictable dividends while maintaining a strong balance sheet. We believe we have positioned the Company for future growth and seek to increase distributions to stockholders through active portfolio management and execution of our business plan which is outlined below:

- Capitalize on market lending opportunity by leveraging our existing origination network to expand our commercial real estate loan portfolio.
- Enhance and reposition our commercial real estate assets through the investment of capital and strategic management.
- Increase liquidity available for lending activities by focusing on opportunities to remove real estate assets from our balance sheet.
- Manage leverage to marginally expand sources of liquidity while maintaining a conservative balance sheet.

Current Market Conditions, Risks and Recent Trends

Our ability to execute our business strategy, particularly the growth of our loan portfolio, is dependent on many factors, including our ability to access financing on favorable terms. The previous economic downturn had a significant negative impact on both us and our borrowers. If similar economic conditions recur in the future, it may limit our options for obtaining financing on favorable terms and may also adversely impact the creditworthiness of our borrowers which could result in their inability to repay their loans.

The commercial real estate markets continue to improve, but uncertainty remains as a result of global market instability, potential increasing interest rates, the current political climate and other matters and their potential impact on the U.S. economy and commercial real estate markets. In addition, the growth in multifamily rental rates seen over the past few years are showing signs of stabilizing. If real estate values decline again and/or rent growth subsides, it may limit our new loan originations since borrowers often use increases in the value of, and revenues produced from, their existing properties to support the purchase or investment in additional properties. Declining real estate values may also significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our investment in the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our interest income from loans as well as our ability to originate loans, which would significantly impact our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders.

The economic environment over the past few years has seen continued improvement in commercial real estate values which has generally increased payoffs and reduced the credit exposure in our loan portfolio. We have made, and continue to make, modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower cannot comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, would lower our net interest margins when comparing interest income to our costs of financing. If the markets were to deteriorate and another prolonged economic downturn was to occur, we believe there could be additional loan modifications and delinquencies, which may result in reduced net interest margins and additional losses throughout our sector.

We believe that improvement in commercial real estate values has also resulted in increased values of some of our real estate assets. Accordingly, as our real estate assets are carried at the lower of carrying value or fair value less costs to sell, it is possible that we have imbedded gains in certain of our real estate properties held for sale and investment that are not reflected in our financial statements or in the value of our stock.

Recent increases in market interest rates have increased interest expense under our Credit Facility and certain other of our borrowings that bear interest at variable rates. Due to competitive conditions in our markets, we have been unable to pass increases in our cost of funds through to our borrowers on the majority of our recent loan investments and, accordingly, the interest rates we receive on our loans has remained relatively unchanged. While we currently have no amounts outstanding on our line of credit, this increase in our cost of funds without corresponding increases in the rates we charge our borrowers will result in a smaller interest margin and, if these conditions continue, may adversely affect our results of operations in the future.

Critical Accounting Policies

Please refer to the section of ORM’s Annual Report on Form 10-K for the year ended December 31, 2016 entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations —Critical Accounting Policies” for a discussion of our critical accounting policies. During the nine months ended September 30, 2017, there were no material changes to these policies.

Results of Operations

Net income attributable to our common stockholders decreased approximately $15,576,000 and $12,482,000 during the three and nine months ended September 30, 2017, as compared to the corresponding periods in 2016. These decreases in 2017 were primarily a result of the following:

- A decrease in gain on sales of real estate of $19,613,000 and $10,574,000 during the three and nine months ended September 30, 2017, as compared to 2016, due to the sales of four and six real estate properties during the three and nine months ended September 30, 2016, resulting in gain on sales of real estate totaling $20,195,000 and $25,034,000 (or $16,479,000 and $21,318,000 net of $3,716,000 gain attributable to non-controlling interest). We sold two and six properties during the three and nine months ended

September 30, 2017, resulting in gain on sales of real estate totaling $582,000 and $14,460,000, respectively.

- An increase in income tax expense (from income tax benefit) of $1,537,000 and $9,720,000 for the three and nine months ended September 30, 2017, as compared to 2016, primarily due to an increase in the valuation allowance recorded against deferred tax assets as a result of higher construction costs and lower expected gains from the sales of the ZRV assets in the future. The income tax benefit during 2016 was due to the conversion of ZRV into a taxable REIT subsidiary and the contribution of additional real estate assets into ZRV with book and tax basis differences that required the recording of deferred tax assets.

- A decrease in rental and other income from real estate properties net of expenses on such properties of $131,000 and $1,396,000 for the three and nine months ended September 30, 2017 (from income of $146,000 and $898,000 during the three and nine months ended September 30, 2016 to income of $15,000 and loss of $498,000 during the three and nine months ended September 30, 2017) as a result of the sale of four properties during 2016, a one-time increase in property assessments levied on our property located in Tacoma, Washington, decreased revenue on our golf course located in Auburn, California, increased operating expenses on our assisted living facility located in Bensalem, Pennsylvania and increased marketing and other operating costs related to the ZRV condominiums recently completed. Many of the remaining properties held by us are non-operating properties that do not generate income and, thus, will likely continue to generate losses until they are disposed of in 2017 and beyond.

- An increase in general and administrative expense of $172,000 and $298,000 during the three and nine months ended September 30, 2017, as compared to 2016, as a result of higher legal and consulting expenses incurred in 2017 relating to shareholder activism, regulatory compliance matters and evaluation of strategic options related to our external management structure.

- An increase in management and service fees of $39,000 and $435,000, due partially to an increase in the average balance of loans in the Company's portfolio of 27% and 24% during the three and nine months ended September 30, 2017, as compared to the three and nine months ended September 30, 2016. See also discussion of the "Interim Management Fee" in Note 9 to the consolidated financial statements.

The items that decreased net income during the three and nine months ended September 30, 2017 were partially offset by the following:

- An increase in interest income on loans of $707,000 and $1,656,000 during the three and nine months ended September 30, 2017, as compared to 2016, due primarily to an increase in the average balance of performing loans between the three and nine months ended September 30, 2017 and 2016 of 34% and 30%, respectively.

- A decrease in interest expense of $489,000 and $1,529,000 during the three and nine months ended September 30, 2017, as compared to 2016, due to the sale of the TOTB Miami properties and the repayment of the debt securing the properties during the third quarter of 2016 and due to a decrease in the average balance on our line of credit during the three and nine months ended September 30, 2017, as compared to 2016, as we repaid the line of credit in full with the sale of the TSV land in April 2017.

- A decrease in impairment losses on real estate properties of $726,000 and $2,555,000 during the three and nine months ended September 30, 2017, as compared to 2016, as a result of impairment losses recorded on the unimproved residential and commercial land located in Gypsum, Colorado and the medical office condominium property located in Gilbert, Arizona during 2016 (which were subsequently sold), whereas we recorded impairment losses of $368,000 and $649,000 on the marinas located in Bethel Island, California and Isleton, California during the three and nine months ended September 30, 2017.

- A decrease in the provision for loan losses of $358,000 and $569,000 during the three and nine months ended September 30, 2017, as compared to 2016, due to an overall decrease in the loan portfolio during the three month period and a decrease in the amount of land and residential loans in the portfolio which have a higher historical loss factor than commercial loans during the three and nine month periods.

