

Owens Realty Mortgage, Inc.
Form 10-Q
November 09, 2015

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Quarterly Period Ended September 30, 2015

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
(State or Other Jurisdiction
of Incorporation or Organization)

46-0778087
(I.R.S. Employer Identification No.)

2221 Olympic Boulevard
Walnut Creek, California
(Address of Principal Executive Offices)

94595
(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 ☒ 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

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(§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 ☒ 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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company |
| (Do not check if a smaller reporting company) <input type="checkbox"/> | |

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

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 6, 2015 |
| Common Stock, \$.01 par value | 10,326,205 shares |

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,707,686 | \$ 1,413,545 |
| Restricted cash | 7,495,337 | 6,248,746 |
| Loans, net of allowance for loan losses of \$3,341,714 in 2015 and \$2,869,355 in 2014 | 73,492,372 | 65,164,156 |
| Interest and other receivables | 1,688,948 | 1,482,380 |
| Other assets, net of accumulated depreciation and amortization of \$259,597 in 2015 and \$1,065,172 in 2014 | 681,715 | 1,138,123 |
| Deferred financing costs, net of accumulated amortization of \$676,047 in 2015 and \$253,675 in 2014 | 936,948 | 1,317,585 |
| Investment in limited liability company | 2,188,064 | 2,142,581 |
| Real estate held for sale | 104,681,106 | 59,494,339 |
| Real estate held for investment, net of accumulated depreciation of \$2,591,431 in 2015 and \$6,075,287 in 2014 | 53,905,407 | 103,522,466 |
| Total assets | \$ 251,777,583 | \$ 241,923,921 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES: | | |
| Dividends payable | \$ 835,533 | \$ 1,292,160 |
| Due to Manager | 234,588 | 283,644 |
| Accounts payable and accrued liabilities | 4,654,230 | 2,219,674 |
| Deferred gains on sales of real estate | 209,662 | 362,283 |
| Lines of credit payable | 8,954,000 | 11,450,000 |
| Notes and loans payable on real estate | 41,197,782 | 37,569,549 |
| Total liabilities | 56,085,795 | 53,177,310 |
| Commitments and Contingencies (Note 13) | | |
| EQUITY: | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2015 and December 31, 2014 | — | — |
| Common stock, \$.01 par value per share, 50,000,000 shares authorized, 11,198,119 shares issued, 10,407,738 and 10,768,001 shares outstanding at September 30, 2015 and December 31, 2014 | 111,981 | 111,981 |
| Additional paid-in capital | 182,437,522 | 182,437,522 |
| Treasury stock, at cost – 790,381 and 430,118 shares at September 30, 2015 and December 31, 2014 | (10,602,004) | (5,349,156) |
| Retained earnings | 19,143,709 | 7,371,511 |
| Total stockholders' equity | 191,091,208 | 184,571,858 |
| Non-controlling interests | 4,600,580 | 4,174,753 |
| Total equity | 195,691,788 | 188,746,611 |
| Total liabilities and equity | \$ 251,777,583 | \$ 241,923,921 |

