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 June 30, 2007

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: 000-19992

REDWOOD MORTGAGE INVESTORS VII,
a California Limited Partnership
(Exact name of registrant as specified in its charter)

California	**94-3094928**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
900 Veterans Blvd., Suite 500, Redwood City, CA	**94063-1743**
(Address of principal executive offices)	(Zip Code)

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

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ___XX___ No ____________

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____________ No ___XX___

Part I – Item 1. FINANCIAL STATEMENTS

REDWOOD MORTGAGE INVESTORS VII
(A California Limited Partnership)
BALANCE SHEETS
JUNE 30, 2007 (unaudited) AND DECEMBER 31, 2006 (audited)

ASSETS

	June 30, 2007	December 31, 2006
Cash and cash equivalents	$ 503,594	$ 584,114
Loans		
Loans, secured by deeds of trust	6,174,616	6,218,439
Loans, unsecured, net discount of $61,690 and $65,802 for June 30, 2007 and December 31, 2006, respectively	744,324	714,659
	6,918,940	6,933,098
Allowance for loan losses	(423,040)	(454,417)
Net loans	6,495,900	6,478,681
Interest and other receivables		
Related party receivables	18,775	20,634
Accrued interest and late fees	83,452	67,754
Total interest and other receivables	102,227	88,388
Investment in limited liability company	890,598	875,408
Real estate held for sale, net	1,371,401	1,371,401
Prepaid expenses	4,926	—
Total assets	$ 9,368,646	$ 9,397,992

LIABILITIES AND PARTNERS' CAPITAL

	June 30, 2007	December 31, 2006
Liabilities		
Payable to affiliate	$ 71,998	$ 71,998
Total liabilities	71,998	71,998
Partners' capital		
Limited partners' capital, subject to redemption	9,284,675	9,314,021
General partners' capital	11,973	11,973
Total partners' capital	9,296,648	9,325,994
Total liabilities and partners' capital	$ 9,368,646	$ 9,397,992

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

REDWOOD MORTGAGE INVESTORS VII
(A California Limited Partnership)
STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Revenues				
Interest on loans	$ 123,163	$ 141,887	$ 262,272	$ 271,076
Interest-interest bearing accounts	12,746	3,975	20,952	5,800
Late fees	545	2,105	1,713	3,108
Other	1,030	1,537	2,262	3,025
	137,484	149,504	287,199	283,009
Expenses				
Clerical costs through Redwood Mortgage Corp.	2,732	3,115	5,569	6,379
Asset management fees	—	—	2,922	—
Recovery on losses on loans and real estate held for sale	(18,701)	(15,310)	(31,377)	(39,601)
Professional services	15,235	20,641	38,364	40,390
Printing supplies and postage	2,370	3,482	4,110	4,295
Other	9,464	11,449	14,515	19,293
	11,100	23,377	34,103	30,756
Net income	$ 126,384	$ 126,127	$ 253,096	$ 252,253
Net income: general partners (1%)	$ 1,264	$ 1,261	$ 2,531	$ 2,523
limited partners (99%)	125,120	124,866	250,565	249,730
	$ 126,384	$ 126,127	$ 253,096	$ 252,253
Net income per $1,000 invested by limited partners for entire period				
-where income is compounded and retained	$ 13	$ 13	$ 27	$ 27
-where partner receives income in monthly distributions	$ 13	$ 13	$ 27	$ 27

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

REDWOOD MORTGAGE INVESTORS VII
(A California Limited Partnership)
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (unaudited)

	2007	2006
Cash flows from operating activities		
Net income	$ 253,096	$ 252,253
Adjustments to reconcile net income to net cash provided by operating activities		
Recovery of losses on loans and real estate held for sale	(31,377)	(39,601)
Early withdrawal penalty credited to income	(1,891)	(2,598)
Amortization of discount on unsecured loans	(4,113)	(2,056)
Change in operating assets and liabilities		
Accrued interest and late fees	(15,698)	(22,627)
Related party receivables	1,859	—
Prepaid expenses	(4,926)	
Accounts payable and other liabilities	—	24,640
Other assets	—	(25,804)
Net cash provided by operating activities	196,950	184,207
Cash flows from investing activities		
Principal collected on loans	1,201,778	1,847,586
Loans originated	(1,157,955)	(2,977,851)
Advances on unsecured loans	(34,900)	
Payments on investment in limited liability company	(15,191)	(16,412)
Proceeds from unsecured loans	9,348	10,925
Net cash provided by (used in) investing activities	3,080	(1,135,752)
Cash flows from financing activities		
Partners' withdrawals	(280,550)	(223,883)
Net decrease in cash and cash equivalents	(80,520)	(1,175,428)
Cash and cash equivalents - beginning of period	584,114	1,627,384
Cash and cash equivalents - end of period	$ 503,594	$ 451,956

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

REDWOOD MORTGAGE INVESTORS VII
(A California Limited Partnership)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 (unaudited)

NOTE 1 – GENERAL

In the opinion of the management of the Partnership, the accompanying unaudited financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial information included therein. These financial statements should be read in conjunction with the audited financial statements included in the Partnership's Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission. The results of operations for the six month period ended June 30, 2007 are not necessarily indicative of the operating results to be expected for the full year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loans, secured by deeds of trust

As of June 30, 2007 and December 31, 2006, the Partnership had one and two loans, respectively, past due 90 days or more in interest payments and/or past maturity. The outstanding principal balances of these loans at June 30, 2007 and December 31, 2006 were $487,500 and $737,500, respectively. In addition, accrued interest, advances and late charges on these loans totaled $30,537 and $26,250 at June 30, 2007 and December 31, 2006, respectively. In the opinion of management, the delinquent and/or past maturity loans as of June 30, 2007 have sufficient collateral to cover the outstanding amounts due to the Partnership and are still accruing interest.