We believe, from period to period in the near term, there will be fluctuations in net income resulting from the lag time between the sale of our real estate assets and deployment of the proceeds into new loan investments.

Comparison of Results of Operations for Three Months Ended September 30, 2017 and 2016

The following table sets forth our results of operations for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Increase/(Decrease)	
	2017	2016	Amount	Percent
Revenues:				
Interest income on loans	$ 2,963,394	$ 2,256,816	$ 706,578	31%
Rental and other income from real estate properties	1,265,961	2,191,357	(925,396)	(42)%
Other income	48,138	45,804	2,334	5%
Total revenues	4,277,493	4,493,977	(216,484)	(5)%
Expenses:				
Management fees to Manager	827,281	808,247	19,034	2%
Servicing fees to Manager	93,179	73,477	19,702	27%
General and administrative expense	510,574	338,696	171,878	51%
Rental and other expenses on real estate properties	1,251,217	2,045,722	(794,505)	(39)%
Depreciation and amortization	302,925	305,105	(2,180)	(1)%
Interest expense	471,942	960,861	(488,919)	(51)%
(Recovery of) provision for loan losses	(396,980)	(38,966)	(358,014)	nm
Impairment losses on real estate properties	367,831	1,094,071	(726,240)	(66)%
Total expenses	3,427,969	5,587,213	(2,159,244)	(39)%
Operating income (loss)	849,524	(1,093,236)	1,942,760	nm
Gain on sales of real estate, net	582,496	20,195,367	(19,612,871)	(97)%
Net income before income taxes	1,432,020	19,102,131	(17,670,111)	(93)%
Income tax (expense) benefit	(1,275,700)	260,848	(1,536,548)	nm
Net income	156,320	19,362,979	(19,206,659)	(99)%
Net income attributable to non-controlling interests	—	(3,630,318)	3,630,318	nm
Net income attributable to common stockholders	$ 156,320	$ 15,732,661	$ (15,576,341)	(99)%

nm – not meaningful

<u>*Total Revenues*</u>

Interest income on loans increased $707,000 (31% increase) during the three months ended September 30, 2017, as compared to 2016. This increase was primarily due to an increase in the average balance of performing loans between the quarter ended September 30, 2017 and the quarter ended September 30, 2016 of approximately 34%.

Rental and other income from real estate properties decreased $925,000 (42% decrease) during the three months ended September 30, 2017, as compared to 2016, primarily due to the sale of four properties during the year ended December 31, 2016. These properties had rental income totaling approximately $979,000 during the three months ended September 30, 2016.

Expenses

Management fees increased $19,000 (2% increase) and servicing fees increased $20,000 (27% increase) during the three months ended September 30, 2017, as compared to 2016. The servicing fee increase was due to an increase in the average balance of loans in our portfolio of 27% during the three months ended September 30, 2017, as compared to 2016. As discussed above under Note 9, the Board and the Manager have agreed to adjust the "Existing Management Fee" during the Adjustment Period, and the new "Interim Management Fee" calculation (based on stockholders equity) resulted in a management fee for the quarter ended September 30, 2017 that was approximately $198,000 lower than the fee that would have been payable to the Manager using the "Existing Management Fee" calculation (which is based on the average balance of loans in our portfolio). There can be no assurance that the Interim Management Fee calculation, and the resulting reduced management fees payable, will continue beyond the Adjustment Period.

General and administrative expense increased $172,000 (51% increase) during the three months ended September 30, 2017, as compared to 2016. The increase was due primarily to higher legal and consulting expenses during 2017 as compared to 2016 relating to shareholder activism, regulatory compliance matters and evaluation of strategic options related to our external management structure.

Rental and other expenses on real estate properties decreased $795,000 (39% decrease) during the three months ended September 30, 2017, as compared to 2016, primarily due to the sale of four properties during the year ended December 31, 2016. These properties had rental expenses totaling approximately $907,000 during the three months ended September 30, 2016. The decrease from the sale of these properties was offset by disbursements of $50,000 related to certain operating expenses of our assisted living facility located in Bensalem, Pennsylvania and increased marketing and other operating costs related to the ZRV condominiums (recently completed) at our property located in South Lake Tahoe, California during the quarter ended September 30, 2017. We will continue to have increased operating costs of the ZRV property until such time as the remaining condominium units are sold and the commercial units are leased and/or sold.

Interest expense decreased $489,000 (51% decrease) during the three months ended September 30, 2017 as compared to 2016, due to the sale of the TOTB Miami properties and the repayment of the debt securing the properties during the third quarter of 2016 and due to a decrease in the average balance on our line of credit during the quarter ended September 30, 2017, as compared to 2016, as we repaid the line of credit in full with the sale of the TSV land in April 2017.

The recovery of loan losses of $397,000 during the three months ended September 30, 2017 was the result of an analysis performed on the loan portfolio. The general loan loss allowance decreased $397,000 during the three months ended September 30, 2017 primarily due to a decrease in the overall balance of performing loans during the quarter and a decrease in land and residential loans which have a higher historical loss factor. We recorded a recovery of loan losses of $39,000 during the three months ended September 30, 2016.

The impairment losses on real estate properties of $368,000 during the three months ended September 30, 2017 was the result of a reduction of the sale price of our marina located in Bethel Island, California and a decrease in the estimated fair market value of our marina located in Isleton, California at the time it was listed for sale during the quarter. We recorded an impairment loss of $1,094,000 on the medical office condominium property located in Gilbert, Arizona during the three months ended September 30, 2016 as a result of signing an agreement to sell the property.

Gain on Sales of Real Estate

Gain on sales of real estate decreased $19,613,000 during the three months ended September 30, 2017, as compared to 2016, as a result of the sale of four real estate properties during the quarter ended September 30, 2016, resulting in gains totaling $20,195,000 (see further detail under *"Net Income Attributable to Non-Controlling Interests*" and *"Real Estate Properties Held for Sale and Investment"* below). We sold two real estate properties during the three months ended September 30, 2017 for gains totaling $582,000.

Income Tax Expense (Benefit)

We recorded income tax expense related to our taxable REIT subsidiaries of $1,276,000 during the three months ended September 30, 2017 as compared to income tax benefit of $261,000 during the three months ended September 30, 2016. The income tax expense during the quarter ended September 30, 2017 was primarily the result of an increase in the valuation allowance recorded against deferred tax assets as a result of higher construction costs and lower expected gains from the sales of ZRV assets in the future. The Company's effective tax rate for the three months ended September 30, 2017 differed from the statutory tax rate primarily due to an increase in the valuation allowance on deferred tax assets as discussed above. The Company's effective tax rate for the three months ended September 30, 2016 differed from the statutory tax rate primarily due to re-measurement of California deferred tax assets due to changes in the expected timing of California vs. Arizona property sales and the effects of same on California apportionment. Management has estimated future taxable gains and losses on sale of ZRV real estate assets to determine how much of the deferred tax assets are realizable. This realizability analysis is inherently subjective and actual results could differ from these estimates.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests decreased $3,630,000 during the three months ended September 30, 2017, as compared to 2016, because there was a net income attributable to our joint venture partner (the Manager) in TOTB Miami, LLC of approximately $3,630,000 during the quarter ended September 30, 2016, as opposed to $0 during the quarter ended September 30, 2017, as the properties held within TOTB were sold in September 2016 and the LLC dissolved.