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

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Revenues: | | | | |
| Interest income on loans | \$ 1,372,739 | \$ 1,399,122 | \$ 6,697,476 | \$ 3,564,842 |
| Rental and other income from real estate properties | 2,996,873 | 3,262,549 | 9,983,138 | 8,936,923 |
| Income from investment in limited liability company | 44,605 | 43,686 | 130,483 | 126,357 |
| Other income | — | — | — | 19 |
| Total revenues | 4,414,217 | 4,705,357 | 16,811,097 | 12,628,141 |
| Expenses: | | | | |
| Management fees to Manager | 513,292 | 435,652 | 1,410,293 | 1,275,901 |
| Servicing fees to Manager | 46,663 | 39,605 | 128,208 | 115,991 |
| General and administrative expense | 292,531 | 285,669 | 951,579 | 1,090,876 |
| Rental and other expenses on real estate properties | 2,070,680 | 2,060,670 | 6,420,490 | 5,952,479 |
| Depreciation and amortization | 526,178 | 549,189 | 1,712,136 | 1,642,922 |
| Interest expense | 354,163 | 338,225 | 1,413,109 | 718,707 |
| Bad debt expense | 150,402 | 660 | 150,537 | 1,296 |
| Provision for loan losses | 44,316 | 117,680 | 472,359 | 141,032 |
| Impairment losses on real estate properties | — | 123,500 | 1,256,434 | 179,040 |
| Total expenses | 3,998,225 | 3,950,850 | 13,915,145 | 11,118,244 |
| Operating income | 415,992 | 754,507 | 2,895,952 | 1,509,897 |
| Gain on sales of real estate, net | — | 113,113 | 15,031,299 | 2,740,105 |
| Gain on foreclosure of loan | — | — | — | 257,020 |
| Net income | 415,992 | 867,620 | 17,927,251 | 4,507,022 |
| Less: Net income attributable to non-controlling interests | (31,671) | (83,797) | (2,630,434) | (151,752) |
| Net income attributable to common stockholders | \$ 384,321 | \$ 783,823 | \$ 15,296,817 | \$ 4,355,270 |
| Per common share data: | | | | |
| Basic and diluted earnings per common share | \$ 0.04 | \$ 0.07 | \$ 1.43 | \$ 0.40 |
| Basic and diluted weighted average number of common shares outstanding | 10,538,735 | 10,768,001 | 10,690,736 | 10,768,495 |
| Dividends declared per share of common stock | \$ 0.08 | \$ 0.05 | \$ 0.33 | \$ 0.15 |

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, 2015 and 2014
(UNAUDITED)

| | Common Stock | | Additional Paid-in | Treasury Stock | | Retained | Total Stockholders' Equity | Non- controlling |
|---|--------------|------------|-----------------------|----------------|-----------------|---------------|-------------------------------|---------------------|
| | Shares | Amount | Capital | Shares | Amount | Earnings | | Interests |
| Balances, December 31, 2013 | 11,198,119 | \$ 111,981 | \$ 182,437,522 | (403,910) | \$ (5,023,668) | \$ 2,348,575 | \$ 179,874,410 | \$ 6,351 |
| Net income | — | — | — | — | — | 4,355,270 | 4,355,270 | 151 |
| Dividends declared | — | — | — | — | — | (1,614,533) | (1,614,533) | — |
| Purchase of treasury stock | — | — | — | (26,208) | (325,488) | — | (325,488) | — |
| Contribution from non-controlling interest | — | — | — | — | — | — | — | 112 |
| Distributions to non-controlling interests | — | — | — | — | — | — | — | (6) |
| Balances, September 30, 2014 | 11,198,119 | \$ 111,981 | \$ 182,437,522 | (430,118) | \$ (5,349,156) | \$ 5,089,312 | \$ 182,289,659 | \$ 6,610 |
| Balances, December 31, 2014 | 11,198,119 | \$ 111,981 | \$ 182,437,522 | (430,118) | (5,349,156) | \$ 7,371,511 | \$ 184,571,858 | \$ 4,174 |
| Net income | — | — | — | — | — | 15,296,817 | 15,296,817 | 2,630 |
| Dividends declared | — | — | — | — | — | (3,524,619) | (3,524,619) | — |
| Purchase of treasury stock | — | — | — | (360,263) | (5,252,848) | — | (5,252,848) | — |
| Contribution from non-controlling interest | — | — | — | — | — | — | — | 279 |
| Distributions to non-controlling interests | — | — | — | — | — | — | — | (2,483) |
| Balances, September 30, | 11,198,119 | \$ 111,981 | \$ 182,437,522 | (790,381) | \$ (10,602,004) | \$ 19,143,709 | \$ 191,091,208 | \$ 4,600 |

