AFMC

REAL ESTATE INVESTING & FINANCING OPPORTUNITIES!

Trust Deed Investing (CA Only)

FAQ'S

Frequently Asked Questions About Trust Deed Investing and Private Mortgage Investing (AKA Notes)

What is a trust deed/mortgage/note/investor?

The word "note" is a generic term used to describe investing in debt. It is short for Promissory note which is one of the documents created in the trust deed and mortgage process. A note investor is a person seeking a competitive rate of return by loaning private funds on real estate assets. In short, you're the bank. The loans are secured by real estate. A note investor makes a higher interest yield than what can be obtained by a regular bank and the investment is secured by the borrower's equity in the real estate transaction as well as "skin in the game." **Please download our free Mortgage and Trust Deed ebook for a really easy guide to note investing**.

How much money do I need to start investing in trust deeds and mortgages

n 2013, the California Department of Real Estate released new guidelines via SB978 that makes qualifying for trust deed investing much clearer. No single trust deed can be more than 10% of your net worth. This does not mean you can't have more than 10% of your net worth invested in trust deeds, you just can't spend all your money on one trust deed or note.

Since California is a more heavily regulated state, we've decided to abide by this same rule in the State of Florida to make it easier to understand and consistent.

As an example, if The Norris Group has a $100,000 note available, a potential note investor should have a net worth of at least $1,000,000. This same investor can come back and do another trust deed investment that meets the same 10% criteria. By the way, net worth can not include your primary residence, furniture, or cars in the calculation.

The California Department of Real Estate (BRE) requires brokers like AFMC to have investors fill out an **Investor Questionnaire** (also known as Real Estate form 870 or BRE870). In California, we are audited quarterly by a third party auditor that reports back to the BRE on our activity and they make sure this form is on file. The form simply ensures each investment is "suitable" for the note investor.

The two-page questionnaire is simple and asks information like name, contact info, education, investing experience, income, net worth, liquid capital, and goals for the investment. **You can download this form** and email it back to us or fax to (877) 299-8216 to be added to our First Look Program to be first to see upcoming available trust deeds and mortgages. If you have questions on it, please call (877) 267-4685

Can I use my IRA funds or 401k for trust deeds and mortgages?

Yes. AFMC actively places funds from IRAs, Self-directed IRAs, Roth IRAs and several other retirement accounts. Trust deed and mortgage investing is a fantastic way to diversify your retirement portfolio and to leverage these types of accounts. Many of our retirement accounts specifically look for our longer term loans as there is less in and out for the accounts.

However, please contact your plan representative as all IRAs have different rules and regulations. Need a referral for a self-directed IRA company, please call us. We also have a preferred vendor list on our site with companies we've worked with in the past.

Inside tip: The secret to self-directed IRAs is planning on how you plan to use it and then ask for the fees and process associated with the account and that investment. Some accounts charge depending on the total dollar amount in your account. If you're not making returns in the account and have a large amount of money sitting in it, you can actually be losing money if the fees are more than your returns (that's not good). Some IRAs also charge varying amounts depending on the kind of investments you plan to do. Make sure you understand your investment goals for the account and make sure you know the total fees annually you'll be paying for the service. You can always call our team with questions.

We also have some great videos for free in our learning portal under the Bonus Sessions. It's free! **Simply set up a free account**. Once inside the portal, watch the introduction video and we'll show you where to find these free resources.

What's the typical property you loan on?

AFMC only lends on non-owner occupied homes in California . We mainly focus on single family homes and units (1-4 only). We offer everything from fix and flip loans to long-term holds, to new construction. Our programs change occasionally to adjust to the California and markets and it's one of the key reasons we love whole note investing. Our research combined with our in-the-field experience allows us to meet the market with the programs that help our entire network.

What is the yield?

Annualized yield will depend on the length of individual investment and the availability of a property for rollover. Some investments last for three months and some last for several years depending on the program you choose. Below, you'll notice we like to refer in net return as serving is a cost to the note investor.

For instance, in our 6% California trust deed program, the note investors will most likely see a net 6% annual return because of the 3-year term on the loan with a one-year prepayment penalty. Properties in this program are rented or rent-ready and are typically used to refinance free-and-clear rentals or purchase properties where the goal is to hold the property for at least a few years before refinancing with a commercial lender or selling. For this program, note investors are seeking consistent cash flow with less in-and-out.

In our shorter-term Fix and Fix and new construction programs in California , there are no prepayment penalties. Loan lengths vary and annualized rate of return will depend on how quickly the loan pays off and whether there is another investment available for the same amount immediately after the close of the first. This is one draw back of whole note investing is that your funds may not always be at work. Annualized rates will also vary by state as well as how much the borrower has put down on the property.

For instance, in Florida we have two flip programs for real estate investors. If we are funding a deal at 75% of purchase price, the borrower not only has 25% down but all the repairs are their responsibility. They enjoy a lower rate to borrower since the loan is seen as less risky. No one wants to walk away from a deal when they have a lot of money in the deal!

If we are funding on after repair value, the appraiser tells us what the property will be worth one it's fully repaired. In this case we fund up to 65% of after repair value and repairs are rolled into the loan. Those repairs funds are only released after repairs are complete but the loan product is still seen as more aggressive. Therefore, the borrower is willing to pay a higher amount on the interest.

When we send out note investments, you'll be given the term of the loan as well as the annualized rate of return.

Do you pool my money with other investors?

AFMC does not pool funds and. We feel this method has served us well over the years and gives the trust deed and mortgage investor more control over their investment. We will consider immediate family members, entities, and family trusts. In addition, on loans over $200,000 we will consider fractionalized loans. However, each fraction of the loan is in equal parts so all investors retain a level of control in the transaction.

Are private mortgages and trust deeds safe investments?