Comparison of Results of Operations for Nine Months Ended September 30, 2017 and 2016

The following table sets forth our results of operations for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,		Increase/(Decrease)	
	2017	2016	Amount	Percent
Revenues:				
Interest income on loans	$ 8,151,798	$ 6,495,836	$ 1,655,962	25%
Rental and other income from real estate properties	3,392,168	6,782,758	(3,390,590)	(50)%
Other income	138,222	133,114	5,108	4%
Total revenues	11,682,188	13,411,708	(1,729,520)	(13)%
Expenses:				
Management fees to Manager	2,781,474	2,398,911	382,563	16%
Servicing fees to Manager	270,834	218,083	52,751	24%
General and administrative expense	1,540,260	1,242,040	298,220	24%
Rental and other expenses on real estate properties	3,890,536	5,885,029	(1,994,493)	(34)%
Depreciation and amortization	916,668	958,025	(41,357)	(4)%
Interest expense	1,120,917	2,649,616	(1,528,699)	(58)%
(Recovery of) provision for loan losses	(221,700)	347,029	(568,729)	nm
Impairment losses on real estate properties	649,457	3,204,221	(2,554,764)	(80)%
Total expenses	10,948,446	16,902,954	(5,954,508)	(35)%
Operating income (loss)	733,742	(3,491,246)	4,224,988	nm
Gain on sales of real estate, net	14,460,030	25,034,182	(10,574,152)	(42)%
Net income before income taxes	15,193,772	21,542,936	(6,349,164)	(29)%
Income tax (expense) benefit	(2,089,827)	7,629,683	(9,719,510)	nm
Net income	13,103,945	29,172,619	(16,068,674)	(55)%
Net income attributable to non-controlling interests	—	(3,586,963)	3,586,963	nm
Net income attributable to common stockholders	$ 13,103,945	$ 25,585,656	$ (12,481,711)	(49)%

nm – not meaningful

Total Revenues

Interest income on loans increased $1,656,000 (25% increase) during the nine months ended September 30, 2017, as compared to 2016. This increase was primarily due to an increase in the average balance of performing loans between the nine months ended September 30, 2017 and the nine months ended September 30, 2016 of approximately 30%.

Rental and other income from real estate properties decreased $3,391,000 (50% decrease) during the nine months ended September 30, 2017, as compared to 2016, primarily due to the sale of four properties during the year ended December 31, 2016. These properties had rental income totaling approximately $3,369,000 during the nine months ended September 30, 2016. There was also a decrease in income from our golf course located in Auburn, California of approximately $136,000 during the nine months ended September 30, 2017 as compared to 2016.

Expenses

Management fees increased $383,000 (16% increase) and servicing fees increased $53,000 (24% increase) during the nine months ended September 30, 2017, as compared to 2016, due primarily to an increase in the average balance of loans in our portfolio of 24% during the nine months ended September 30, 2017, as compared to 2016. The management fees did not increase as much as the service fees because, as discussed under Note 9 above, the Board and the Manager have agreed to adjust the “Existing Management Fee” during the Adjustment Period, and the new “Interim Management Fee” calculation (which is based on stockholders’ equity) resulted in a management fee for the quarter ended September 30, 2017 that was approximately $198,000 lower than the fee that would have been payable to the Manager using the "Existing Management Fee" calculation.

General and administrative expense increased $298,000 (24% increase) during the nine months ended September 30, 2017, as compared to 2016. The increase was due primarily to higher legal and consulting expenses during the nine months ended September 30, 2017 as compared to 2016 relating to shareholder activism, regulatory compliance matters and evaluation of strategic options related to our external management structure.

Rental and other expenses on real estate properties decreased $1,994,000 (34% decrease) during the nine months ended September 30, 2017, as compared to 2016, primarily due to the sale of four properties during the year ended December 31, 2016. These properties had rental expenses totaling approximately $2,612,000 during the nine months ended September 30, 2016. The decrease from the sale of these properties was offset by a one-time increase in property assessments levied on our mixed-use property located in Tacoma, Washington in the amount of approximately $268,000, disbursements of $250,000 related to certain operating expenses of our assisted living facility located in Bensalem, Pennsylvania and increased marketing and other operating costs related to the Zalanta condominiums (recently completed) at our property located in South Lake Tahoe, California during the nine months ended September 30, 2017. We will continue to have increased operating costs of the Zalanta property until such time as the remaining condominium units are sold and the commercial units are leased and/or sold.

Interest expense decreased $1,529,000 (58% decrease) during the nine months ended September 30, 2017 as compared to 2016, due to the sale of the TOTB Miami properties and the repayment of the debt securing the properties during the third quarter of 2016 and due to a decrease in the average balance on our line of credit during the nine months ended September 30, 2017, as compared to 2016, as we repaid the line of credit in full with the sale of the TSV land in April 2017.

The recovery of loan losses of $222,000 during the nine months ended September 30, 2017 was the result of an analysis performed on the loan portfolio. The general loan loss allowance decreased $222,000 during the nine months ended September 30, 2017 primarily due to a decrease in the overall balance of performing loans during the quarter and a decrease in land and residential loans which have a higher historical loss factor. We recorded a provision for loan losses of $347,000 during the nine months ended September 30, 2016.

The impairment losses on real estate properties of $649,000 during the nine months ended September 30, 2017 was the result of an agreement to sell our marina located in Bethel Island, California at a price that was lower than the book value and a decrease in the estimate fair market value of our marina located in Isleton, California at the time it was listed for sale during the quarter ended September 30, 2017. We recorded impairment losses totaling $3,204,000 on the medical office condominium property located in Gilbert, Arizona and the unimproved residential and commercial land located in Gypsum, Colorado during the nine months ended September 30, 2016.

<u>Gain on Sales of Real Estate</u>

Gain on sales of real estate decreased $10,574,000 during the nine months ended September 30, 2017, as compared to 2016, as a result of the sale of six real estate properties during 2016, resulting in gains totaling $25,034,000 (see further detail under *"Net Income Attributable to Non-Controlling Interests*" and *"Real Estate Properties Held for Sale and Investment"* below). We sold six real estate properties during the nine months ended September 30, 2017, resulting in gains totaling $14,460,000.

<u>Income Tax Expense (Benefit)</u>

We recorded income tax expense related to our taxable REIT subsidiaries of $2,090,000 during the nine months ended September 30, 2017 as compared to income tax benefit of $7,630,000 during the nine months ended September 30, 2016. The income tax expense during the nine months ended September 30, 2017 was primarily the result of an increase in the valuation allowance recorded against deferred tax assets as a result of higher construction costs and lower expected gains from the sales of ZRV assets in the future. The income tax benefit during the nine months ended September 30, 2016 was a result of the transfer of two properties into ZRV and conversion of ZRV into a taxable REIT subsidiary, which made the income (loss) from these real estate assets taxable. Due to differences between the book and tax basis of the assets, a deferred tax asset and related income tax benefit totaling

$7,630,000 was recorded as of September 30, 2016. The Company's effective tax rate for 2017 differed from the statutory tax rate primarily due to an increase in the valuation allowance on deferred tax assets as discussed above. The Company's effective tax rate for 2016 differed from the statutory tax rate because the three properties held within the ZRV TRS had differences between their respective book basis and tax basis and management projected that the Company would realize the benefits from deferred tax assets related to these basis differences. As a result, a $7,630,000 deferred tax benefit was recorded during 2016. Management has estimated future taxable gains and losses on sale of ZRV real estate assets to determine how much of the deferred tax assets are realizable. This realizability analysis is inherently subjective and actual results could differ from these estimates.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests decreased $3,587,000 during the nine months ended September 30, 2017, as compared to 2016, because there was net income attributable to our joint venture partner (the Manager) in TOTB Miami, LLC of approximately $3,587,000 during the nine months ended September 30, 2016, as opposed to $0 during the nine months ended September 30, 2017, as the properties held within TOTB were sold in September 2016 and the LLC dissolved.