2015

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

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|--------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 17,927,251 | \$ 4,507,022 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sales of real estate and other assets, net | (15,031,299) | (2,740,105) |
| Gain on foreclosure of loan | — | (257,020) |
| Income from investment in limited liability company | (130,483) | (126,357) |
| Provision for loan losses | 472,359 | 141,032 |
| Impairment losses on real estate properties | 1,256,434 | 179,040 |
| Depreciation and amortization of real estate and related assets | 1,712,136 | 1,642,922 |
| Amortization of deferred financing costs to interest expense | 266,862 | 78,261 |
| Accretion of discount on loan to interest income | (536,816) | (85,403) |
| Changes in operating assets and liabilities: | | |
| Interest and other receivables | (206,568) | (561,304) |
| Other assets | (46,149) | (74,934) |
| Accounts payable and accrued liabilities | 91,447 | (198,465) |
| Due to Manager | (49,056) | (98,161) |
| Net cash provided by operating activities | 5,726,118 | 2,406,528 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Principal collected on loans | 31,698,649 | 20,857,860 |
| Investments in loans | (39,962,408) | (27,168,876) |
| Investment in real estate properties | (15,475,195) | (18,024,721) |
| Net proceeds from disposition of real estate properties and other assets | 34,865,173 | 174,890 |
| Purchases of furniture, fixtures and equipment | (48,402) | (7,212) |
| Transfer to restricted cash, net | (1,246,591) | (1,485,050) |
| Distribution received from investment in limited liability company | 85,000 | 84,000 |
| Net cash provided by (used in) investing activities | 9,916,226 | (25,569,109) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Advances on notes payable | 23,538,846 | 372,472 |
| Repayments on notes payable | (19,910,613) | (330,905) |
| Advances on lines of credit | 30,161,000 | 41,144,507 |
| Repayments on lines of credit | (32,657,000) | (20,291,807) |
| Payment of deferred financing costs | (41,735) | (354,549) |
| Distributions to non-controlling interests | (2,483,791) | (6,108) |
| Contributions from non-controlling interest | 279,184 | 112,533 |
| Purchase of treasury stock | (5,252,848) | (325,488) |
| Dividends paid | (3,981,246) | (1,256,133) |
| Net cash (used in) provided by financing activities | (10,348,203) | 19,064,522 |

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| | | |
|--|--------------|--------------|
| Net increase (decrease) in cash and cash equivalents | 5,294,141 | (4,098,059) |
| Cash and cash equivalents at beginning of period | 1,413,545 | 8,158,734 |
| Cash and cash equivalents at end of period | \$ 6,707,686 | \$ 4,060,675 |

Supplemental Disclosures of Cash Flow Information

| | | |
|--|--------------|------------|
| Cash paid during the period for interest (excluding amounts capitalized) | \$ 1,207,669 | \$ 705,238 |
| Cash paid during the period for interest that was capitalized | 187,784 | — |

Supplemental Disclosures of Non-Cash Activity

| | | | |
|--|-------------|------------|--------------|
| Increase in real estate from loan foreclosures | \$ | — | \$ 3,241,220 |
| Decrease in loans, net of allowance for loan losses, from loan foreclosures | | — | (2,959,500) |
| Decrease in interest and other receivables from loan foreclosures | | — | (281,720) |
| Transfers from real estate held for investment to real estate held for sale | 64,627,930 | 11,651,439 | |
| Transfers from real estate held for sale to real estate held for investment | 1,953,677 | 1,958,400 | |
| Capital expenditures financed through accounts payable | (2,343,109) | (838,419) | |
| Deferred financing costs paid from construction loan | | — | 620,391 |
| Amortization of deferred financing costs capitalized to construction project | (155,510) | (69,116) | |

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

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

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. 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 intends to distribute substantially all of its operating income. 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, 2014 filed with the Securities and Exchange Commission (“SEC”). The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results to be expected for the full year ending December 31, 2015. 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 subsidiary (TRS) and its majority- and wholly-owned limited liability companies (see notes 5 and 6). 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 statements 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.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs," or ASU 2015-03. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this ASU by the Company will change the presentation of debt issuance costs of its notes and loans payable, which will be reported as a direct offset to the applicable debt on the balance sheet. Pursuant to Accounting Standards Update 2015-15 that was issued by the FASB in August 2015, this treatment will not be required for the Company's line of credit arrangements.

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 is effective for the first interim or annual period beginning after December 15, 2016 (deferred by one year to December 15, 2017 with ASU 2015-14 issued in August 2015) , and is to be applied prospectively. Early adoption is not permitted. The Company is currently evaluating the impact that ASU 2014-09 will have on its financial statements.

In April 2014, the FASB issued Accounting Standards Update 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU 2014-08 updated guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of this new guidance, future dispositions of real estate owned assets may no longer meet the criteria to be considered as discontinued operations. The guidance was effective as of the first quarter of 2015 and did not have a material effect on the Company's consolidated financial statements.