Allowance for loan losses

The composition of the allowance for loan losses as of June 30, 2007 and December 31, 2006 was as follows:

	June 30, 2007		December 31, 2006	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Balance at End of Year Applicable to:				
Domestic				
Real estate – mortgage				
Single family (1-4 units)	$69,681	32.81%	$68,548	45.84%
Apartments	10,156	11.13%	10,156	11.05%
Commercial	46,943	41.39%	37,182	28.54%
Land	53,912	14.67%	52,492	14.57%
Total real estate – mortgage	$180,693	100%	$168,378	100%
Unsecured loans	$242,347	100%	$286,039	100%
Total unsecured loans	$242,347	100%	$286,039	100%
Total allowance for loan losses	$423,040	100%	$454,417	100%

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

Activity in the allowance for loan losses for the six month period ended June 30, 2007 and the year ended December 31, 2006 was as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of period	$ 454,417	$ 700,536
Charge-offs		
Domestic		
Real estate – mortgage		
Single family (1-4 units)	—	—
Apartments	—	—
Commercial	—	(6,707)
Land	—	—
	—	6,707
Recoveries		
Domestic		
Real estate – mortgage		
Single family (1-4 units)	—	—
Apartments	—	—
Commercial	—	—
Land	—	—
Net charge-offs	—	(6,707)
Additions (recovery) charge to operations	(31,377)	(49,102)
Transfer to real estate held for sale reserve	—	(190,310)
Balance at end of period	$ 423,040	$ 454,417
Ratio of net charge-offs during the period to average secured loans outstanding during the period	0.00%	0.11%

At June 30, 2007 and December 31, 2006 there was one unsecured loan totaling $606,394 that was categorized as impaired by the Partnership. Interest is no longer being accrued on this loan.

Investment in limited liability company

An investment in a limited liability company is accounted for using the equity method. One of the Partnership's general partners is the managing member of an LLC. In February 2005, the Partnership acquired an 8% interest in Larkin Property Company, LLC (see note 5).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

No provision for federal and state income taxes (other than an $800 state minimum tax) is made in the financial statements since income taxes are the obligation of the partners if and when income taxes apply.

Reclassifications

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

Profits and losses

Profits and losses are allocated among the limited partners according to their respective capital accounts monthly after 1% of the profits and losses are allocated to the general partners.

Management estimates

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

NOTE 3 – GENERAL PARTNERS AND RELATED PARTIES

The following are commissions and fees, which will be paid to the general partners.

Mortgage brokerage commissions

For fees in connection with the review, selection, evaluation, negotiation and extension of loans, Redwood Mortgage Corp., an affiliate of the general partners, may collect an amount equivalent to 12% of the loaned amount until six months after the termination date of the offering. Thereafter, loan brokerage commissions (points) will be limited to an amount not to exceed 4% of the total Partnership assets per year. The loan brokerage commissions are paid by the borrowers and thus, are not an expense of the Partnership.

Mortgage servicing fees

Monthly mortgage servicing fees of up to 1/8 of 1% (1.5% annual) of the unpaid principal are paid to Redwood Mortgage Corp., based on the unpaid principal balance of the loan portfolio, or such lesser amount as is reasonable and customary in the geographic area where the property securing the mortgage is located. Once a loan is categorized as impaired, mortgage servicing fees are no longer accrued. Additional service fees are recorded upon the receipt of any subsequent payments on impaired loans. Redwood Mortgage Corp. waived $28,023 in mortgage servicing fees during the first half of 2007.

NOTE 3 – GENERAL PARTNERS AND RELATED PARTIES (continued)

Asset management fees

The general partners receive monthly fees for managing the Partnership's loan portfolio and operations in an amount up to 1/32 of 1% of the "*net asset value*" (3/8 of 1% annually). The general partners partially waived asset management fees of $14,584 and received $2,922 in asset management fees during the first half of 2007

Other fees

The Partnership Agreement provides for other fees such as reconveyance, mortgage assumption and mortgage extension fees. Such fees are incurred by the borrowers and are paid to parties related to the general partners.

Operating expenses

Redwood Mortgage Corp., an affiliate of the general partners, is reimbursed by the Partnership for all operating expenses actually incurred by it on behalf of the Partnership, including without limitation, out-of-pocket general and administration expenses of the Partnership, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners.

NOTE 4 – REAL ESTATE HELD FOR SALE

In 1993 the Partnership, together with two other affiliates, acquired through foreclosure a parcel of land located in East Palo Alto, CA. As of June 30, 2007 the Partnership's investment in this property was $62,720. This property was previously under contract for sale, but such contract was terminated by the potential buyer in July, 2007. It is anticipated that the property will be listed for sale in the near future.

In December 2004, the Partnership acquired undeveloped parcels of land through a deed in lieu of foreclosure. The land is located in Stanislaus County, California. The land was comprised of three separate lots, which totaled approximately 14 acres. During the third quarter of 2006, the Partnership sold one of the three parcels at a loss of approximately $28,336 for which the Partnership had provided a loss reserve. The remaining parcels are held for sale. As of June 30, 2007, the Partnership's investment in this property totaled $1,308,681, including accrued interest and advances, and net of a valuation allowance of $161,974. This property is jointly owned by two other affiliated partnerships.

In February 2005, the Partnership acquired another property through foreclosure (see Note 5).

The following schedule reflects the costs of real estate acquired through foreclosure and the recorded reductions to estimated fair values, including estimated costs to sell as of June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
Costs of properties	$ 1,533,375	$ 1,533,375
Reduction in value	(161,974)	(161,974)
Real estate held for sale, net	$ 1,371,401	$ 1,371,401

NOTE 5 – INVESTMENT IN LIMITED LIABILITY COMPANY

In February, 2005, the Partnership acquired a multi-unit property through foreclosure. This property is located in an upscale neighborhood in San Francisco. At the time the Partnership took ownership of the property, the Partnership's investment totaled $836,702 including accrued interest and advances. This property is jointly owned by three other affiliated partnerships. Upon acquisition, the Partnership transferred its interest (principally land and building) to Larkin Property Company, LLC ("Larkin"), which is 8% owned by the Partnership, and 92% owned by three other affiliates. No allowance for loss has been set aside as management believes that the fair value of the property exceeds the combined partnerships' investment in the property. The Partnership intends to undertake additional improvements to the property. As of June 30, 2007, the Partnership has capitalized approximately $88,212 in costs related to this property. The Partnership pursued efforts to recover funds from the guarantors of the original loan and during the third quarter of 2006 obtained $34,316, representing the Partnership's pro rata share of the recovery, from one of them. These proceeds were applied to reduce the Partnership's investment. At June 30, 2007, the Partnership's investment in Larkin totaled $890,598.

