

TRUST DEED INVESTING

Trust deed investing is about investment diversification and opportunity. Trust deeds offer investors the opportunity to invest in selective real estate properties and enjoy, generally, greater rates of return than those realized from other traditional investment options.

- Trust deed investing is loaning money that is secured by real estate as collateral.
- The "deed of trust" is the document used to secure the loan against the property.
- A trust deed secures a promissory note with a set interest rate.
- The investor receives regular periodic payments and payment in full at maturity.
- The loan amount never exceeds 65% of the value of the real estate collateral.
- The loan is generally short term, between 12 to 24 months in most cases.

Real Property as Collateral

In many ways, trust deeds offer less risk than many other investments. If a borrower defaults on a loan, the property secured by the trust deed can be sold as a foreclosure in order to recoup the outstanding balance.

Why Invest in Trust Deeds?

The Lure of Trust Deeds

Investors who pursue trust deed investments are attracted to them because they offer a way to diversify their investment portfolio, generate regular income, minimize risk, and typically produce higher return rates than traditional investments in stocks and bonds.

Consistent Higher Returns

When compared to fixed-rate bond investments, which are subject to fluctuations due to changes in interest rates and the economy, deed trust investments offer more consistent returns. In essence, trust deed investing is similar to investing in a bond with a fixed yield and pay-off at maturity. For example, if you, as an investor, loan \$100,000 to a borrower at 10% interest and require interest-only payments, you would receive \$10,000 in interest income per year. Absent any default, the loan would pay off at or before maturity, and the original principal would be returned.

Demand for Private Loans

Today's economy has generated a consistent demand for specialized loans, which energizes higher yields for investors. Real estate developers and investors have limited access to traditional lending sources, especially with the recent credit crisis. As a consequence, loans offered by private trust deed investors demand higher interest rates, as well as lower loan-to-value ratios to protect the investment. This results in higher returns with less risk.

The Advantage of Deed of Trust Security

Trust deeds can yield higher returns than stocks, with less risk. This is because trust deed investments are secured by tangible real property - houses, buildings, acreage, etc. Moreover, borrowers have a great deal to lose from defaulting on a secured loan. The risk of losing the property provides the Borrower's strong incentive to keep current on payments.

Diversification of Investment Portfolio

There are a number of reasons investors embrace trust deeds. The first is diversification. Because trust deeds are fixed-income, real property investments, they are attractive to investors seeking ways to divide investments between equities, such as stocks, and fixed-income investments, like bonds. Trust deeds provide the opportunity to invest in the real estate market, which when done well, usually delivers considerable returns. Smart investors look for different sectors of the economy in which to invest, such as agriculture, technology, or real estate.