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, 2014 included in its 2014 annual report on Form 10-K. There have been no significant changes to those significant accounting policies.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following tables show the changes in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 and 2014 and the allocation of the allowance for loan losses and loans as of September 30, 2015 and December 31, 2014 by portfolio segment and by impairment methodology:

| 2015 | Commercial | Residential | Land | Total |
|---|------------|-------------|---------|-----------|
| Allowance for loan losses: | | | | |
| Three Months Ended September 30, 2015 | | | | |
| Beginning balance | \$ 940,215 | 2,074,617 | 282,566 | 3,297,398 |
| Charge-offs | — | — | — | — |
| Provision | (40,858) | 85,174 | — | 44,316 |
| Ending Balance | \$ 899,357 | 2,159,791 | 282,566 | 3,341,714 |
| Nine Months Ended September 30, 2015 | | | | |
| Beginning balance | \$ 88,260 | 1,975,112 | 5,983 | 2,869,355 |
| Charge-offs | — | — | — | — |
| Provision | 11,097 | 184,679 | 276,583 | 472,359 |
| Ending balance | \$ 899,357 | 2,159,791 | 282,566 | 3,341,714 |
| As of September 30, 2015 | | | | |
| Ending balance: individually evaluated for impairment | \$ 480,005 | 1,839,345 | — | 2,319,350 |
| Ending balance: collectively | \$ 419,352 | 320,446 | 282,566 | 1,022,364 |

evaluated for
impairment

| | | | | | |
|----------------|----|-----------|-------------|-----------|-----------|
| Ending balance | \$ | 899,357\$ | 2,159,791\$ | 282,566\$ | 3,341,714 |
|----------------|----|-----------|-------------|-----------|-----------|

Loans:

| | | | | | |
|----------------|----|--------------|--------------|-------------|------------|
| Ending balance | \$ | 51,011,804\$ | 19,779,734\$ | 6,042,548\$ | 76,834,086 |
|----------------|----|--------------|--------------|-------------|------------|

| | | | | | |
|--|----|-------------|-------------|-----|------------|
| Ending balance: individually evaluated for impairment | \$ | 2,510,752\$ | 7,779,694\$ | —\$ | 10,290,446 |
|--|----|-------------|-------------|-----|------------|

| | | | | | |
|--|----|--------------|--------------|-------------|------------|
| Ending balance: collectively evaluated for impairment | \$ | 48,501,052\$ | 12,000,040\$ | 6,042,548\$ | 66,543,640 |
|--|----|--------------|--------------|-------------|------------|

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

| 2014 | Commercial | Residential | Land | Total |
|---|--------------|--------------|----------|--------------|
| Allowance for loan losses: | | | | |
| Three Months Ended September 30, 2014 | | | | |
| Beginning balance | \$ 1,507,196 | \$ 3,249,975 | \$ 5,269 | \$ 4,762,440 |
| Charge-offs | — | — | — | — |
| Provision | 46,937 | 70,742 | 1 | 117,680 |
| Ending Balance | \$ 1,554,133 | \$ 3,320,717 | \$ 5,270 | \$ 4,880,120 |
| Nine Months Ended September 30, 2014 | | | | |
| Beginning balance | \$ 932,651 | \$ 3,798,203 | \$ 8,234 | \$ 4,739,088 |
| Charge-offs | — | — | — | — |
| Provision (reversal) | 621,482 | (477,486) | (2,964) | 141,032 |
| Ending balance | \$ 1,554,133 | \$ 3,320,717 | \$ 5,270 | \$ 4,880,120 |
| As of December 31, 2014 | | | | |
| Ending balance: individually evaluated for impairment | \$ 550,010 | \$ 1,839,345 | \$ — | \$ 2,389,355 |
| Ending balance: collectively evaluated for impairment | \$ 338,250 | \$ 135,767 | \$ 5,983 | \$ 480,000 |
| Ending balance | \$ 888,260 | \$ 1,975,112 | \$ 5,983 | \$ 2,869,355 |