NOTE 6 – BANK LINE OF CREDIT

The Partnership has a bank line of credit secured by its loan portfolio of up to $2,500,000 at .25% over prime. There were no balances outstanding as of June 30, 2007 and December 31, 2006 and the interest rate was 8.50% (8.25% prime plus .25%) at June 30, 2007. This line of credit expires in December 2011 and requires the Partnership to meet certain financial covenants. The Partnership believes it was in compliance with all loan covenants for the six month period ended June 30, 2007 and for the year ended December 31, 2006. The Partnership anticipates that the line of credit will be renewed at its maturity. In the event that the line of credit is not renewed, the Partnership has the option to convert the balance owed on the line of credit to a three year term loan beginning December 2011.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

(b) Secured loans had a carrying value of $6,174,616 and $6,218,439 at June 30, 2007 and December 31, 2006, respectively. The fair value of these loans of $6,175,449 and $6,203,160, respectively, was estimated based upon projected cash flows discounted at the estimated current interest rates at which similar loans would be made. The applicable amount of the allowance for loan losses along with accrued interest and advances related thereto should also be considered in evaluating the fair value versus the carrying value.

(c) Unsecured loans had a carrying value of $744,324 and $714,659 at June 30, 2007 and December 31, 2006, respectively. The fair value of these loans approximates their carrying value after consideration of the loan losses established by the general partners on these loans.

NOTE 8 – ASSET CONCENTRATIONS AND CHARACTERISTICS

Loans are secured by recorded deeds of trust. At June 30, 2007 and December 31, 2006 there were 23 and 22 secured loans outstanding, respectively, with the following characteristics:

	June 30, 2007	December 31, 2006
Number of secured loans outstanding	23	22
Total secured loans outstanding	$ 6,174,616	$ 6,218,439
Average secured loan outstanding	$ 268,462	$ 282,656
Average secured loan as percent of total secured loans	4.35%	4.55%
Average secured loan as percent of partners' capital	2.89%	3.03%
Largest secured loan outstanding	$ 500,000	$ 550,000
Largest secured loan as percent of total secured loans	8.10%	8.84%
Largest secured loan as percent of partners' capital	5.38%	5.90%
Largest secured loan as percent of total assets	5.34%	5.85%
Number of counties where security is located (all California)	13	14
Largest percentage of loans in one county	31.38%	25.53%
Average secured loan to appraised value of security based on appraised values and prior liens at time loan was consummated	61.49%	61.62%
Number of secured loans in foreclosure status	None	None
Amount of secured loans in foreclosure status	None	None

At times, loans may exceed 10% of the secured loan portfolio or Partnership assets as the loan portfolio and assets of the Partnership decrease due to limited partner withdrawals and/or loan payoffs.

NOTE 8 – ASSET CONCENTRATIONS AND CHARACTERISTICS (continued)

The following categories of secured loans were held at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
First trust deeds	$ 5,026,457	$ 5,011,682
Second trust deeds	1,058,253	1,206,757
Third trust deeds	89,906	—
Total loans	6,174,616	6,218,439
Prior liens due other lenders at time of loan	2,308,163	2,560,514
Total debt	$ 8,482,779	$ 8,778,953
Appraised property value at time of loan	$ 13,796,010	$ 14,247,048
Total secured loans as percent of appraisals based on appraised values and prior liens at time loan was consummated	61.49%	61.62%
Secured loans by type of property		
Single family homes (1-4 Units)	$ 2,026,059	$ 2,850,592
Apartments	687,500	687,500
Commercial	2,555,459	1,774,528
Land	905,598	905,819
	$ 6,174,616	$ 6,218,439

Scheduled maturity dates of secured loans as of March 31, 2007 are as follows:

Prior to December 31, 2007	$ 1,475,000
Between January 1, 2008 and December 31, 2008	1,377,062
Between January 1, 2009 and December 31, 2009	1,197,118
Between January 1, 2010 and December 31, 2010	512,134
Between January 1, 2011 and December 31, 2011	600,753
Thereafter	1,012,549
Total	$ 6,174,616

The scheduled maturities for 2007 above had no loans past maturity at June 30, 2007.

The Partnership places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Workout agreements

The Partnership occasionally negotiates a contractual workout agreement with borrowers who are delinquent in making payments or where loans are past maturity. Under the terms of the workout agreement the Partnership is not obligated to make any additional monetary advances for the maintenance or repair of the collateral securing the loan. As of June 30, 2007, the Partnership had one loan under a workout agreement totaling $487,500.

Construction loans

The Partnership makes construction and rehabilitation loans which are not fully disbursed at loan inception. The Partnership approves the borrowers up to a maximum loan balance; however, disbursements are made periodically during completion phases of the construction or rehabilitation or at such other times as required under the loan documents. At June 30, 2007, there were no undisbursed loan funds. The Partnership does not maintain a separate cash reserve to hold the undisbursed obligations, which are intended to be funded.

Legal proceedings

The Partnership 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 Partnership.

Part I – Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OF THE PARTNERSHIP

Critical Accounting Policies.

In preparing the financial statements, management is required to make estimates based on the information available that affect the reported amounts of assets and liabilities as of the balance sheet dates and income and expenses during the reporting periods. Such estimates relate principally to the determination of (1) the allowance for loan losses (i.e. the amount of allowance established against loans receivable as an estimate of potential loan losses) including the accrued interest and advances that are estimated to be unrecoverable based on estimates of amounts to be collected plus estimates of the value of the property as collateral and (2) the valuation of real estate acquired through foreclosure. At June 30, 2007, the Partnership owned four real estate properties.

Loans and the related accrued interest, late fees and advances are analyzed on a periodic basis for recoverability. Delinquencies are identified and followed as part of the loan system. A provision is made for loan losses to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral value, to provide for unrecoverable loans and receivables, including impaired loans, other loans, accrued interest, late fees and advances on loans and other accounts receivable (unsecured). The Partnership charges off uncollectible loans and related receivables directly to the allowance account once it is determined that the full amount is not collectible.

If the probable ultimate recovery of the carrying amount of a loan, with due consideration for the fair value of collateral, is less than amounts due according to the contractual terms of the loan agreement and the shortfall in the amounts due are not insignificant, the carrying amount of the investment shall be reduced to the present value of future cash flows discounted at the loan's effective interest rate. If a loan is collateral dependent, it is valued at the estimated fair value of the related collateral. If events and or changes in circumstances cause management to have serious doubts about the further collectibility of the contractual payments, a loan may be categorized as impaired and interest is no longer accrued. Any subsequent payments on impaired loans are applied to reduce the outstanding loan balances including accrued interest and advances.

