

A photograph of a modern, multi-story house with a balcony. The house has white walls, dark wood accents, and large glass windows. The balcony has a glass railing and some potted plants. The sky is a clear, bright blue.

TRUST DEED INVESTING 101

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Trust Deed Investing

LET'S GO BACK TO THE BASICS

So what is **trust deed investing**? In simple words, it is investing your money into *loans secured by real estate*.

A trust deed - also known as a deed of trust - is a deed wherein legal title in real property is transferred to a trustee, which holds it as security for a loan (debt) between a borrower and lender.

This specific type of investment is usually a short-term loan that is made to professional real estate investors. The loan maturity is typically less than five years, with most loans having a maturity of two years or less.

In our economy, real estate investors are looking for under-market prices and purchasing properties at foreclosure sales. Those investors will then try to flip these properties, making slight repairs and renovations so they will be attractive to future buyers and eventually resell them for a profit.

But banks are usually cautious when it comes to lending to this sort of market for various reasons. First, there are already many bad real estate loans on their sheets because of lax lending policies in the past. But recently, there are higher standards when it comes to real estate loans. Second, when banks lend to people who flip houses, they can pay it off in half a year, and this is not the most attractive deal for the banks because they would prefer loans that will be paid off in a more extended time. Thirdly, some real estate investors can take advantage of bank deals by offering houses that are not yet 'move-in ready' when they apply for the loan funding. That's why fewer options are available for them.

Trust Deed Investing

ADVANTAGES & DISADVANTAGES

Trust deed loans do sound attractive and have many pros and cons. These investments carry **lower risks and higher returns** which are typically paid out monthly.

The interest earned on these loans can range from 5% to 12%. Additionally, these loans are usually protected by a margin of safety. A margin of safety in a trust deed investment is the difference between the loan amount and the value of the underlying property.

But as with any other investment, trust deed loans also have their cons. First and foremost, they are not liquid.



Trust Deed Investing

HOW CAN I OBTAIN TRUST DEEDS?

There are several options if one is interested in investing in a trust deed loan, which includes the following:

1. Source individual loans and lend money directly to the real estate investors,
2. Acquire loans provided by private money brokers and lenders.
3. Put your money in a fund that invests in trust deeds,
4. Find the individuals who are directly investing in trust deeds as a group and invest with them as a group.[1]

It is generally safe to invest in trust deeds with the help of a trusted broker. They perform due diligence on the property and the borrower. They also have documents needed for you to make an informed decision on if this type of investment is right for you.

The minimum investment for trust deeds can be as small as \$5,000, but other investment firms may require something as high as \$100,000.

Sources: [1] <https://www.arixacapital.com/investor-resources/trust-deed-investing-faq>

Trust Deed Investing

HOW CAN I BE A MORE EFFECTIVE TRUST DEED INVESTOR?

The one good thing that you can do when starting in trust deed investing is to look out for experts that can help you in the field, who are trustworthy and are working in your interest.

You should partner with experts who have years of experience, and who are very knowledgeable with hard money loans. Look into what they've done for their previous clients. Once you have secured this, keep on learning, and that expert may even be your mentor in your future investments, so you can assess the deals on your own and apply what you have learned from the beginning.



Still have some questions?

Please contact us with any questions at 916-616-6203 or email angelica@asherevan.com