Loans:

| | | | | | |
|----------------|----|--------------|---------------|--------------|------------|
| Ending balance | \$ | 52,531,537\$ | 13,491,906 \$ | 2,010,068 \$ | 68,033,511 |
|----------------|----|--------------|---------------|--------------|------------|

| | | | | | |
|--|----|--------------|--------------|--------------|------------|
| Ending balance: individually evaluated for impairment | \$ | 12,666,935\$ | 7,788,747 \$ | 1,860,068 \$ | 22,315,750 |
|--|----|--------------|--------------|--------------|------------|

| | | | | | |
|--|----|--------------|--------------|------------|------------|
| Ending balance: collectively evaluated for impairment | \$ | 39,864,602\$ | 5,703,159 \$ | 150,000 \$ | 45,717,761 |
|--|----|--------------|--------------|------------|------------|

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following tables show an aging analysis of the loan portfolio by the time monthly payments are past due as of September 30, 2015 and December 31, 2014:

| September 30, 2015 | 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 \$ | \$- | 1,432,000\$ | 1,078,752\$ | 2,510,752\$ | 48,501,052\$ | 51,011,804 |
| Residential | — | — | 7,779,694 | 7,779,694 | 12,000,040 | 19,779,734 |
| Land | — | — | — | — | 6,042,548 | 6,042,548 |
| \$ | \$- | 1,432,000\$ | 8,858,446\$ | 10,290,446\$ | 66,543,640\$ | 76,834,086 |

| December 31, 2014 | 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 \$ | \$- | \$- | 1,078,752 \$ | 1,078,752 \$ | 51,452,785 \$ | 52,531,537 |
| Residential | — | — | 7,788,747 | 7,788,747 | 5,703,159 | 13,491,906 |
| Land | — | — | 1,860,068 | 1,860,068 | 150,000 | 2,010,068 |
| \$ | \$- | \$- | 10,727,567 \$ | 10,727,567 \$ | 57,305,944 \$ | 68,033,511 |

All of the loans that are 90 or more days past due as listed above are on non-accrual status as of September 30, 2015 and December 31, 2014. In addition, two commercial loans totaling \$11,588,000 as of December 31, 2014 were considered impaired but were restored to accrual status during 2014 because the Company had received consistent payments from the borrower over a six month period and management expected that the borrower would continue to keep the loans current with respect to principal and interest payments. These two loans were paid off in full during the first quarter of 2015.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following tables show information related to impaired loans as of and for the three and nine months ended September 30, 2015:

As of September 30, 2015

| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| With no related allowance recorded: | | | |
| Commercial | \$ 1,463,453 | \$ 1,432,000 | \$ — |
| Residential | 244,694 | 244,694 | — |
| Land | — | — | — |
| | \$ 1,708,147 | \$ 1,676,694 | \$ — |
| With an allowance recorded: | | | |
| Commercial | \$ 1,144,864 | \$ 1,078,752 | \$ 480,005 |
| Residential | 7,983,345 | 7,535,000 | 1,839,345 |
| Land | — | — | — |
| | \$ 9,128,209 | \$ 8,613,752 | \$ 2,319,350 |
| Totals: | | | |
| Commercial | \$ 2,608,317 | \$ 2,510,752 | \$ 480,005 |
| Residential | 8,228,039 | 7,779,694 | 1,839,345 |
| Land | — | — | — |
| | \$ 10,836,356 | \$ 10,290,446 | \$ 2,319,350 |

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2015 | |
|---|--|----------------------------------|--------------------------------------|----------------------------------|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Commercial | \$ 487,818 | \$ 9,547 | \$ 2,741,825 | \$ 611,206 |
| Residential | 245,725 | 5,654 | 248,762 | 16,581 |
| Land | — | — | 413,348 | 216,904 |
| | \$ 733,543 | \$ 15,201 | \$ 3,403,935 | \$ 844,691 |
| With an allowance recorded: | | | | |
| Commercial | \$ 1,148,627 | \$ 17,979 | \$ 1,111,170 | \$ 40,452 |
| Residential | 7,983,345 | 35,000 | 7,983,345 | 157,600 |
| Land | — | — | — | — |
| | \$ 9,131,972 | \$ 52,979 | \$ 9,094,515 | \$ 198,052 |
| Totals: | | | | |
| Commercial | \$ 1,636,445 | \$ 27,526 | \$ 3,852,995 | \$ 651,658 |
| Residential | 8,229,070 | 40,654 | 8,232,107 | 174,181 |
| Land | — | — | 413,348 | 216,904 |
| | \$ 9,865,515 | \$ 68,180 | \$ 12,498,450 | \$ 1,042,743 |

