NEWMARK

INVESTMENT AND LOAN, INC

GUIDE TO TRUST DEED INVESTING

Contents

Never Waste Another Opportunity

Trust Deeds are one of the most basic forms of investing techniques available. In fact, they're so basic and simple that our country's most conservative financial institutions have been using them to generate impressive returns for decades. If you've ever deposited money in a bank, your funds were probably utilized to invest in Trust Deeds – you just didn't know it because you weren't entitled to any of the returns. More likely, you were thanked for the opportunity to use your money with a payment of 1 or 2 percent interest, maybe none at all.

So What Are Trust Deeds?

Trust Deeds Investments are a way for you, the investor, to take advantage of one of the most aged and proven investing techniques around – secured lending. When done correctly, Trust Deed Investing can be a safe and effective way to earn solid returns in your portfolio without undue risk. For this reason many savvy investors use Trust Deed investing to augment their portfolio.

The Basics

In order for there to be a Trust Deed Investment, there needs to be at least two parties: a borrower and a lender. For one reason or another, a borrower needs a loan and is seeking someone to provide it to them. In return for making the loan, the lender will receive monthly interest payments and security for the loan in case those payments aren't made. In the case of Trust Deed Investing, the security (or collateral) for the loan is real estate. We call it 'Trust Deed Investing' because the lender's interest in the borrower's collateral is secured by a Trust Deed (or Deed of Trust). Another term commonly used in some states is "mortgage." In short, the lender holds the deed to the property in trust until the loan has been repaid, and therefore the instrument that identifies the lender's interest is known as the Deed of Trust (or DOT).

Why This Is Relevant

Secured loans are part of the "Private Money Industry." When credit is tight, banks aren't lending and borrowers can't get the funds that they need for valuable real estate projects, Private Money Lenders step into the gap and service the demand for these funds. As you can imagine, Private Lending and Trust Deed Investing are more prevalent today than they ever have been in the past. The incredibly high demand for loans and the very limited supply that exists from financial institutions has created the perfect environment for Trust Deed Investors to safely and securely earn double-digit returns on their money. Some call this the greatest buyer's market ever, but we call this the greatest lender's market of all time.

How Does This Work?

Like any other investment, you should proceed carefully until you are very confident that you know what you're doing. Newmark Investment and Loan helps its clients invest in Trust Deeds by completing all of the legwork and providing opportunities for them to choose from. But regardless of whether you utilize Newmark Investment and Loan or other professional guidance, the steps to successfully investing in Trust Deeds are going to be the same. You'll want to evaluate a variety of factors when deciding which investments are right for you and ensure that many of the same safeguards are in place.

Today's Financial Climate Is Perfect for Trust Deed Investors

Security And Loan-to-Value

The most important part of the Trust Deed Investing equation is the collateral. No matter how creditworthy, wealthy or downright adorable a borrower is they must provide good, valuable collateral for a loan. When a borrower takes a loan, it becomes their responsibility to make payments on the debt (or “service the debt”). In the event that the borrower stops making their payments, the collateral that they’ve pledged will serve as a source of repayment. Through the process known as “foreclosure,” the lender can force the property to be sold in order to recoup their investment.

When deciding how much collateral is sufficient collateral, we use a very common ratio known as Loan-to-Value. The LTV ratio is the amount of the loan being made, divided by the value of the property being pledged as collateral. If we make a $10,000 loan on a property worth $20,000 our loan to value ratio is 50%. The remaining value left in the property is what’s known as protective equity. It’s the difference between the amount of a property’s likely sale price and your investment. It can also be called your equity cushion.

A Few Notes About Security And Value

Not all Property is Equal

Different property types in different locations can vary widely in value. A lender must be comfortable with the true value of a property before they decide to use it as security for a loan. And remember, a foreclosure sale price will almost always be lower than the fair market value of property, especially if you’re trying to sell quickly.

Appraisals Are Opinions

Many lenders rely on appraisals to dictate the value of real estate. The problem is that appraisals are merely opinions of value and don’t take into account the fact that property often sells for less in a foreclosure sale than in a fair market transaction.

Would You Buy It?

A good rule of thumb to use for private lending comes in the form of a question: “Would I like to buy this property for the amount that I’m lending against it?” If the answer is “no” then it might be time to rethink the transaction.

Collateral Is Key

Credit And Income

Many lenders look at a borrower's credit score when attempting to determine whether or not they are loan-worthy. There's certainly nothing wrong with doing so, but a borrower's credit score can't be relied upon too heavily. Remember, there are good borrowers that have less than perfect credit scores and there are borrowers with perfect credit that should be avoided at all costs. The key factor is that a lender needs to have adequate security on any loans that they've made to protect their investment.

