



PRIVATE REAL ESTATE LENDING

Introduction to Trust Deed Investing

A beginner FAQ for investors evaluating
short-term real estate loans

Presented by GPM Capital
August 2026

Educational material only - not investment, legal, tax, or accounting advice.

Frequently Asked Questions

This guide introduces trust deed investing in plain English. It is organized around the questions new investors usually ask first: what the investment is, why borrowers use private capital, how investors are paid, where the risks sit, and how to think about diligence before committing capital.

READ THIS FIRST

This guide is educational material only and is not investment, legal, tax, accounting, or securities advice. Trust deed investing can produce attractive current income, but it is not a bank deposit, bond substitute, or risk-free real estate strategy. Investors should understand the collateral, borrower, loan documents, state-specific foreclosure rules, servicing process, tax treatment, and offering structure before investing.

The Basics

What is trust deed investing?

Trust deed investing is lending money secured by real estate. The borrower signs a promissory note that states the loan terms and a deed of trust or mortgage that gives the lender a security interest in the property. If the borrower performs, the investor receives interest and principal according to the loan terms. If the borrower defaults, the lender may have the right to foreclose on the property under applicable law.

Why is it called a trust deed?

In many states, the security document is a deed of trust. The borrower is often called the trustor, the lender is the beneficiary, and a trustee holds power under the recorded deed of trust. Other states use mortgage documents instead. The practical concept is similar: the loan is secured by real property, and the lender's position depends on the quality and priority of that security interest.

Who are the typical borrowers?

Many private real estate loans are made to professional real estate investors, builders, bridge borrowers, or property owners who need speed, flexibility, or a loan that does not fit conventional bank criteria. A borrower may be acquiring a property quickly, renovating a property before resale or refinance, resolving a timing gap, or purchasing an asset that is not yet ready for bank financing.

Why would a borrower pay a higher interest rate?

Private capital can be valuable when timing matters. A borrower may accept a higher rate because a fast close, short term, or flexible structure helps them complete a profitable transaction. The higher

rate is not proof that the loan is automatically unsafe, but it is a signal that the investor must understand the borrower's business plan, repayment source, and backup exit strategy.

How does a trust deed investor make money?

The primary return is interest income. Some loans may also include origination points, extension fees, prepayment provisions, or default interest, depending on the structure and applicable law. Unlike owning real estate directly, the lender does not participate in property appreciation. The trade-off is that the lender has a defined payment stream and a collateral claim, but limited upside.

What makes trust deed investing attractive?

Investors often consider trust deeds because the loans are secured by tangible real estate, are usually shorter term than traditional long-duration bonds, and often offer higher current income than many conventional fixed-income alternatives. Consider however that the investment is only as strong as the underwriting, documentation, collateral value, and exit strategy.

What is the margin of safety?

The margin of safety is the cushion between the loan amount and the realistic value of the collateral. If a property is worth \$500,000 and the loan is \$300,000, the loan-to-value ratio is 60% and the apparent equity cushion is 40%. That cushion may help absorb foreclosure costs, selling costs, market changes, repairs, delays, or valuation error. It is not a guarantee; it is a risk-control concept.

What are LTV and LTC?

LTV means loan-to-value: the loan amount divided by the property's estimated value. LTC means loan-to-cost: the loan amount divided by the borrower's purchase price or total project cost. LTV helps measure the lender's collateral cushion. LTC helps show how much borrower equity is in the transaction. A strong loan often has both a conservative LTV and meaningful borrower cash at risk.

Is trust deed investing the same as owning real estate?

No. Real estate ownership can provide rental income, appreciation, tax attributes, and operating responsibilities. Trust deed investing is a lender position. You are essentially acting as the bank. It is designed primarily for income and return of principal. If the borrower pays off, the investor must redeploy the money to keep earning income. If the borrower defaults, the lender may become involved in foreclosure, property management, or sale decisions.

Returns, Structure, and Investor Fit

What returns should a new investor expect?

Returns vary by market, lien position, loan size, property type, borrower quality, term, leverage, sponsor fees, and risk. High single-digit to low double-digit returns are common in many trust deed investment offerings. Investors should compare any projected return to the actual risk, fees, liquidity limits, and sponsor track record.

Why can trust deeds yield more than traditional bonds?