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following tables show information related to impaired loans as of December 31, 2014 and for the three and nine months ended September 30, 2014:

As of December 31, 2014

| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| With no related allowance recorded: | | | |
| Commercial | \$ 11,588,183 \$ | 11,588,183\$ | — |
| Residential | 253,747 | 253,747 | — |
| Land | 1,860,068 | 1,860,068 | — |
| | \$ 13,701,998\$ | 13,701,998\$ | — |
| With an allowance recorded: | | | |
| Commercial | \$ 1,079,699\$ | 1,078,752\$ | 550,010 |
| Residential | 7,983,345 | 7,535,000 | 1,839,345 |
| Land | — | — | — |
| | \$ 9,063,044\$ | 8,613,752\$ | 2,389,355 |
| Totals: | | | |
| Commercial | \$ 12,667,882\$ | 12,666,935\$ | 550,010 |
| Residential | 8,237,092 | 7,788,747 | 1,839,345 |
| Land | 1,860,068 | 1,860,068 | — |
| | \$ 22,765,042\$ | 22,315,750\$ | 2,389,355 |

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended September 30, 2014 Nine Months Ended September 30, 2014

| | Average Recorded Investment | | Interest Income Recognized | | Average Recorded Investment | | Interest Income Recognized | |
|-------------------------------------|-----------------------------------|------------|----------------------------------|---------|-----------------------------------|------------|----------------------------------|-----------|
| With no related allowance recorded: | | | | | | | | |
| Commercial | \$ | 16,410,099 | \$ | 617,507 | \$ | 16,306,543 | \$ | 1,405,623 |
| Residential | | 2,233,235 | | — | | 2,374,941 | | 67,733 |
| Land | | 1,860,216 | | 38,276 | | 2,633,298 | | 132,916 |
| | \$ | 20,503,550 | \$ | 655,783 | \$ | 21,314,782 | \$ | 1,606,272 |
| With an allowance recorded: | | | | | | | | |
| Commercial | \$ | 1,910,269 | \$ | 13,484 | \$ | 1,867,315 | \$ | 39,956 |
| Residential | | 7,983,345 | | 22,000 | | 7,983,373 | | 96,000 |
| Land | | — | | — | | — | | — |
| | \$ | 9,893,614 | \$ | 35,484 | \$ | 9,850,688 | \$ | 135,956 |
| Totals: | | | | | | | | |
| Commercial | \$ | 18,320,368 | \$ | 630,991 | \$ | 18,173,858 | \$ | 1,445,579 |
| Residential | | 10,216,580 | | 22,000 | | 10,358,314 | | 163,733 |
| Land | | 1,860,216 | | 38,276 | | 2,633,298 | | 132,916 |
| | \$ | 30,397,164 | \$ | 691,267 | \$ | 31,165,470 | \$ | 1,742,228 |

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.

Troubled Debt Restructurings

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The Company has allocated approximately \$2,319,000 and \$2,389,000 of specific reserves on loans totaling approximately \$9,373,000 and \$20,265,000 (recorded investments before reserves) to borrowers whose loan terms had been modified in troubled debt restructurings as of September 30, 2015 and December 31, 2014, 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, 2015 and 2014.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

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 acquire, own and operate certain industrial land and buildings located in Santa Clara, California that were owned by the Company. The property was subject to a Purchase and Sale Agreement dated July 24, 2007 (the “Sale Agreement”), as amended, between the Company, as seller, and Nanook, as buyer. During the course of due diligence under the Sale Agreement, it was discovered that the property was contaminated and that remediation and monitoring may be required. The parties agreed to enter into the Operating Agreement to restructure the arrangement as a joint venture. 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. (See Note 13 for further discussion of the Company’s environmental remediation obligation with respect to the properties owned by 1850.)