Financial Condition

September 30, 2017 and December 31, 2016

Loan Portfolio

During the quarter ended September 30, 2017, we advanced $6,011,000 on three new loans (with fully funded note balances totaling $6,847,000) and advanced additional amounts to borrowers on existing loans of approximately $4,286,000 (total of $10,297,000). We also received full or partial payoffs on ten loans totaling $32,878,000 during the quarter. We extended the maturity dates on one loan with a principal balance of $522,000 during the three months ended September 30, 2017.

Our portfolio of loan investments decreased from 55 to 53 and the average loan balance increased from $2,358,000 to $2,586,000, between December 31, 2016 and September 30, 2017.

As of September 30, 2017 and December 31, 2016, we had two loans that were impaired totaling approximately $2,244,000 (1.6% of the portfolio) and $4,884,000 (3.8%), respectively. This included matured loans totaling $2,026,000 (1.5%) and $4,656,000 (3.6%), respectively. In addition, $8,789,000 (6.4%) and $8,686,000 (6.7%) of loans were past maturity but current with respect to monthly payments as of September 30, 2017 and December 31, 2016 (combined total of impaired and past maturity loans of $11,033,000 (8.1%) and $13,570,000 (10.5%), respectively). As of September 30, 2017 and December 31, 2016, no loans were in the process of foreclosure or involved borrowers who were in bankruptcy.

As of September 30, 2017 and December 31, 2016, approximately $136,837,000 (99.8%) and $129,454,000 (99.8%) of our loans are interest-only and require the borrower to make a "balloon payment" on the principal amount upon maturity of the loan. To the extent that a borrower has an obligation to pay mortgage loan principal in a large lump sum payment, its ability to satisfy this obligation may be dependent upon its ability to sell the property, obtain suitable refinancing or otherwise raise a substantial cash amount. As a result, these loans involve a higher risk of default than fully amortizing loans. Borrowers occasionally are not able to pay the full amount due at the maturity date. We may allow these borrowers to continue making the regularly scheduled monthly interest payments for certain periods of time to assist the borrower in meeting the balloon payment obligation without formally filing a notice of default. These loans for which the principal is due and payable, but the borrower has failed to make such payment of principal, are referred to as "past maturity loans". As of September 30, 2017 and December 31, 2016, we had ten and eight past maturity loans totaling approximately $10,815,000 and $13,342,000, respectively.

As of September 30, 2017 and December 31, 2016, we held the following types of loans:

	September 30, 2017	December 31, 2016
By Property Type:		
Commercial	$ 118,727,116	$ 102,442,111
Residential	14,232,827	19,001,677
Land	4,095,000	8,238,523
	$ 137,054,943	$ 129,682,311
By Position:		
Senior loans	$ 133,665,434	$ 126,873,673
Junior loans	3,389,509	2,808,638
	$ 137,054,943	$ 129,682,311

The types of property securing our commercial real estate loans are as follows as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Commercial Real Estate Loans:		
Office	$ 27,611,000	$ 33,608,898
Retail	27,295,190	19,959,635
Apartment	22,326,796	11,366,570
Storage	14,207,907	13,015,175
Hotel	11,559,892	9,567,143
Marina	3,500,000	3,500,000
Warehouse	3,000,000	—
Industrial	2,690,000	7,376,477
Parking garage	2,200,000	—
Assisted care	1,616,331	1,328,213
Church	1,175,000	1,175,000
Golf course	1,145,000	1,145,000
Restaurant	400,000	400,000
	$ 118,727,116	$ 102,442,111

Scheduled maturities of loan investments as of September 30, 2017 and the interest rate sensitivity of such loans are as follows:

	Fixed Interest Rate	Variable Interest Rate	Total
Twelve months ending September 30:			
2017 (past maturity)	$ 10,815,150	$ —	$ 10,815,150
2018	66,866,104	4,950,000	71,816,104
2019	45,880,670	4,559,200	50,439,870
2020	91,088	3,675,000	3,766,088
2021	—	—	—
2022	—	—	—
Thereafter (through Mar. 2028)	217,731	—	217,731
	$ 123,870,743	$ 13,184,200	$ 137,054,943

Our variable rate loans currently use as an index the three-month or six-month LIBOR rates (1.33% and 1.51%, respectively, as of September 30, 2017), or include terms whereby the interest rate is increased at a later date. Premiums over the index vary for each loan and all such loans have specified floor rates.

The following is a schedule by geographic location of loan investments as of September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
	Balance	Percentage	Balance	Percentage
California	$ 105,067,026	76.66%	$ 98,319,923	75.81%
Arizona	2,026,432	1.48%	4,655,517	3.59%
Colorado	1,595,000	1.16%	1,595,000	1.23%
Hawaii	1,450,000	1.06%	1,450,000	1.12%
Indiana	91,088	0.07%	—	—%
Michigan	10,524,662	7.68%	10,337,157	7.97%
Nevada	2,945,107	2.15%	3,669,584	2.83%
Ohio	3,755,000	2.74%	3,627,506	2.80%
Texas	6,508,628	4.75%	6,027,624	4.65%
Washington	3,092,000	2.25%	—	—%
	$ 137,054,943	100.00%	$ 129,682,311	100.00%

As of September 30, 2017 and December 31, 2016, our loans secured by real property collateral located in Northern California totaled approximately 50% ($68,317,000) and 53% ($69,179,000), respectively, of the loan portfolio. The Northern California region (which includes Monterey, Fresno, Kings, Tulare and Inyo counties and all counties north) is a large geographic area which has a diversified economic base. The ability of borrowers to repay loans is influenced by the economic strength of the region and the impact of prevailing market conditions on the value of real estate.

Allowance for Loan Losses

The allowance for loan losses decreased by $568,000 and $100,000 (allowance and recoveries, net of charge-offs) during the nine months ended September 30, 2017 and 2016, respectively. Management believes that the allowance is appropriate given the estimated underlying collateral values of impaired loans and estimates of probable incurred credit losses on loans not considered to be impaired. There is no precise method used to predict delinquency rates or losses on specific loans. Management has considered the number and amount of delinquent loans, loans subject to workout agreements and loans in bankruptcy in determining the allowance for loan losses, but there can be no absolute assurance that the allowance is sufficient. Because any decision regarding allowance for loan losses reflects judgment about the probability of losses yet to be realized, there is an inherent risk that such judgments will prove incorrect. Upon realization, actual losses may exceed (or be less than) the amount of any reserve. To the extent that we experience losses greater than the amount of our reserves, we may incur a charge to earnings that will adversely affect operating results and the amount of any dividends paid.