Recent trends in the economy have been taken into consideration in the aforementioned process of arriving at the allowance for loan losses. Actual results could vary from the aforementioned provisions for losses.

Real estate held for sale includes real estate acquired through foreclosure and is stated at the lower of the recorded investment in the loan, plus any senior indebtedness, or at the property's estimated fair value, less estimated costs to sell.

The Partnership periodically compares the carrying value of real estate to expected undiscounted future cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds future undiscounted cash flows, the assets are reduced to estimated fair value.

Forward-Looking Statements.

Certain statements in this Report on Form 10-Q which are not historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, including statements regarding the Partnership's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward-looking statements include statements regarding future interest rates and economic conditions and their effect on the Partnership and its assets, real estate values and other trends in the California real estate market, estimates as to the allowance for loan losses, estimates of future limited partner withdrawals, 2007 annualized yield estimates, beliefs relating to the Partnership's compliance with its loan covenants, beliefs relating to the effects of various legal actions arising in the normal course of business, the Partnership's intention not to sell its loan portfolio, management's beliefs relating to the sufficiency of collateral, and the healthy commercial real estate market increasing lending opportunities and the minimal impact on the Partnership of higher loan delinquencies in the "sub prime" lending market. Actual results may be materially different from what is projected by such forward-looking statements. Factors that might cause such a difference include unexpected material adverse changes in economic conditions and interest rates, including such conditions in California, a material adverse decline in the market for real estate in California, the impact of competition and competitive pricing and downturns in the real estate markets in which the Partnership has made loans. All forward-looking statements and reasons why results may differ included in this Form 10-Q are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results may differ.

Related Parties.

The general partners of the Partnership are Gymno Corporation and Michael R. Burwell. Most Partnership business is conducted through Redwood Mortgage Corp., an affiliate of the general partner, which arranges, services, and maintains the loan portfolio for the benefit of the Partnership. Michael R. Burwell is President and Chief Financial Officer of Gymno Corporation and Redwood Mortgage Corp. The fees received by the affiliate to the general partners are paid pursuant to the Partnership Agreement and are determined at the sole discretion of the affiliate to the general partner subject to limitations imposed by the Partnership Agreement. In the past, the affiliate to the general partners has elected not to take the maximum compensation. The following is a list of various Partnership activities for which related parties are compensated.

- ***Mortgage Brokerage Commissions*** For fees in connection with the review, selection, evaluation, negotiation and extension of loans, Redwood Mortgage Corp. may collect an amount equivalent to 12% of the loaned amount until 6 months after the termination date of the offering. Thereafter, the loan brokerage commissions (points) will be limited to an amount not to exceed 4% of the total Partnership assets per year. The loan brokerage commissions are paid by the borrowers, and thus, are not an expense of the Partnership. Loan brokerage commissions paid by the borrowers were $34,350 and $63,662 for the six month periods ended June 30, 2007 and 2006, and $34,350 and $35,012 for the three month periods ended June 30, 2007 and 2006, respectively.

- ***Mortgage Servicing Fees*** Monthly mortgage servicing fees of up to 1/8 of 1% (1.5% on an annual basis) of the unpaid principal of the Partnership's loans are paid to Redwood Mortgage Corp., or such lesser amount as is reasonable and customary in the geographic area where the property securing the mortgage is located. Redwood Mortgage Corp. waived all of the mortgage servicing fees, which totaled $28,023 and $27,625 during the six month periods and $12,937 and $14,183 for the three month periods ended June 30, 2007 and 2006, respectively.

- ***Asset Management Fees*** The general partners receive monthly fees for managing the Partnership's portfolio and operations of up to 1/32 of 1% of the *'net asset value'* (3/8 of 1% on an annual basis). Management fees to the general partners of $2,922 and $0 were incurred for the six month periods ended June 30, 2007 and 2006, respectively, and no fees were incurred for each of the three month periods ended June 30, 2007 and 2006. The general partners waived $14,584 and $17,448 in asset management fees during the six month periods ended June 30, 2007 and 2006, respectively, and $8,741 and $8,725 during the three month periods ended June 30, 2007 and 2006, respectively.

- ***Other Fees*** The Partnership Agreement provides that the general partners may receive other fees such as processing and escrow, reconveyance, mortgage assumption and mortgage extension fees. Such fees are incurred by the borrowers and are paid to the general partners. Such fees aggregated $1,992 and $2,320 for the six month periods ended June 30, 2007 and 2006, respectively, and $1,941 and $1,020 for the three month periods ended June 30, 2007 and 2006, respectively.

- ***Income and Losses*** All income and losses are credited or charged to partners in relation to their respective Partnership interests. The allocation to the general partners (combined) is a total of 1%, which was $2,531 and $2,523 for the six month periods ended June 30, 2007 and 2006, respectively, and $1,264 and $1,261 for the three month periods ended June 30, 2007 and 2006, respectively.

- ***Operating Expenses*** An affiliate of the Partnership, Redwood Mortgage Corp., is reimbursed by the Partnership for all operating expenses actually incurred by it on behalf of the Partnership, including without limitation, out-of-pocket general and administration expenses of the Partnership, accounting and audit fees, legal fees and expenses, postage and preparation of reports to limited partners. Such reimbursements are reflected as expenses in the statements of income. Operating expenses totaled $5,569 and $6,379 for the six month periods ended June 30, 2007 and 2006, respectively, and $2,732 and $3,115 for the three month periods ended June 30, 2007 and 2006, respectively.

- ***Contributed Capital*** The general partners jointly and severally contribute 1/10 of 1% in cash contributions as proceeds from the offerings are received from the limited partners. As of each of June 30, 2007 and 2006, a general partner, Gymno Corporation, had contributed $11,973 as capital in accordance with the Partnership Agreement.