Several factors contribute: the market is less liquid, individual loans can be smaller and harder to source, underwriting requires specialized knowledge, and the borrower may need speed or flexibility that banks cannot provide. Investors are being compensated for doing work, accepting illiquidity, and taking risks that do not appear in the same way with publicly traded bonds.

How long are trust deed investments?

Many private real estate loans are short term, often structured around an acquisition, renovation, stabilization, sale, or refinance. A short maturity can reduce exposure to long-term rate movements, but it creates reinvestment risk. When a good loan pays off, the investor must find another suitable opportunity or accept that cash may sit idle.

How can an investor participate?

There are several common paths: direct lending to a borrower, purchasing or funding a loan arranged by a broker, participating in a loan with other investors, or investing in a professionally managed mortgage or trust deed fund. Direct lending gives the most control but demands the most expertise. Fund investing is more passive but requires careful diligence on the manager.

Should a beginner invest directly in individual loans?

For most beginners, trust deed investing can seem complicated. A beginner who wants exposure to this asset class should work with experienced professionals in order to understand the underwriting process. Your experienced real estate broker will source loans, value the property, review title, negotiate documents, assess the borrower, confirm insurance, arrange servicing, and manage a default if it happens.

What is the difference between an individual trust deed and a fund?

An individual trust deed is exposure to one loan and one collateral package. It may offer more visibility into a specific property and borrower, but it can concentrate risk and create cash drag when loans repay. A fund pools investor capital across multiple loans, which can improve diversification and professional management, but investors depend heavily on the manager's competence, discipline, reporting, controls, and integrity.

Can retirement funds be used?

Some investors use self-directed retirement accounts for private real estate debt. This can be tax-efficient in some circumstances because trust deed income is generally interest income, but the rules are technical. Investors should work with a qualified custodian and tax advisor and should understand prohibited transaction rules, valuation requirements, fees, liquidity, and distribution planning.

Due Diligence Before Investing

What should be reviewed before funding a loan?

A beginner can think of diligence in four buckets: the property, the borrower, the documents, and the transaction structure. The goal is not to check boxes mechanically. The goal is to answer a practical question: if the borrower does not repay on time, is there a realistic path to recovering principal, interest, and costs without relying on wishful thinking?

Beginner diligence checklist

Area	Questions to answer
Property	What is the realistic value, condition, location, marketability, property type, and liquidation path?
Loan terms	What are the rate, term, payment schedule, maturity, points, fees, covenants, and extension rights?
Collateral cushion	What are the LTV, LTC, protective equity, senior debt, junior liens, reserves, and stress-case recovery?
Borrower	What are the borrower's experience, liquidity, credit, net worth, character, and repayment plan?
Legal	Are title, lien priority, recording, documents, entity authority, compliance, and local counsel review complete?
Insurance	Is the lender properly protected for hazard, flood, fire, construction, vacancy, or other relevant risks?
Servicing	Who collects payments, reports to investors, handles defaults, and initiates foreclosure if needed?
Exit	How does the borrower repay, and what is the lender's Plan B if the expected exit fails?

How should the property be evaluated?

The collateral should be valued conservatively. Your real estate broker should compare recent nearby sales, property condition, neighborhood marketability, property type, repair needs, and likely liquidation value. A formal appraisal can be useful, but an appraisal is not a substitute for independent judgment. The value that matters most to a lender is what the property could realistically sell for if the exit becomes pressured.

Why does lien position matter?

A first trust deed generally has priority over junior liens. If the first lender forecloses, junior lienholders may be wiped out. Junior loans can be riskier because the investor may need to cure

senior defaults to protect the junior position. New investors should be especially cautious with junior liens and should understand exactly what debt is ahead of them.

What borrower information matters?

Collateral is central, but the borrower still matters. The loan broker should understand the borrower's experience, liquidity, credit history, net worth, character, business plan, and repayment source. For renovation or bridge loans, the borrower should have enough cash and experience to handle surprises. A personal guarantee may add another layer of recourse, but it is only valuable if enforceable and supported by real assets.

What legal and closing items should be confirmed?

The broker and the title & escrow company should confirm title, lien priority, proper recording, hazard insurance, any required lender's title policy, entity authority, loan documents, servicing arrangements, and compliance with applicable lending, securities, and usury laws. Commercial or industrial properties may require additional diligence, including environmental review.

Why is insurance important?