Changes in the allowance for loan losses for the nine months ended September 30, 2017 and 2016 were as follows:

	September 30, 2017	September 30, 2016
Balance, beginning of period	$ 2,706,822	$ 1,842,446
(Reversal of) provision for loan losses	(221,700)	347,029
Recoveries	27,000	—
Charge-offs	(373,766)	(447,520)
Balance, end of period	$ 2,138,356	$ 1,741,955

As of September 30, 2017 and December 31, 2016, there was a general allowance for loan losses of $1,779,410 and $1,974,110, respectively, and a specific allowance for loan losses on one loan in the amount of $358,946 and $732,712, respectively, as of September 30, 2017 and December 31, 2016.

Real Estate Properties Held for Sale and Investment

As of September 30, 2017, we held title to nineteen properties that were acquired through foreclosure with a total carrying amount of approximately $82,369,000 (including properties held in two corporations and five limited liability companies), net of accumulated depreciation on real estate held for investment of $3,136,000. As of September 30, 2017, properties held for sale total $56,809,000 and properties held for investment total $25,560,000. When we acquire property by foreclosure, we typically earn less income on those properties than could be earned on loans and may not be able to sell the properties in a timely manner.

Real estate properties held for sale as of September 30, 2017 and December 31, 2016 consisted of the following properties acquired through foreclosure:

	September 30, 2017	December 31, 2016
Undeveloped, industrial land, San Jose, California	$ 2,027,581	$ 2,027,581
73 improved, residential lots, Auburn, California (held within Zalanta Resort at the Village, LLC)	3,781,867	3,781,867
One improved residential lot, West Sacramento, California – transferred from held for investment in 2017	58,560	—
Undeveloped, residential land, Coolidge, Arizona – transferred from held for investment in 2017	1,017,600	—
Golf course, Auburn, California (held within Lone Star Golf, Inc.)	1,999,449	1,970,437
Unimproved, residential and commercial land, Gypsum, Colorado – sold in 2017	—	139,498
Commercial and residential land under development, South Lake Tahoe, California (held within Tahoe Stateline Venture, LLC) - sold in 2017	—	28,974,808
6 improved residential lots, Coeur D'Alene, Idaho (now 3 lots after lot line adjustments) – transferred from held for investment in 2017	328,891	—
Marina and yacht club with 179 boat slips, Isleton, California (held within Brannan Island, LLC) – transferred from held for investment in 2017	2,368,750	—
Marina with 52 boat slips and campground, Bethel Island, California (held within Sandmound Marina, LLC) – transferred from held for investment in 2017	967,650	—
Assisted living facility, Bensalem, Pennsylvania – transferred from held for investment in 2017	5,699,777	—
Retail complex and 23 residential condominium units, South Lake Tahoe, California (held within Zalanta Resort at the Village, LLC)*	31,997,726	34,805,253
Residential land under development, South Lake Tahoe, California (held within Zalanta Resort at the Village- Phase II, LLC)*	6,561,023	3,411,652
Office condominium complex, Oakdale, California (held within East G, LLC) – sold in 2017	—	732,539
	$ 56,808,874	$ 75,843,635

* Note: During the nine months ended September 30, 2017, $518,960 book value of land and $2,571,536 of construction and related costs related to common areas in the ZRV project were transferred from ZRV to ZRV II pursuant to a cost sharing agreement between the two entities.

Real estate held for investment is comprised of the following properties as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Commercial buildings, Roseville, California	$ 498,991	$ 515,451
Undeveloped, residential land, Marysville, California	403,200	403,200
Undeveloped land, Auburn, California (formerly part of golf course owned by DarkHorse Golf Club, LLC)	103,198	103,198
One improved residential lot, West Sacramento, California – transferred to held for sale in 2017	—	58,560
Undeveloped, residential land, Coolidge, Arizona – transferred to held for sale in 2017	—	1,017,600
Office condominium complex (14 and 15 units), Roseville, California – one unit sold in 2017	3,063,294	3,447,418
1/7th interest in single family home, Lincoln City, Oregon	93,647	93,647
12 condominium and 3 commercial units, Tacoma, Washington (held within Broadway & Commerce, LLC)	2,275,459	2,311,792
6 improved residential lots, Coeur D'Alene, Idaho – transferred to held for sale in 2017	—	316,800
Retail Complex, South Lake Tahoe, California (held within Tahoe Stateline Venture, LLC)	16,783,872	16,829,995
Marina and yacht club with 179 boat slips, Isleton, California (held within Brannan Island, LLC) – transferred to held for sale in 2017	—	2,555,306
Unimproved, residential and commercial land, Bethel Island, California (held within Sandmound Marina, LLC)	2,338,106	2,335,448
Marina with 52 boat slips and campground, Bethel Island, California (held within Sandmound Marina, LLC) – transferred to held for sale in 2017	—	1,470,639
Assisted living facility, Bensalem, Pennsylvania - transferred to held for sale in 2017	—	5,820,709
	$ 25,559,767	$ 37,279,763

Changes in real estate held for sale and investment during the nine months ended September 30, 2017 and 2016 were as follows:

	September 30, 2017	September 30, 2016
Balance, beginning of period	$ 113,123,398	$ 153,838,412
Real estate acquired through foreclosure, net of specific loan loss allowance	—	700,800
Investments in real estate properties	10,596,502	20,839,072
Amortization of deferred finance costs capitalized into construction project	76,260	69,526
Sales of real estate properties	(39,905,681)	(60,442,232)
Impairment losses on real estate properties	(649,457)	(3,204,221)
Depreciation of properties held for investment	(872,381)	(904,251)
Balance, end of period	$ 82,368,641	$ 110,897,106

Ten of our nineteen properties do not currently generate revenue. Eight of our twenty-five commercial leases are set to expire during the twelve months ending September 30, 2018. All of our twelve residential leases are either on a month-to-month basis or will expire during the twelve months ended September 30, 2018. We expect that new leases will be signed with existing or new tenants for the majority of these spaces and at rental rates that are at market and are at or above expiring rental amounts.

During the three and nine months ended September 30, 2017, the Company recorded impairment losses of approximately $154,000 on the marina property located in Isleton, California due to a reduction in the net fair market value estimated by management at the time the property was listed for sale and transferred from Held for Investment to Held for Sale.

During the three and nine months ended September 30, 2017, we recorded an impairment loss of approximately $214,000 and $495,000 on the marina property located in Bethel Island, California due to an agreement signed by the Company to sell the property at a price that was lower than the book value of the property.

During the three and nine months ended September 30, 2016, we recorded an impairment loss of approximately $1,094,000 on the medical office condominium complex located in Gilbert, Arizona due to an agreement signed by the Company to sell the property at a price that is less than the book value. In addition, during the nine months ended September 30, 2016, we recorded an impairment loss of approximately $2,110,000 on the unimproved residential and commercial land located in Gypsum, Colorado due to a reduction in the net fair market value estimated by management and a decrease in the listing price of the property.