Results of Operations – For the six and three months ended June 30, 2007 and 2006

Changes in the Partnership's operating results for the six and three month periods ended June 30, 2007 as compared to 2006 are discussed below:

	Changes during the six months ended June 30, 2007 versus 2006	Changes during the three months ended June 30, 2007 versus 2006
Net income	$ 843	$ 257
Revenue		
Interest on loans	$ (8,804)	$ (18,724)
Interest – interest bearing accounts	15,152	8,771
Late fees	(1,395)	(1,560)
Other	(763)	(507)
	4,190	(12,020)
Expenses		
Mortgage servicing fees	—	—
Clerical costs through Redwood Mortgage Corp.	(810)	(383)
Asset management fees	2,922	—
Recovery of losses on loans and real estate held for sale	8,224	(3,391)
Professional services	(2,026)	(5,406)
Printing supplies and postage	(185)	(1,112)
Other	(4,778)	(1,985)
	3,347	(12,277)
Net income	$ 843	$ 257

The decrease in interest on loans of $8,804 (3.25%) for the six month period and $18,724 (13.20%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to a decrease in the average loan portfolio outstanding to $5,687,068 as of June 30, 2007 from an average balance of $5,944,797 as of June 30, 2006. The decrease in interest was also a result of a decrease in the average interest rate, which stood at 9.22% as of June 30, 2007 as compared to 9.28% as of June 30, 2006. The decline in outstanding loans is primarily due to the lack of appropriate lending opportunities that the Partnership could use to replace loan pay-offs in the first half of 2007 compared to the same period in 2006. During the six months ended June 30, 2007, the Partnership collected $1,201,778 in loan pay-offs and funded $1,157,955 in new loans, as compared to pay-offs totaling $1,847,586 and funded loans of $2,977,851 for the same period in 2006.

The increase in interest from interest bearing accounts of $15,152 (261.24%) for the six month period and $8,771 (220.65%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to an overall average higher cash balance the Partnership maintained in its money market account of $1,059,198 during the first half of 2007 as compared to an average balance of $950,000 during the first half of 2006. The increase was also due to an increase in the average interest rate of 3.96% that the Partnership earned in its money market account during the first six months of 2007 as compared to an average interest rate of 1.22% during the same period in 2006.

The decrease in late fees of $1,395 (44.88%) for the six month period and $1,560 (74.11%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to a reduction in late mortgage payments by the borrowers.

The decrease in other income of $763 (25.22%) for the six month period and $507 (32.99%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to a decrease in miscellaneous income of $56 and $156 for the six and three month periods ended June 30, 2007, respectively, and a decrease in early withdrawal penalties of $707 and $351 for the six and three month periods ended June 30, 2007, respectively, as compared to the same periods in 2006.

Mortgage servicing fees for the six and three month periods ended June 30, 2007 and 2006 were waived by the servicing agent, Redwood Mortgage Corp. These fees would have otherwise cost the Partnership $28,023 and $27,625 for the six month periods and $12,937 and $14,183 for the three month periods ended June 30, 2007 and 2006, respectively.

The decrease in clerical costs of $810 (12.70%) for the six month period and $383 (12.30%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to lower servicing costs.

The increase in asset management fees of $2,922 (100%) for the six month period ended June 30, 2007 as compared to the same period in 2006 was due to a partial waiver of $14,584 and a full waiver of $17,448 in management fees by the general partners during the six month periods and a full waiver of $8,741 and $8,725 for the three month periods ended June 30, 2007 and 2006, respectively.

The increase in recovery of losses on loans and real estate held for sale of $8,224 (20.77%) for the six month period and decrease of $3,391 (22.15%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 is due to management's determination that the allowance for losses on loans and real estate held for sale of $585,014 as of June 30, 2007 was adequate. In addition, the Partnership received $9,348 and $1,151 during the six and three month periods ended June 30, 2007 and 2006, respectively, in recoveries from unsecured debtors whose balance has been fully provided for in the loan loss reserve.

The decrease in professional fees of $2,026 (5.02%) for the six month period and $5,406 (26.19%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was due to the timing of billing and payments. We anticipate the cost of professional services will increase during the remainder of 2007 due to compliance work in accordance with the Sarbanes-Oxley Act of 2002.

The decrease in other expenses of $4,778 (27.77%) for the six month period and $1,985 (17.34%) for the three month period ended June 30, 2007 as compared to the same periods in 2006 was primarily due to a decrease in upkeep costs for the real estate held for sale. The Partnership spent $13,083 and $17,893 during the six month periods and $8,041 and $10,049 for the three month periods ended June 30, 2007 and 2006, respectively.

Partnership capital decreased by $29,346 during the first six months of 2007 as the aggregate of earnings distributions and capital liquidations was higher than the net income level of the Partnership. For the six month period ended June 30, 2007, limited partners' net income was $250,565 versus earnings distributions of $95,657 and capital liquidations of $184,254, which totaled $279,911, as compared to limited partners' net income of $249,730 versus earnings distributions of $89,368 and capital liquidations of $134,590, which totaled $223,958 for the corresponding period in 2006. Earnings and capital liquidations are a factor of limited partner elections and limited partners seeking liquidations of earnings or their capital account increased during the first half of 2007, which resulted in a decline in partners' capital from $9,325,994 as of December 31, 2006, to $9,296,648 as of June 30, 2007.

At June 30, 2007, there were no outstanding loans with a filed notice of default.

Redwood Mortgage Corp., an affiliate of the general partners, received mortgage brokerage commissions from loan borrowers of $34,350 and $63,662 for the six month periods and $34,350 and $35,012 for the three month periods ended June 30, 2007 and 2006, respectively. The decrease of $29,132 (45.76%) and $662 (1.89%) for the six and three month periods ended June 30, 2007, respectively, as compared to the same periods in 2006 was due to fewer loans being funded totaling $1,157,955 and $2,986,448 in the six month periods and $1,157,955 and $1,672,500 for the three month periods ended June 30, 2007 and 2006, respectively.

Allowance for Losses.

The general partners regularly review the loan portfolio, examining the status of delinquencies, the underlying collateral securing these loans, borrowers' payment records, etc. Based upon this information and other data, the allowance for loan losses is increased or decreased. Borrower foreclosures are a normal aspect of Partnership operations. The Partnership is not a credit based lender and hence while it reviews the credit history and income of borrowers, and if applicable, the income from income producing properties, the general partners expect that we will on occasion take back real estate security. At June 30, 2007, the Partnership had one loan totaling $487,500, which was past due 90 days or more in interest payments. No loans were past maturity as of June 30, 2007. One unsecured loan totaling $606,394 was impaired at June 30, 2007.