Private lenders should never hope for repayment. Instead, they should secure their repayment at the time the loan is made. Many lenders consider income another good measure in determining a borrower's worthiness for a loan. Unfortunately, income falls in the same category as credit. Although strong income is nice to have, it can change. Especially at times when unemployment and layoffs are rampant, income can't be counted on as a reliable measure of whether a loan will be repaid or not. What's worse, even if a borrower continues to receive income, they don't have to give it to their lender. If the real estate market declines and the collateral that they've pledged is worth less than the amount that they owe, the borrower may prefer to stick the money in their pocket and give the lender the less valuable real estate. See why collateral is so important?

A Few Notes About Credit and Income

Don't Mistake Us

Credit scores and income measurements aren't useless. They are good measures of a borrower's overall financial picture. But unlike collateral, credit and income don't provide any security for the lender in the case of a default. The secured property has real value, and it's what allows a lender to sleep at night knowing that whether the borrower decides to pay or not, they are in a recorded secured position.

Good Borrowers Have Bad Credit, And Vice-Versa

Some bad borrowers have good credit and some good, savvy borrowers have bad credit. Mistaking these borrowers for one another can mean missing out on opportunities to make good loans. Or even worse, it can mean seeing opportunities that don't exist and making bad loans.

Terms

The terms of a Trust Deed Investment – including rate, qualifications, prepaid, insurance, title requirements, escrows, etc. – can vary widely. Some factors are imposed by legal limits while others are entirely negotiable. Every lender is different in their requirements, and there is generally a reason behind it. However, the most important term in a Trust Deed (or loan) transaction is the term itself – that is, how long the borrower will be allowed to use the money before they are required to pay it all back.

The bank makes loans for 15, 20, and 30 years or longer. As private lenders, we have the flexibility to make the term fit the customer's situation. Having flexibility to make shorter-term loans can protect the lender from market fluctuations, economic changes and changes in the borrowers worthiness.

Exit Strategy

Even though we've properly secured our investment with a valuable piece of real estate (or two), it's still necessary to evaluate whether or not the borrower is likely to be able to repay their loan by the time it comes due. Even in a well secured loan, we don't want to have to go through the process of foreclosure to get repaid (it's a pain). We would prefer to have the borrower make their monthly payments and give our investment back when they're through using it. We examine the borrower's exit strategy to see how likely it will be that they will be able to repay the loan when the time comes.

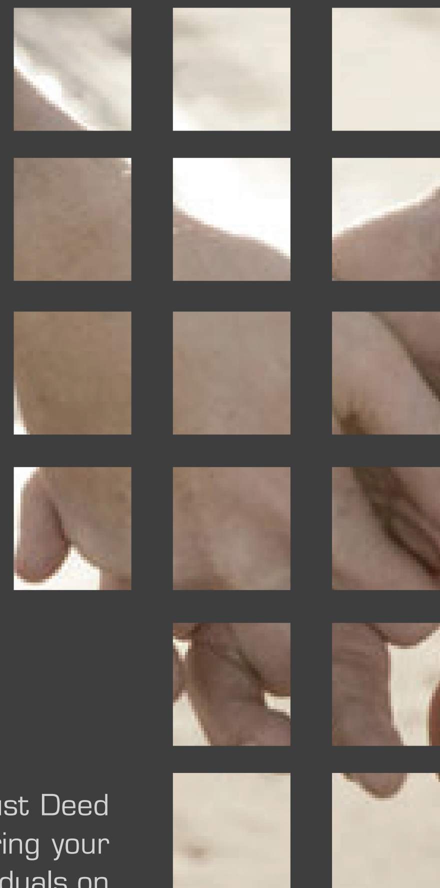
Common exit strategies include: amortization, refinancing, selling property, waiting for someother payoff, or selling businesses or stock. Plenty of borrowers run into situations where money will be available in the future, but their need for it exists right now. As private lenders, we're happy to bridge that gap in time as long as the borrower has a good exit strategy that will give them the ability to repay.

Simply Smart Loans.

Get in Line – Security Positions

Just because a lender makes a loan that is secured by a piece of real estate doesn't mean that they are the only one to have done so. When there are multiple lenders utilizing the same property as security for a loan there is going to be more than one Trust Deed issued for the property. Most commonly, there will be a first and a second Deed of Trust. What this means is that the lender that made their loan first (the 1st Deed of Trust holder) has a priority interest in the asset that comes before the 2nd DOT holder. Let's look at an example:

Say lender #1 makes a loan of $100,000 against a property valued at $250,000. Lender #2 at a later date, makes a loan of an additional $100,000 for a total loan against the property of $200,000. Although they have both made $100,000 loans against the property, the first lender's interest is given priority. For the first lender to recoup its investment, the property would have to sell for at least $100,000 in a foreclosure sale. For the second lender to recover its loan, the property would have to sell for at least $200,000.