Sales Activity

During the nine months ended September 30, 2017, we sold six real estate properties with details as follows:

	Net Sales Proceeds	Gain (Loss)
Commercial and residential land under development, South Lake Tahoe, California (held within Tahoe Stateline Venture, LLC)	$ 42,329,110	$ 13,210,826
Seven condominium units, South Lake Tahoe, California (held within Zalanta Resort at the Village, LLC)	10,578,517	997,239
Office condominium complex, Oakdale, California (held within East G, LLC)	732,389	(150)
Unimproved, residential and commercial land, Gypsum, Colorado	139,467	(31)
One office condominium unit, Roseville, California	536,228	243,813
1,000 square feet of commercial floor coverage area (held within Tahoe Stateline Venture, LLC)	50,000	8,333
	$ 54,365,711	$ 14,460,030

During the nine months ended September 30, 2016, we sold six real estate properties with details as follows:

	Net Sales Proceeds	Gain
Light industrial building, Paso Robles, California	$ 6,023,679	$ 4,557,979
Commercial building in building complex, Roseville, California	455,132	280,836
169 condominium units and 160 unit renovated and unoccupied apartment building, Miami, Florida (held within TOTB Miami, LLC)*	74,072,951	19,292,364
61 condominium units, Lakewood, Washington (held within Phillips Road, LLC)	4,996,714	813,328
2 improved, residential lots, Auburn, California (held within Zalanta Resort at the Village, LLC)	186,353	89,675
	$ 85,734,829	$ 25,034,182

* $32,881,000 of proceeds were used to pay off debt securing the properties and $7,934,000 was distributed to the non-controlling interest.

Foreclosure Activity

We foreclosed on no loans during the nine months ended September 30, 2017.

During the nine months ended September 30, 2016, the Company foreclosed on one loan secured by an office property located in Oakdale, California with a principal balance of approximately $1,079,000 and obtained the property via the trustee's sale. In addition, accrued interest and advances made on the loan (for items such as legal fees and delinquent property taxes) in the total amount of approximately $70,000 were capitalized to the basis of the property. A specific loan allowance had been previously established on this loan of approximately $495,000. This amount was then recorded as a charge-off against the allowance for loan losses at the time of foreclosure, after a reduction of the previously established allowance in the amount of approximately $48,000 as a result of an updated appraisal obtained (net charge-off of $448,000). The property, along with a unit in the building purchased by the Company in 2015, was contributed into a new taxable REIT subsidiary, East G, LLC, in June 2016. The property was sold during the nine months ended September 30, 2017 and the LLC dissolved.

Equity Method Investment in Limited Liability Company

1850 De La Cruz, LLC

During 2008, we entered into an Operating Agreement of 1850 De La Cruz LLC, a California limited liability company ("1850"), with Nanook Ventures LLC ("Nanook"), an unrelated party. The purpose of the joint venture is to own and operate certain industrial land and buildings located in Santa Clara, California. At the time of closing in July 2008, the two properties were separately contributed to two new limited liability companies, Nanook Ventures One LLC and Nanook Ventures Two LLC that are wholly owned by 1850. The Company and Nanook are the Members of 1850 and NV Manager, LLC is the manager.

The net income to the Company from its investment in 1850 De La Cruz was approximately $46,000 and $46,000 for the three months ended September 30, 2017 and 2016, respectively, and $137,000 and $133,000 for the nine months ended September 30, 2017 and 2016, respectively.

Cash and Cash Equivalents

Cash and cash equivalents increased from approximately $434,000 as of December 31, 2016 to $24,368,000 as of September 30, 2017 ($23,934,000 increase) primarily due to the sale of the TSV land in April 2017 which generated net proceeds of approximately $42.3 million.

Restricted Cash

Restricted cash decreased from approximately $6,500,000 as of December 31, 2016 to $3,500,000 as of September 30, 2017 ($3,000,000 or 46% decrease) due to release of the $3,000,000 deposit required on the ZRV Loan during the quarter ended September 30, 2017 because construction was completed. These funds were used to pay down the loan during the quarter.

Interest and Other Receivables

Interest and other receivables increased from approximately $2,164,000 as of December 31, 2016 to $2,264,000 as of September 30, 2017 ($100,000 or 5% increase) due primarily to growth in the loan portfolio during the nine month period.

Deferred Financing Costs

Deferred financing costs accounted for as assets decreased from approximately $172,000 as of December 31, 2016 to $67,000 as of September 30, 2017 ($105,000 or 61% decrease) due primarily to amortization of deferred financing costs during the nine months ended September 30, 2017.

Deferred Taxes, Net

Deferred taxes, net decreased from approximately $7,249,000 as of December 31, 2016 to $5,159,000 as of September 30, 2017 ($2,090,000 or 29% decrease) due primarily to an increase in the valuation allowance recorded against deferred tax assets as a result of higher construction costs and lower expected gains from the sales of ZRV assets in the future.

Loans, Net

Loans, net of allowance for loan losses, increased from approximately $126,975,000 as of December 31, 2016 to $134,917,000 as of September 30, 2017 ($7,941,000 or 6% increase) due primarily to new loans originated and advances on existing loans during the period of approximately $55,004,000, net of principal collected from the full or partial payoff of loans totaling approximately $47,258,000 and net charge-offs of $374,000 during the period.

Real Estate Held for Sale and Investment

Real estate held for sale and investment decreased from approximately $113,123,000 as of December 31, 2016 to $82,369,000 as of September 30, 2017 ($30,755,000 or 27% decrease) due primarily to the sale of the TSV land and seven condominium units at the ZRV mixed-use residential and commercial property, net of continued construction costs at ZRV during the nine months ended September 30, 2017.

Dividends Payable

Dividends payable decreased from approximately $1,402,000 as of December 31, 2016 to $1,013,000 as of September 30, 2017 ($390,000 or 28% decrease) because the dividend declared and accrued as of December 31, 2016 included a regular dividend of $0.08 per share and dividends accrued in the form of a tax payment made on behalf of stockholders of $583,000, whereas the dividend declared and accrued as of September 30, 2017 only included a regular dividend of $0.10 per share.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased from approximately $3,700,000 as of December 31, 2016 to approximately $1,737,000 as of September 30, 2017 ($1,962,000 or 53% decrease) due primarily to decreased payables related to the construction activities on the property owned by ZRV now that construction has been completed.

Line of Credit Payable

Line of credit payable decreased from $4,976,000 as of December 31, 2016 to no balance outstanding as of September 30, 2017 ($4,976,000 or 100% decrease) as cash proceeds from the sale of the TSV land were used to pay down the line of credit.

Notes and Loans Payable on Real Estate

Notes and loans payable decreased from $33,386,000 as of December 31, 2016 to $29,781,000 as of September 30, 2017 ($3,605,000 or 11% decrease) due primarily to principal payments of approximately $13,580,000 made on the ZRV Construction Loan primarily from the sales of seven condominium units, net of additional advances for construction totaling $10,091,000 during the period.

Asset Quality

A consequence of lending activities is that loan losses will be experienced and that the amount of such losses will vary from time to time, depending on the risk characteristics of the loan portfolio as affected by economic conditions and the financial experiences of borrowers. Many of these factors are beyond our control. There is no precise method of predicting specific losses or amounts that ultimately may be charged off on specific loans or on segments of the loan portfolio.