Periodically, the Partnership enters into workout agreements with borrowers who are past maturity or delinquent in their regular payments. The Partnership has one loan totaling $487,500 in a workout agreement with a borrower as of June 30, 2007. Typically, a workout agreement allows the borrower to extend the maturity date of the balloon payment and/or allows the borrower to make current monthly payments while deferring for periods of time, past due payments and balloon payments and allows time to pay the loan in full. Workout agreements and foreclosures generally exist within our loan portfolio to varying degrees, depending primarily on the health of the economy. The number of foreclosures and workout agreements will generally rise during difficult economic times and conversely fall during good economic times. Workout agreements and foreclosures are considered when management arrives at an appropriate allowance for loan losses, and based on our experience; they are reflective of our loan marketplace segment. In the remainder of 2007, we may initiate foreclosure by filing notices of default on delinquent borrowers or borrowers who become delinquent during the year. Borrower foreclosures are a normal aspect of Partnership operations and the general partners anticipate that they will not have a material effect on liquidity. As a safeguard against potential losses, the general partners have made provisions for losses on loans and real estate held for sale through foreclosure of $585,014 at June 30, 2007. These provisions for losses were made to guard against collection losses. The total provision for losses on loans and real estate of $585,014 as of June 30, 2007 is considered by the general partners to be adequate. Because of the number of variables involved, the magnitude of the swings possible and the general partners' inability to control many of these factors, actual results may and do sometimes differ significantly from estimates made by the general partners.

As of June 30, 2007, the Partnership had an average loan to value ratio of 61.49% computed based on appraised values and prior liens as of the date the loan was made. This percentage does not account for any increases or decreases in property values since the date the loan was made, nor does it include any reductions in principal through amortization of payments after the loan was made. This low loan to value ratio should assist the Partnership in weathering loan delinquencies and foreclosures in the event they occur.

PORTFOLIO REVIEW – For the six months ended June 30, 2007 and 2006

Loan Portfolio

The Partnership's loan portfolio consists primarily of short-term (one to five years), fixed rate loans secured by real estate. As of June 30, 2007 and 2006, the Partnership's loans secured by real property collateral in the nine San Francisco Bay Area counties (San Francisco, San Mateo, Santa Clara, Alameda, Marin, Napa, Solano, Sonoma and Contra Costa) represented $4,688,365 (75.93%) and $4,316,518 (78.21%), respectively, of the outstanding secured loan portfolio. The remainder of the portfolio represented loans secured by real estate located primarily in Northern California.

As of June 30, 2007 and 2006, the Partnership held 23 and 22 loans, respectively, in the following categories:

	June 30,			
	2007		2006	
Single Family Homes (1-4 units)	$2,026,059	33%	$3,911,499	60%
Commercial	2,555,459	41%	1,186,957	18%
Apartments (5+ units)	687,500	11%	812,500	12%
Land	905,598	15%	661,002	10%
Total	$6,174,616	100%	$6,571,958	100%

As of June 30, 2007, the Partnership held 23 loans secured by deeds of trust. The following table sets forth the priorities, asset concentrations and maturities of the loans held by the Partnership as of June 30, 2007:

PRIORITIES, ASSET CONCENTRATIONS AND MATURITIES OF LOANS
As of June 30, 2007

	# of Loans	Amount	Percent
1st Mortgages	18	$ 5,026,457	81%
2nd Mortgages	4	1,058,253	17%
3rd Mortgages	1	89,906	2%
Total	23	$ 6,174,616	100%
Maturing prior to 12/31/07	4	$ 1,475,000	24%
Maturing between 01/01/08 and 12/31/08	6	1,377,062	22%
Maturing between 01/01/09 and 12/31/09	4	1,197,118	19%
Maturing after 12/31/09	9	2,125,436	35%
Total	23	$ 6,174,616	100%
Average Secured Loan		$ 268,462	4%
Largest Secured Loan		500,000	8%
Smallest Secured Loan		89,906	1%
Average Loan-to-Value based upon appraisals and prior liens at time loan was consummated			61.49%

The Partnership's largest loan in the principal amount of $500,000 represents 8.10% of outstanding secured loans and 5.34% of Partnership assets. Over time, loans may increase above 10% of the secured loan portfolio or Partnership assets as the loan portfolio and assets of the Partnership decrease due to limited partner withdrawals and/or loan payoffs.

Borrower Liquidity and Capital Resources.

The Partnership relies upon loan payoffs, borrowers' mortgage payments, and, to a lesser degree, its line of credit for the source of funds for loans. Over the past several years, mortgage interest rates have decreased somewhat from those available at the inception of the Partnership. If interest rates were to increase substantially, the yield of the Partnership's loans may provide lower yields than other comparable debt-related investments. Additionally, since the Partnership has made primarily fixed rate loans, if interest rates were to rise, the likely result would be a slower prepayment rate for the Partnership. This could cause a lower degree of liquidity as well as a slowdown in the ability of the Partnership to invest in loans at the then current interest rates. Conversely, in the event interest rates were to decline, the Partnership could see significant borrower prepayments, which, if the Partnership can only obtain the then existing lower rates of interest, may cause a dilution of the Partnership's yield on loans, thereby lowering the Partnership's overall yield to the limited partners. The Partnership to a lesser degree relies upon its line of credit to fund loans. Generally, the Partnership's loans are fixed rate, whereas the credit line is a variable rate loan. In the event of a significant increase in overall interest rates, the credit line rate of interest could increase to a rate above the average portfolio rate of interest. Should such an event occur, the general partners would desire to pay off the line of credit. Retirement of the line of credit would reduce the overall liquidity of the Partnership. Cash is constantly being generated from borrower payments of interest, principal and loan payoffs. Currently, cash flow exceeds Partnership expenses and earnings distribution requirements. Excess cash flow is invested in new loan opportunities, when available, and is used to reduce the Partnership credit line or for other Partnership business.

At the time of subscription to the Partnership, limited partners made an irrevocable decision to either take distributions of earnings monthly, quarterly or annually or to compound earnings in their capital account. For the six and three month periods ended June 30, 2007 and 2006, respectively, the Partnership made the following allocations of earnings both to the limited partners who elected to compound their earnings, and those that chose to distribute:

	Six months ended June 30,		Three months ended June 30,	
	2007	2006	2007	2006
Compounding	$ 154,908	$ 160,362	$ 77,413	$ 80,250
Distributing	$ 95,657	$ 89,368	$ 47,707	$ 44,616

As of June 30, 2007 and 2006, limited partners electing to withdraw earnings represented 38% and 37%, respectively, of the limited partners' capital.