Every investment has risk. Working through a licensed professionals, like AFMC, is key in mitigating risk as we review the asset, the borrower(s), have state appropriate legal documents, understand the process of recording your investment, and monitor the different aspects of the investment like taxes, insurance, and entities. The majority of this is reviewed before we ever present the investment to our network. Let's just say we say NO much more than we say YES!

Some of our best note investors come with a real estate background and fully comprehend the work it takes to be a landlord and dealing with the famous three T's (tenants, toilets, and trash). The like notes because they no longer have to deal with the three T's but enjoy a solid rate of return on an asset know and like.

Also, AFMC ensures you own a first trust deed or mortgage. This means you have ultimate control and a physical asset that can be sold or rented out should the borrower stop making the payment. This is an asset-backed investment.

Once I've committed to be a private lender, what should I expect?

To find out more how the investment process, please see our note investment process page.

How large are the loans?

AFMC has brokered loans from $30,000 to over $1,000,000. However, our main focus in this market is first-time buyer inventory as it makes up the majority of the market and is easily financed when it comes to our fix and flip loans. The flippers loans tend to range between $100,000 and $500,000 California. For the rental programs, the range is a little less as cash flow from rents is key when making these loans. Expect to see numbers from $50,000 to $250,000.

What is your loan to value that you loan on?

AFMC loans up to 60-70% of the After Repaired Value (ARV) of the home. If the property is in our long-term rental program, it is already repaired so it's based on the loan-to value and we lend up to 60-70% LTV. When deciding on how much to lend, AFMC always considers property location, repairs needed, investor experience, and property type. We adjust the percentage funded accordingly.

What are points?

Points are the fees paid by the borrower to AFMC for acting as broker in a hard money loan transaction that covers the cost of origination

Do you offer 2nd and 3rd trust deeds?

Not typically. AFMC focuses on first trust deeds and first mortgages on all of our investments as we feel this offers a more secure investment with much lower risk. On occasion, we will look at seconds but this is rare.

What is servicing? Why is my return 6% when it says 6.9% on the website?

AFMC charges a servicing fee annually on all of our programs. Servicing includes collecting checks from the borrowers and remitting them to all note investors monthly. AFMC monitors things like property tax payments and insurance requirements on all investments and communicates with the borrower and note investors as needed. There are also some additional requirements when it comes to HOAs as well as registered agent checks. The Norris Group also handles end-of-year tax requirements and paperwork. Servicing covers the cost of all the activity associated with making this investment truly passive.

Why don't I skip you completely and work with an investor directly?

Regulations require a professional broker to obtain higher returns and for California trust deed investors to be in compliance with usury laws (read more on usury laws at the California Office of the Attorney General). Broker licenses require audits and government oversight.
It's not only about regulation and licensing, using a professional and experienced broker allows you to make higher annual returns because you're adopting an established team that finds, structures, and services the investment. It expands the marketplace for you, lowers your risk, saves you time, and ultimately increases your return tremendously.
Most investors are specifically coming to us for a truly passive investment experience.

What does loan servicing include?

Loan servicing includes the back-office tasks of collecting payments from borrowers, disbursing payments to the investor, mailing required notices and statements, year-end tax documents for the IRS and franchise tax board, maintaining adequate borrower insurance coverage, HOA payment checks when required, review of agent of service annually, and coordinating foreclosure proceedings if necessary (rare).

Who in my network might be able to advise me on these types of investments outside of AFMC?

Having an excellent team is always important and we suggest you check with your tax adviser, financial or retirement planner, and/or your attorney.

When selecting professionals, please be advised that not all will be comfortable or allowed to help make decisions on real estate and alternative investments. It is a specialty and we always encourage our network to work with professionals that will consider a client's entire portfolio including real estate. In our experience, real estate has been a major component of create wealth. Work with those that like the vehicle and will look at your situation holistically to do what's best for you. For some in commercial brokerages, they won't even be allowed to speak with you about real estate assets so ask up front if it's something they can help you with.

Feel free to call for referrals. We have several financial planners, lawyers, and CPAs that specialize in working with real estate.

Where can I find more information about trust deed investment in CA?

The California Department of Real Estate (DRE) has been renamed the California Department of Real Estate. **They have an entire document you can read on the subject of Trust Deeds.**

Who can invest in trust deeds, mortgages, and notes?

Private individuals, corporations, pension plans, 401Ks, custodianships, LLCs, retirement funds, IRAs, Roth IRAs, Self-Directed IRAs, Charitable Remainder Trusts (CRTs), foundations, endowments, family trusts, family members, and SEP accounts. Some retirement amounts have limits so please check with your custodian or account administrator. The Department of Real Estate in California simply requires that no single trust deed can be more than 10% of your (or an entity's) net worth. We'll have to have the

DRE's Investor Questionnaire on file as they look for this as part of every transaction. You can see this [HERE](#).

On this linked site, you'll see entities created outside of the state must be registered as a foreign entity and must follow fill out and follow the guidelines listed. All entities in must have a Registered agent which has a business address (no PO Boxes) and a physical location where service of process can take place. This registered agent signs off on the required state form. We highly advise you speaking with your tax representative about the benefits to registering a foreign entity.

Do you require fire insurance on the property?

Yes. Not only do we require fire insurance but we require the investor inform the insurance company that the property is vacant. In other words, we need the correct insurance. We require coverage in the amount of the loan or replacement guarantee. If we were to allow a landlord policy on a vacant flip and the property had a fire, the insurance company would NOT cover the damage. This is also why we receive updates when the policy is modified, cancelled or renewed.

Will I be given a complete profile of the property?

By the time we present the property for funding, we've already had an independent appraisal completed on the property. We'll send to you a copy of that appraisal along with the address for you to view the property.