The Company received distributions from 1850 of \$0 and \$85,000 during the three and nine months ended September 30, 2015, respectively, and \$0 and \$84,000 during the three and nine months ended September 30, 2014, respectively. The net income to the Company from its investment in 1850 De La Cruz was approximately \$45,000 and \$44,000 during the three months ended September 30, 2015 and 2014, respectively, and \$130,000 and \$126,000 during the nine months ended September 30, 2015 and 2014, respectively.

NOTE 5 - REAL ESTATE HELD FOR SALE

Real estate properties held for sale as of September 30, 2015 and December 31, 2014 consists of properties acquired through foreclosure classified by property type as follows:

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| Land (including land under development) | \$ 40,300,887 | \$ 36,263,330 |
| Retail | — | 16,494,440 |
| Residential | 54,222,726 | — |
| Office | 4,716,159 | 4,716,159 |
| Industrial | 1,422,308 | — |
| Storage | 3,782,526 | — |
| Marina | 236,500 | — |
| Golf course | — | 2,020,410 |
| | \$ 104,681,106 | \$ 59,494,339 |

During the three months ended September 30, 2015, the Company transferred four properties (one residential, one industrial, one marina and one storage) from “Held for Investment” to “Held for Sale” as the properties are now listed for sale and sales are expected within the next year. During the nine months ended September 30, 2015, the Company transferred one golf course property from “Held for Sale” to “Held for Investment” as the property was no longer listed for sale and a sale was not expected within the next year. As a result of this transfer, the Company recorded approximately \$79,000 of depreciation expense that would have previously been recorded had the property been continuously classified as “Held for Investment”.

During the quarter ended September 30, 2014, the Company transferred one retail property and one residential property from “Held for investment” to “Held for sale” because the properties were listed for sale and sales were expected within the next year. During the nine months ended September 30, 2014, the Company transferred one parcel of land from “Held for sale” to “Held for investment” because the property was no longer listed for sale and a sale was not likely within the next year.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

During the nine months ended September 30, 2015, the Company recorded impairment losses of approximately \$1,256,000 on the unimproved residential and commercial land located in Gypsum, Colorado due to a decrease in the listing price of the property and a reduction in the net fair market value estimated by management.

During the three and nine months ended September 30, 2014, the Company recorded impairment losses of \$124,000 and \$179,000, respectively, on the marina property located in Oakley, California due to a decrease in the listing price of the property and a reduction in the fair market value recently estimated by management.

There were no sales during the three months ended September 30, 2015. During the nine months ended September 30, 2015, the Company sold four real estate properties for net sales proceeds aggregating approximately \$34,865,000, resulting in gains on sale of real estate totaling approximately \$14,879,000. In addition, the Company recognized gain of approximately \$152,000 during the nine months ended September 30, 2015 that had previously been deferred related to the sale of a real estate property in 2012. The gain on the sale of this property was being accounted for under the installment method.

There were no sales during the three and nine months ended September 30, 2014; however, gains totaling approximately \$2,626,000 were recognized during the nine months ended September 30, 2014 that had previously been deferred related to the sales of real estate properties in 2012 and 2013. The gains on the sales of the properties were being recognized under the installment method.

NOTE 6 - REAL ESTATE HELD FOR INVESTMENT

Real estate held for investment as of September 30, 2015 and December 31, 2014 consists of properties acquired through foreclosure classified by property type as follows:

| | September 30, 2015 | December 31, 2014 |
|---------------|-----------------------|----------------------|
| Land | \$ 8,839,255 | \$ 10,797,656 |
| Residential | 6,721,923 | 48,154,258 |
| Retail | 23,278,649 | 23,211,896 |
| Assisted care | 5,073,316 | 5,005,000 |
| Office | 4,300,543 | 4,416,108 |
| Industrial | — | 4,486,797 |
| Storage | — | 3,847,884 |
| Marina | 3,740,468 | 3,602,867 |
| Golf course | 1,951,253 | — |
| | \$ 53,905,407 | \$ 103,522,466 |

The balances of land and the major classes of depreciable property for real estate held for investment as of September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | December 31, 2014 |
|----------------------------|-----------------------|----------------------|
| Land and land improvements | \$ 24,047,216 | \$ 39,003,422 |
| Buildings and improvements | 32,449,622 | 70,594,331 |

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| | | |
|--------------------------------|---------------|----------------|
| | 56,496,838 | 109,597,753 |
| Less: Accumulated depreciation | (2,591,431) | (6,075,287) |
| | \$ 53,905,407 | \$ 103,522,466 |

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.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

Depreciation expense was approximately \$505,000 and \$523,000 for the three months ended September 30, 2015 and 2014, respectively, and \$1,647,000 and \$1,563,000 for the nine months ended September 30, 2015 and 2014, respectively.