The Partnership agreement also allows the limited partners to withdraw their capital account subject to certain limitations. For the six month periods ended June 30, 2007 and 2006, $22,459 and $32,481, respectively, was liquidated subject to the 10% penalty for early withdrawal. For the three month periods ended June 30, 2007 and 2006, $11,374 and $15,755, respectively, was liquidated subject to the 10% penalty for early withdrawal. These withdrawals are within the normally anticipated range that the general partners would expect in their experience in this and other partnerships. The general partners expect that a small percentage of limited partners will elect to liquidate their capital accounts over one year with a 10% early withdrawal penalty. In originally conceiving the Partnership, the general partners wanted to provide limited partners needing their capital returned a degree of liquidity. Generally, limited partners electing to withdraw over one year need to liquidate their investment to raise cash. The trend the Partnership is experiencing in withdrawals by limited partners electing a one year liquidation program represents a small percentage of limited partner capital as of June 30, 2007 and 2006, respectively.

Additionally, for the six month periods ended June 30, 2007 and 2006, $161,795 and $102,109, respectively, was liquidated by limited partners who have elected a liquidation program over a period of five years or longer. For the three month periods ended June 30, 2007 and 2006, $70,085 and $40,731, respectively, was liquidated by limited partners who have elected a liquidation program over a period of five years or longer. This ability to withdraw after five years by limited partners has the effect of providing limited partner liquidity. The general partners expect a portion of the limited partners to take advantage of this provision. This has the anticipated effect of the Partnership growing, primarily through reinvestment of earnings in years one through five. The general partners expect to see increasing numbers of limited partner withdrawals in years five through eleven, after which time the bulk of those limited partners who have sought withdrawal have been liquidated. After year eleven, liquidation generally subsides.

Earnings and capital liquidations, including early withdrawals, during the six and three months ended June 30, 2007 and 2006 were:

	Six months ended June 30,		Three months ended June 30,	
	2007	2006	2007	2006
Earnings liquidation	$ 95,657	$ 89,368	$ 47,707	$ 44,616
Capital liquidation*	$ 184,254	$ 134,590	$ 81,459	$ 56,486
Total	$ 279,911	$ 223,958	$ 129,166	$ 101,102

* These are gross amounts, which are not net of early withdrawal penalties.

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

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

Current Economic Conditions.

By most indicators the United States economy continues to perform well. Gross Domestic Product, which slowed to a 0.7% annual rate in the first quarter of 2007, rebounded and increased at a 3.4% annual rate during the second quarter of 2007. The unemployment rate has been hovering around 4.5% for almost a full year, which many would consider to be close to full employment. The inflation rate was 0.2% for June of 2007, which was 2.7% higher than in June of 2006; this is a relatively low rate of inflation considering the high energy costs, which have persisted due to the rising cost of oil. Long term interest rates, represented by the 10-year treasury bonds, fluctuated during the second quarter of 2007 but stayed within an approximate 0.25% range of 4.95% during the second quarter 2007. At August 10, 2007 they were trading at 4.78%; which is near their trading levels during the first quarter of 2007. The Federal Reserve, in acknowledging the solid performance of the economy, left its benchmark federal funds rate unchanged at 5.25% during its August, 2007 meeting citing its view that inflation remains the most significant concern factor.

In spite of the solid performance of the economy, loan delinquencies for many lenders have been rising. Of particular concern are loan delinquencies in the "sub prime" residential real estate lending arena. Loan payment delinquencies for this category of borrower, those with low credit scores, high loan-to-values, and undocumented resources for payments, have risen to levels approximating 16%. Many of these borrowers are dependent upon appreciation and loose underwriting standards to assist them with their ability to service their indebtedness. As the majority of these loans were written at loan-to-values exceeding 90%, an abatement of residential real estate appreciation and a tightening of underwriting standards will cause enough financial stress amongst this category of borrowers to cause many of them to default on their obligations. The Partnership believes it is different from many sub prime lenders in that it does not make high loan-to-value loans, and does document the ability of borrowers to make the payments on their loans. For the Partnership loans outstanding as of June 30, 2007, the Partnership had an average loan-to-value ratio of 61.49%, computed based on appraised value and senior liens as of the date the loan was made. This percentage does not account for any increases or decreases in property values since the date the loan was made, nor does it include any reductions in principal on senior indebtedness through amortization of payments after the loan was made.

The Partnership makes loans primarily in Northern California. As such the regional real estate market is of primary concern to the Partnership. As of June 30, 2007 and 2006, approximately 75.93% ($4,688,365) and 78.21% ($4,316,518), respectively, of the loans held by the Partnership were in the nine San Francisco Bay Area Counties. The remainder of the loans held was secured primarily by Northern California real estate outside of the San Francisco Bay Area.

In general, California residential real estate sales slowed but prices remained similar to those that existed a year ago. The California Association of Realtors reported that sales of single family homes were down 24.7% in June, 2007, while the median price rose 3.2% to $594,260. Sales of condominiums dropped 19.9%, even as the median price was rising 2.9% to $442,670. Dataquick, which uses different definitions of a home versus the California Association of Realtors, reported that the median price paid for a home in June, 2007 was $479,000 down 1% from the record high of $484,000 for March, April and May, 2007. That median price was down 0.2% from the $480,000 median price for June, 2006. In the San Francisco Bay Area, the median price paid for a home increased in June, 2007 to a new high of $665,000. That was up 0.8% from $660,000 for May, 2007 and up 2.6% from $648,000 for June, 2006. Since the majority of the Partnership's residential loans are secured by San Francisco Bay Area real estate and all of the residential loans are secured by California real estate, the continued stability of residential real estate values in California, and particularly the San Francisco Bay Area, is anticipated to minimize the impact on the Partnership of higher loan delinquencies in the "sub prime" residential real estate market nationally.

Commercial properties continued their strong performance in the San Francisco Bay Area. San Francisco's downtown office vacancy rate dropped slightly in the second quarter to 8.5%, down a tenth of a percentage point from the first quarter, according to CB Richard Ellis. Average rental rates in downtown San Francisco reached $38.31 per square foot annually, a 6.8% increase over the previous quarter and 25.8% above the previous year. All other regions of the San Francisco Bay Area exhibited similar improved results from 2006. A strong commercial market indicates strong job and economic growth, which is good for commercial property values and for the lenders who secure loans on commercial properties.

While residential real estate activity and values have certainly moderated from the sales and appreciation rates that existed during 2004 and 2005, significant price drops have not ensued. Management believes our loan-to-value ratio of 61.49% will assist the Partnership in weathering loan delinquencies and foreclosures should they occur.

Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following table contains information about the cash held in money market accounts, loans held in the Partnership's portfolio and loans to the Partnership pursuant to its line of credit as of June 30, 2007. The presentation, for each category of information, aggregates the assets and liabilities by their maturity dates for maturities occurring in each of the years 2007 through 2011 and separately aggregates the information for all maturities arising after 2011. The carrying values of these assets and liabilities approximate their fair market values as of June 30, 2007:

	2007	2008	2009	2010	2011	Thereafter	Total
Interest earning assets:							
Money market accounts	$ 450,052						$ 450,052
Average interest rate	3.96%						3.96%
Unsecured loans				$ 744,324			$ 744,324
Average interest rate				0%			0%
Loans secured by deeds of trust	$ 1,475,000	1,377,062	1,197,118	512,134	600,753	1,012,549	$6,174,616
Average interest rate	9.54%	9.52%	9.16%	9.38%	9.11%	9.42%	9.39%
Interest bearing liabilities							
Line of credit	—						—
Interest rate	8.50%						8.50%

Market Risk.

The Partnership's line of credit bears interest at a variable rate, which is tied to the prime rate. As a result, the Partnership's primary market risk exposure with respect to its obligations is to changes in interest rates, which will affect the interest cost of outstanding amounts on the line of credit. The Partnership may also suffer market risk tied to general trends affecting real estate values that may impact the Partnership's security for its loans.

The Partnership's primary market risk in terms of its profitability is the exposure to fluctuations in earnings resulting from fluctuations in general interest rates. The majority of the Partnership's mortgage loans earn interest at fixed rates. Changes in interest rates may also affect the value of the Partnership's investment in mortgage loans and the rates at which the Partnership reinvests funds obtained from loan repayments and new capital contributions from limited partners. If interest rates increase, the interest rates the Partnership obtains from reinvested funds will generally increase, but the value of the Partnership's existing loans at fixed rates will generally tend to decrease. The risk is mitigated by the fact that the Partnership does not intend to sell its loan portfolio, rather such loans are expected to be held until they are paid off. If interest rates decrease, the amounts becoming available to the Partnership for investment due to repayment of Partnership loans may be reinvested at lower rates than the Partnership had been able to obtain in prior investments, or than the rates on the repaid loans. In addition, interest rate decreases may encourage borrowers to refinance their loans with the Partnership at a time where the Partnership is unable to reinvest in loans of comparable value.

The Partnership does not hedge or otherwise seek to manage interest rate risk. The Partnership does not enter into risk sensitive instruments for trading purposes.

ASSET QUALITY

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

The conclusion that a loan may become uncollectible, in whole or in part, is a matter of judgment. Although institutional lenders are subject to requirements and regulations that, among other things, require them to perform ongoing analyses of their portfolios, loan-to-value ratios, reserves, etc., and to obtain and maintain current information regarding their borrowers and the securing properties, the Partnership is not subject to these regulations and has not adopted certain of these practices. Rather, the general partners, in connection with the periodic closing of the accounting records of the Partnership and the preparation of the financial statements, determine whether the allowance for loan losses is adequate to cover potential loan losses of the Partnership. As of June 30, 2007, one loan totaling $487,500 was past due 90 days or more in interest payments. This loan was also in a workout agreement. Management believes that there is sufficient collateral to cover the amount outstanding to the Partnership on this loan. As of June 30, 2007, the general partners have determined that the allowance for loan and real estate losses of $585,014 (6.29% of net assets) is adequate in amount. Because of the number of variables involved, the magnitude of the swings possible and the general partners' inability to control many of these factors, actual results may and do sometimes differ significantly from estimates made by the general partners.

Part I – Item 4. CONTROLS AND PROCEDURES

As of June 30, 2007, the Partnership carried out an evaluation, under the supervision and with the participation of the general partners of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the general partners concluded that the Partnership's disclosure controls and procedures are effective in timely alerting the general partners to material information relating to the Partnership that is required to be included in our periodic filings with the Securities and Exchange Commission. There were no significant changes in the Partnership's internal control over financial reporting during the Partnership's first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. **Legal Proceedings**

The Partnership 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 Partnership.

Item 1A. **Risk Factors**

Not Applicable

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

Not Applicable.

Item 3. **Defaults upon Senior Securities**

Not Applicable.

Item 4. **Submission of Matters to a Vote of Security Holders**

Not Applicable.

Item 5. **Other Information**

Not Applicable.

Item 6. **Exhibits**

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized on the 14th day of August, 2007.

REDWOOD MORTGAGE INVESTORS VII

By: /S/ Michael R. Burwell
Michael R. Burwell, General Partner

By: Gymno Corporation, General Partner

By: /S/ Michael R. Burwell
Michael R. Burwell, President,
Secretary/Treasurer & Chief Financial Officer

Exhibit 31.1

GENERAL PARTNER CERTIFICATION

I, Michael R. Burwell, General Partner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Redwood Mortgage Investors VII, a California Limited Partnership (the "Registrant");

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

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:

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

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

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

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

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

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

/s/ Michael R. Burwell

Michael R. Burwell, General Partner
August 14, 2007

Exhibit 31.2

PRESIDENT AND CHIEF FINANCIAL OFFICER CERTIFICATION

I, Michael R. Burwell, President and Chief Financial Officer of Gymno Corporation, General Partner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Redwood Mortgage Investors VII, a California Limited Partnership (the "Registrant");

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

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:

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

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

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

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

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

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

/s/ Michael R. Burwell

Michael R. Burwell, President and
Chief Financial Officer of Gymno
Corporation, General Partner
August 14, 2007

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Redwood Mortgage Investors VII (the “Partnership”) on Form 10-Q for the period ending June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Michael R. Burwell, General Partner of the Partnership, certify, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership at the dates and for the periods indicated.

This certification has not been, and shall not be deemed “filed” with the Securities and Exchange Commission.

/s/ Michael R. Burwell

Michael R. Burwell, General Partner
August 14, 2007

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Redwood Mortgage Investors VII (the “Partnership”) on Form 10-Q for the period ending June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Michael R. Burwell, President, Secretary/Treasurer & Chief Financial Officer of Gymno Corporation, General Partner of the Partnership, certify that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership at the dates and for the periods indicated.

This certification has not been, and shall not be deemed “filed” with the Securities and Exchange Commission.

/s/ Michael R. Burwell

Michael R. Burwell, President,
Secretary/Treasurer & Chief Financial
Officer of Gymno Corporation, General Partner
August 14, 2007