There are a number of factors to consider when lending subordinate to another loan, and understanding the implications of doing so is critical. Your security can erode quickly if the transaction is not properly structured.

Other Considerations

There are several other things to take into account when considering Trust Deed Investing. However, they're not nearly as grand in scale as properly securing your loan. Most lenders hire outside professionals or have specially trained individuals on staff to handle these items. Here is a brief touch on each:

• Insurance

Lenders must be sure to properly insure their interest in the collateralized property. Both title and hazard insurance are a must have in every transaction.

• Usury

State and federal laws prohibit lenders from charging interest above a determined ceiling. Charging interest above that ceiling can mean stiff penalties. Professional counsel should be sought in order to make a usury determination in every transaction.

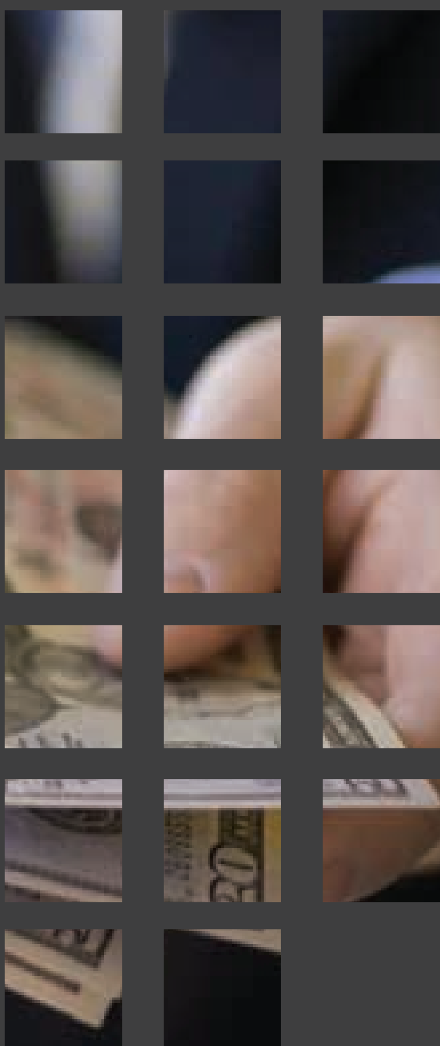
Continued...

• Licensing

Certain types of loans require lender licensing. Laws vary from state to state and every lender should consult counsel before making any private loans to ensure that they are properly licensed or fall within a local exemption.

• Due Diligence

Performing due diligence on a property and on a borrower can require a significant amount of time and energy. Unless you're prepared to take on a full-time job as a lender, these tasks are better left to the professionals.



Choose How To Invest

There are a variety of ways to get involved in Trust Deed Investing. You can always go it alone, but as you've probably already realized, there are a number of pitfalls and risk factors that need to be professionally managed. If you want to enlist professional help, you should understand the difference between types of Trust Deed Investment managers and which will allow you to invest in a way that makes you feel comfortable.

Brokered Trust Deeds

In some states, real estate or mortgage brokers sell Trust Deeds or private loans to individual investors. This form of Trust Deed Investing gives the investor the greatest control. Once a broker brings you a Trust deed Investment, it's up to you to decide whether it's a good Investment for you and your individual situation or not.

At Newmark we assist the investor with the transaction by monitoring the note servicing, representing the investor in any negotiating with a borrower and coordinating foreclosure proceedings if needed.

Fractionalized Trust Deeds

Fractionalized Trust Deeds allow you to spread your investment money over more than one loan. You as the investor choose which loans to fund and you make that dertimination based on your own personal investment goals and real estate type preferences. The return that you earn is based on the yield of each individual Trust Deed Investment

Example: Investor A invests equal amounts in three different TrustDeeds. Trust Deed A produces an 11% return, Trust Deed B a 9%return and Trust Deed C a 10% return. The investors yield would average out to 10% based on the returns of these three investments.

Invest How You See Fit

Newmark Investment and Loan is a private money investment firm that offers full-service Trust Deed Investment services to its clients. Its principals have related experience in the real estate & investment industry. They actively invest their own capital in Trust Deeds and participate alongside Newmark's clients in selected Secured Investment Opportunities.

We would like to show you how we can make Trust Deed Investing a successful part of your portfolio. For more information on Newmark Investment and Loan or Trust Deed Investing, visit our website or give us a call.

This guide is to be used for educational purposes only and is not to be construed as an offer or solicitation to invest. Additionally, the information contained in this booklet should not be considered tax or legal advice.

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