The conclusion that a Company loan may become uncollectible, in whole or in part, is a matter of judgment. Although institutional lenders are subject to regulations that, among other things, require them to perform ongoing analyses of their loan portfolios (including analyses of loan-to-value ratios, reserves, etc.), and to obtain current information regarding their borrowers and the securing properties, we are not subject to these regulations and have not adopted these practices. Rather, management, in connection with the quarterly closing of our accounting records and the preparation of the financial statements, evaluates our loan portfolio. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in our loan portfolio and current economic conditions. Such evaluation, which includes a review of all loans on which the management determines that full collectability may not be reasonably assured, considers among other matters the following:

- prevailing economic conditions;
- our historical loss experience;
- the types and dollar amounts of loans in the portfolio;
- borrowers' financial condition and adverse situations that may affect the borrowers' ability to pay;
- evaluation of industry trends;
- review and evaluation of loans identified as having loss potential; and
- estimated net realizable value or fair value of the underlying collateral.

Based upon this evaluation, a determination is made as to whether the allowance for loan losses is adequate to cover probable incurred credit losses. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Loan losses deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses. As of September 30, 2017, management believes that the allowance for loan losses of approximately $2,138,000 is adequate in amount to cover probable incurred credit losses. Because of the number of variables involved, the magnitude of possible swings and management's inability to control many of these factors, actual results may and do sometimes differ significantly from estimates made by management. As of September 30, 2017, two loans totaling $2,244,000 were impaired. This includes one past maturity loan totaling $2,026,000. These impaired loans had specific reserves totaling $359,000. After management's evaluation of the loan portfolio, we recorded a decrease in the allowance for loan losses of approximately $568,000 during the nine months ended September 30, 2017 (charge-off against the specific loan loss allowance of $374,000, recovery of bad debt of $27,000 and decrease in general allowance of $222,000). Management believes that the specific allowance for loan losses is appropriate given the estimated fair values of the underlying collateral of impaired loans.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs.

We believe our available cash and restricted cash balances, other financing arrangements, and cash flows from operations will be sufficient to fund our liquidity requirements for the next 12 months.

We require liquidity to:

- fund future loan investments;
- to improve and maintain real estate properties;
- to repay principal and interest on our borrowings;
- to pay our expenses, including compensation to our Manager;
- to pay U.S. federal, state, and local taxes of our TRSs;
- to distribute a minimum of 90% of our REIT taxable income and to make investments in a manner that enables us to maintain our qualification as a REIT; and
- to make tax payments associated with undistributed capital gains.

We intend to meet these liquidity requirements primarily through the following:

- the use of our cash and cash equivalent balances of $24,368,000 as of September 30, 2017;
- cash generated from operating activities, including interest income from our loan portfolio and income generated from our real estate properties;
- proceeds from the sales of real estate properties;
- proceeds from our line of credit;
- proceeds from the construction loan obtained for the ZRV construction project; and
- proceeds from potential future offerings of our equity securities.

The following table summarizes our cash flow activity for the periods presented:

	Nine Months Ended September 30,	
	2017	2016
Net cash used in operating activities	$ (160,516)	$ (1,578,896)
Net cash provided by investing activities	39,302,850	61,319,101
Net cash used in financing activities	(15,208,508)	(50,293,416)

During the nine months ended September 30, 2017, our cash and cash equivalents increased approximately $23,934,000 primarily due the sale of the TSV land in April 2017, offset by loan originations, net of loan repayments during the period.

Operating Activities

Cash flows from operating activities are primarily rental and other income from real estate properties, net of real estate expenses, and interest received from our investments in loans, offset by payment of operating expenses. For the nine months ended September 30, 2017, cash flows used in operating activities decreased $1,418,000, compared to the nine months ended September 30, 2016. The decrease reflects increased interest income earned on loans and lower interest expense during 2017, as compared to 2016, net of higher management and service fees and general and administrative expenses.

Investing Activities

Net cash provided by investing activities for both periods presented reflect our investing activity. For the nine months ended September 30, 2017, cash flows from investing activities decreased $22,016,000 as compared to the nine months ended September 30, 2016. Approximately $39,303,000 was provided by investing activities during the nine month period of 2017 as $104,624,000 was received from the sales of real estate, from loan payoffs and from transfer from restricted cash, which was partially offset by $65,395,000 that was used for investments in loans and real estate properties. Approximately $61,319,000 was provided by investing activities during the nine month period as $128,024,000 was received from the sales of real estate properties, the payoff of loans and transfer from restricted cash, which was partially offset by an aggregate of $66,762,000 that was used for investment in loans and improvements to real estate properties during the period

Financing Activities

Net cash used in financing activities totaled approximately $15,209,000 for the nine months ended September 30, 2017 and consisted primarily of $8,758,000 of net repayments on our lines of credit and notes payable, $3,197,000 of share repurchases pursuant to the 2017 Repurchase Plan and $3,241,000 of dividends paid to stockholders. Net cash used in financing activities totaled approximately $50,293,000 for the nine months ended September 30, 2016 and consisted primarily of $38,183,000 of net repayments on our lines of credit and notes payable, $8,127,000 of distributions to non-controlling interests and $3,773,000 of dividends paid to stockholders.

Dividends

We intend to make regular quarterly distributions to holders of our Common Stock. U.S. federal income tax law generally requires that a REIT annually distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and to the extent that it annually distributes less than 100% of its REIT taxable income in any taxable year, and that it pay tax at regular corporate rates on that undistributed portion. We intend to make regular quarterly distributions to our stockholders in an amount equal to or greater than our REIT taxable income, excluding net capital gains, if and to the extent authorized by our Board of Directors. Before we make any distributions, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, special purpose entities or VIEs, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment to provide additional funding to any such entities.

Contractual Obligations and Commitments

There were no material changes outside of the ordinary course of business in the contractual obligations and commitments as reported in our Annual Report on Form 10-K for the year ended December 31, 2016. Our debt obligations are described in more detail in Note 7 — "Line of Credit Payable" and Note 8 – "Notes and Loans Payable on Real Estate." Refer to Note 14 — "Commitments and Contingencies" and below for a description of our other contractual obligations as of September 30, 2017.

Company Debt

The terms of the Company debt summarized below are described in more detail in Note 7 – "Line of Credit Payable" and Note 8 – "Notes and Loans Payable on Real Estate".

CB&T Line of Credit

As of September 30, 2017, the total amount available to borrow under the CB&T Credit Facility was $38,937,000 and there was no balance outstanding (leaving $38,937,000 available). As of November 3, 2017, the total amount available to borrow under the CB&T Credit Facility is $28,263,000 and there was no balance outstanding (leaving $28,263,000 available). Interest on borrowings under the CB&T Credit Facility are payable monthly and all amounts outstanding under the facility are to be repaid not later than March 1, 2018 and advances may be made up to that date.

Tahoe Stateline Venture, LLC Loan Payable

The full amount available under the TSV Loan has been borrowed, and the balance of the TSV Loan was approximately $13,342,000 as of September 30, 2017 and $13,276,000 as of November 3, 2017. Principal and interest is payable monthly and the balance of the loan is due on the maturity date, which is January 1, 2021.

ZRV Construction Loan

The balance of the ZRV Loan was approximately $16,724,000 as of September 30, 2017 and approximately $16,808,000 as of November 3, 2017. As of September 30, 2017, there was approximately $695,000 available to borrow on the ZRV Loan. Monthly interest payments are required from an established interest reserve. In addition, commencing on August 18, 2017 and continuing on the last day of each quarter thereafter during the term of the Loan, $6 million of principal is required to be repaid. The balance of the ZRV Loan is due on August 3, 2018.