Insurance protects the collateral if the property is damaged or destroyed. The broker should confirm that appropriate property insurance is in place and that the lender's interest is properly reflected. Depending on the location and property type, investors should also think about risks such as earthquake, flood, fire, liability, construction, vacancy, or builder's risk coverage.

What Can Go Wrong

What are the main risks?

The major risks include borrower default, incorrect valuation, falling property values, title defects, lien-priority disputes, inadequate insurance, fraud, bankruptcy delays, litigation, environmental problems, servicing errors, poor documentation, regulatory violations, and illiquidity. In a fund, investors also face manager risk: the risk that the people making decisions are inexperienced, undisciplined, conflicted, or dishonest.

What happens if the borrower defaults?

A default usually starts with missed payments, failure to repay at maturity, or violation of another loan covenant. The lender may direct the servicer or trustee to begin the default and foreclosure process, subject to state law and the loan documents. The borrower may cure, refinance, sell, negotiate an extension, file bankruptcy, or lose the property through foreclosure.

Does a low LTV eliminate risk?

No. A low LTV can provide a cushion, but the cushion can shrink quickly if the original value was wrong, market prices fall, the property is damaged, legal costs accumulate, foreclosure takes longer

than expected, or selling costs are higher than planned. The relevant question is not just the stated LTV; it is whether the lender can recover after stress-testing realistic downside scenarios.

What if the borrower files bankruptcy?

Bankruptcy can delay foreclosure and increase legal costs. It may also create negotiations around timing, collateral protection, and repayment. A lender with valid documents and sufficient collateral may still be protected, but the process can be slow and expensive. Investors should not assume default resolution will be quick simply because the loan is secured by real estate.

Why is liquidity a major issue?

Trust deed investments are usually not traded on a public market. An investor generally cannot sell instantly at a known price. Capital may be tied up until the borrower repays, the loan is sold, the fund permits redemption, or a default resolution is completed. Investors should only commit money they can leave invested for the full expected term plus a possible delay.

What should investors know about small loans?

Very small loans can look safe on a percentage basis but still have weak dollar cushions. A \$25,000 cushion can be consumed quickly by foreclosure costs, repairs, carrying costs, and selling expenses. Investors should look at both percentage LTV and the actual dollars available to absorb stress.

Working with Loan Brokers

How should an investor evaluate a broker?

The most important questions are about judgment, process, alignment, transparency, controls, and track record. Investors should understand who sources loans, who approves them, how values are determined, how exceptions are handled, whether insiders participate, how conflicts are managed, how loans are serviced, how defaults are reported, and how cash is safeguarded.

What questions should I ask before investing?

- What property types, geographies, lien positions, and maximum LTVs are generally allowed?
- Who verifies value, title, insurance, borrower liquidity, and exit strategy?
- How are late pays, extensions, defaults, and foreclosures handled?
- What reporting will I receive, and how often?

What is the bottom line for new investors?

Trust deed investing is best understood as real estate credit. The investor is not simply buying yield; the investor is accepting a secured lender's risks. Done carefully, the strategy can provide income backed by real property. Done casually, it can expose investors to illiquidity, legal complexity, collateral loss, and manager mistakes. New investors should move slowly, favor transparency, ask detailed questions, and use qualified professional advisors.

GPM CAPITAL PERSPECTIVE

A responsible trust deed program should begin with capital preservation, conservative collateral analysis, clear documentation, strong servicing, disciplined loan selection, and plain-English investor communication. Yield matters, but underwriting discipline matters more.

Does Trust Deed Investing Fit Your Income Strategy?

Speak with the GPM Capital team about the process, current availability, and the due-diligence materials provided for individual opportunities.

(855) 207-3340

info@gpmcapital.com

**1543 Sloat Blvd #320588
San Francisco, CA 94132**

Trust Deed Investments involve substantial risk, including borrower default, delays in repayment, foreclosure expense, changes in real estate value, limited liquidity, and possible loss of principal. They are not bank deposits, are not insured by the FDIC or any other government agency and are not guaranteed. Information in this report is educational and does not constitute an offer to sell or a solicitation to buy any security. Any offering will be made only through the applicable legal documents and to investors who satisfy all eligibility requirements. Prospective investors should review all documents and consult their own legal, tax, and financial advisers before investing.

Loans originated by Gateway Private Money Inc., CA Real Estate Broker, Lic. No. 02230924