During the quarter ended September 30, 2014, the Company sold one of the improved, residential lots located in West Sacramento, California for \$175,000, resulting in a gain to the Company of approximately \$105,000. The remaining lot was then transferred to “Held for sale” as it is now listed for sale and a sale is expected within the next year.

2015 Foreclosure Activity

The Company foreclosed on no loans during the three and nine months ended September 30, 2015.

2014 Foreclosure Activity

During the nine months ended September 30, 2014, Sandmound Marina, LLC (“Sandmound”) (wholly owned by the Company) foreclosed on a first mortgage loan secured by unimproved land and a marina and campground located in Bethel Island, California with a principal balance of approximately \$2,960,000 and obtained the properties via the trustee’s sale. In addition, advances made on the loan or incurred as part of the foreclosure (such as legal fees and delinquent property taxes) in the total amount of approximately \$282,000 were capitalized to the basis of the properties. The fair market values of the properties acquired were estimated to be higher than Sandmound’s recorded investment in the subject loan, and, thus, a gain on foreclosure in the amount of approximately \$257,000 was recorded. The properties have been classified as held for investment as sales are not expected within one year.

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 nine 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, 2015 and thereafter is as follows:

Twelve months ending September 30:

| | |
|---------------------------|---------------|
| 2016 | \$ 5,501,140 |
| 2017 | 2,081,943 |
| 2018 | 1,711,319 |
| 2019 | 1,382,710 |
| 2020 | 480,682 |
| Thereafter (through 2024) | 1,345,092 |
| | \$ 12,502,886 |

NOTE 7 – LINES OF CREDIT PAYABLE

The Company borrows funds under the revolving California Bank & Trust (“CB&T”) line of credit and the revolving Opus Bank (“Opus”) line of credit (collectively, the “Funding Agreements”). As of September 30, 2015 and December 31, 2014, the outstanding balances and total commitments under the Funding Agreements consisted of the following:

As of September 30, 2015

As of December 31, 2014

| Outstanding | Total | Outstanding | Total |
|-------------|-------|-------------|-------|
|-------------|-------|-------------|-------|

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| | Balance | Commitment | Balance | Commitment |
|--------------------------|--------------|---------------|---------------|---------------|
| CB&T Line of Credit | \$ 8,954,000 | \$ 17,992,910 | \$ 11,450,000 | \$ 17,355,000 |
| Opus Bank Line of Credit | — | 12,626,000 | — | 16,721,000 |
| Total | \$ 8,954,000 | \$ 30,618,910 | \$ 11,450,000 | \$ 34,076,000 |

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OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

The Funding Agreements are generally collateralized by assignments of specific loans and real estate properties owned by the Company.

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"), which agreements were amended and restated in April 2015 to increase the maximum potential borrowings and to add First Bank as an additional lender. The maximum borrowings available (total commitment) under the amended facility is the lesser of \$30,000,000 or the amount determined pursuant to a borrowing base calculation described in the Advance Formula Agreement.

Borrowings mature on February 5, 2016. 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 (3.5% at September 30, 2015). Upon a default such interest rate increases by 2.00%. The 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 are being amortized to interest expense using the straight-line method through the maturity date of the CB&T Credit Facility. The Company is also subject to certain ongoing administrative fees and expenses. Interest expense on the CB&T Credit Facility was approximately \$70,000 and \$171,000 during the three months ended September 30, 2015 and 2014, respectively (including \$36,000 and \$23,000, respectively, in amortization of deferred financing costs) and \$297,000 and \$287,000 during the nine months ended September 30, 2015 and 2014, respectively (including \$90,000 and \$46,000, 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, 2015, the carrying amount and classification of loans and real estate properties securing the CB&T Credit Facility were as follows:

Loans:

September 30,
2015