Commitments and Contingencies

As of September 30, 2017, we have commitments to advance additional funds to borrowers of construction, rehabilitation and other loans (including interest reserves) in the total amount of approximately $29,772,000.

Contingency Reserves

We are required to maintain cash, cash equivalents and marketable securities as contingency reserves in an aggregate amount of at least 1.50% of Capital (as defined in our charter). Although the Manager believes the contingency reserves are adequate, it could become necessary for us to sell or otherwise liquidate certain of our investments or other assets to cover such contingencies on terms which might not be favorable to us. The contingency reserves held in restricted cash and/or cash and cash equivalents were approximately $3,733,000 and $3,738,000 as of September 30, 2017 and December 31, 2016, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and real estate values. The primary market risks that we are exposed to are real estate risk and interest rate risk.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results are exposed to the risks related to interest rate fluctuations as the results depend to a significant extent on the differences between income from our loans and our borrowing costs. We generally originate fixed rate loan investments and partially finance those investments with floating rate liabilities. Our investments in fixed rate assets are generally exposed to changes in value due to interest rate fluctuations; however, the short maturity and low debt to investments of our loan portfolio are intended to partially offset that risk. Our average weighted maturity of fixed rate loans as of September 30, 2017 is approximately 8 months though in the past we have extended the maturity date on certain loans which would increase our exposure to interest rate risk. In addition, our outstanding variable rate debt to loan investments as of September 30, 2017 is 12%. All of our variable rate investment loans and certain of our borrowings are subject to various interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense. As a result of the floors on our variable rate investment loans (which are a small part of our loan portfolio), and the short term nature of these loans, the impact of a change in prevailing interest rates on our income is unlikely to be material.

The following table projects the potential impact on our interest expense for a 12-month period assuming an instantaneous increase of 100 basis points in 3 Month LIBOR and one percent in the Prime Rate based on balances outstanding as of September 30, 2017:

	September 30, 2017		
	Variable Rate Loans tied to 3 Mo. Libor	Variable Rate Loans tied to Prime Rate	Total
Aggregate Principal Balance of Debt	$ —	$ 16,724,325	$ 16,724,325
Effect of 100 basis point increase in 3 Mo. Libor	$ —	$ —	$ —
Effect of one percent increase in the Prime Rate	—	167,243	167,243
Totals	$ —	$ 167,243	$ 167,243

In the event of a significant rising interest rate environment and/or economic downturn, default on our loan portfolio could increase and result in losses to us. Such delinquencies or defaults could also have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Credit Risks

Our loans and investments are also subject to credit risk. The performance and value of our loans and investments depend upon the borrowers' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us and the borrowers' ability to refinance the loans or sell the underlying collateral upon maturity. To monitor this risk, our Manager's asset management team reviews our investment portfolios and in certain instances is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

In addition, we are exposed to the risks generally associated with the commercial real estate market, including variances in occupancy rates, capitalization rates, absorption rates, and other macroeconomic factors beyond our control. We seek to manage these risks through our underwriting and asset management processes.

Counterparty Risk

The nature of our business requires us to hold our cash and cash equivalents and obtain financing from various financial institutions. This exposes us to the risk that these financial institutions may not fulfill their obligations to us under these various contractual arrangements. We mitigate this exposure by depositing our cash and cash equivalents and entering into financing and agreements with high quality credit institutions.

The nature of our loans and investments also expose us to the risk that our counterparties do not make required interest and principal payments on scheduled due dates. We seek to manage this risk through our credit analysis prior to making an investment and actively monitoring the asset portfolios that serve as our collateral.

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

Prepayment Risk

Our revenue and earnings may be affected by prepayment rates on our existing investment loans. When we originate our investment loans, we anticipate that we will generate an expected yield. When borrowers prepay their loans faster than we expect, there are no prepayment penalties, and we may be unable to replace these loans with new investment loans that will generate yields which are as high as the prepaid mortgage loans.

Item 4. Controls and Procedures

Management of the Company carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the fiscal quarter ended September 30, 2017. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, which is the end of the period covered by this quarterly report on Form 10-Q, the Company's disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting in the fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company may become involved in various types of legal proceedings including, but not limited to, assignment of rents, bankruptcy proceedings, appointment of receivers, unlawful detainers, and judicial foreclosure. These proceedings may seek to enforce the provisions of the deeds of trust, collect the debt owed under the promissory notes, or to protect, or recoup the Company's investment from the real property secured by the deeds of trust. The Company believes that it is not party to any pending legal or arbitration proceedings that would have a material effect on its financial condition or results of operations or cash flows, although it is possible that the outcome of any such proceedings could have a material impact on net income in any particular period.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our quarterly report on Form 10-Q for the quarter ended June 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes information about the Company's repurchases of its shares of Common Stock, based on settlement date, during the quarterly period ended September 30, 2017:

Issuer Repurchase of Equity Securities[i]

Period	Total Number of Shares Purchased[ii]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31	30,891	$ 17.15	30,891	Dollar amount: $9,472,003[iii]
August 1 through August 31	81,574	$ 17.33	81,574	Dollar amount: $8,063,137[iii]
September 1 through September 30	71,099	$ 17.63	71,099	Dollar amount: $6,813,384[iii]
Total	183,564	$ 17.42	183,564	

[i] On June 9, 2017, the Board of Directors publicly announced the 2017 Repurchase Plan that enables the Company to buy up to $10.0 million of its Common Stock. Purchases began in July 2017. The 2017 Repurchase Plan is set to expire on January 15, 2018, although the Company may terminate the 2017 Repurchase Plan at any time.

[ii] The Company has entered into agreements pursuant to SEC Rule 10b5-1 authorizing a third-party broker to purchase shares on the Company's behalf from time to time, including without limitation during normal blackout periods, in accordance with trading instructions included in such agreements.

[iii] Dollar amount does not include brokerage commissions to be paid of $0.05 per share.

Item 6. Exhibits

(a) Exhibits:

* 3.1	Articles of Amendment and Restatement of Owens Realty Mortgage, Inc., dated January 23, 2013, and related Certificate of Correction dated September 17, 2013, incorporated herein by reference to the Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 16, 2015
* 3.2	Bylaws of Owens Realty Mortgage, Inc., incorporated herein by reference to Annex C to Proxy Statement/Prospectus on Form S-4 which was filed with the SEC on February 13, 2013
* 3.3	Articles Supplementary, dated November 12, 2013, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, incorporated by reference to exhibit 3.1 of the current report on Form 8-K filed with the SEC on November 13, 2013
* 4.1	Form of Common Stock Certificate, incorporated herein by reference to exhibit 4.1 to Proxy Statement/Prospectus on Form S-4 which was filed with the SEC on January 25, 2013
** 31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
** 31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
** 32	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema Document
***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

***101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

*Previously filed.
** Filed herewith.
***This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

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.

OWENS REALTY MORTGAGE, INC.

Dated: November 8, 2017

By: /s/ Bryan H. Draper
Bryan H. Draper, Chief Executive Officer and President
(Principal Executive Officer)

Dated: November 8, 2017

By: /s/ Melina A. Platt
Melina A. Platt, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)