

High Yield Trust Deed (“Mortgage”) Investment

“The more informed one is the better decisions one makes.”



Applewood Funding
Incorporated

DISCLOSURE REGARDING THE PURPOSE AND SCOPE OF THE INFORMATION PROVIDED HEREIN

This informational booklet is provided to those who may be interested in investing in trust deeds secured by real estate.

The booklet contains a general overview of trust deed investing and the process Applewood Funding Inc. follows to make or arrange loans, which may be funded or purchased by, trust deed investors. The booklet is not intended to describe any particular trust deed, nor is it intended to solicit trust deed investors to either fund the loan or purchase the note evidencing the debt secured by a particular trust deed.

WHAT IS A TRUST DEED INVESTMENT?

Real Estate lending is characterized by making a loan to a borrower who executes a Promissory Note and Deed of Trust (also known as a "Trust Deed" or "Mortgage") encumbering the borrower's real property. The promissory note is the borrower's promise to repay the loan. The deed of trust is a security instrument recorded with a County Recorder's office, creating a lien on the real estate described therein.

A Trust deed investment occurs when an Investor purchases the Note and Deed of Trust. Applewood Funding raises capital to fund Trust Deeds from private sources such as individuals, pension funds, and IRA'S, as well as institutional sources.

Trust Deeds are recorded in different lien positions, such as "first" trust deeds, 'second' trust deeds, etc. The date and time of recording establishes the lien priority of the trust deed on the title of the property.

WHO IS APPLEWOOD FUNDING INC.

Applewood Funding Inc. ("AF") is a wholesale direct private money lender specializing in residential and commercial real estate loans. AF has been involved in real estate lending since 1996 and currently originates loans in Arizona.

Investors who participate include: Individuals, trusts. Foundations, pension plans, IRAs and Keoghs, as well as other entities, all of which may be syndicated to form the investment.

Applewood Funding Inc. arranges loans for the following types of real estate:

- Single family homes
- Construction
- Condominiums
- Commercial & Industrial projects
- Acquisition & Development
- Apartments
- Land
- Churches
- Manufactured home & land

OUR CORE IDEOLOGY

Applewood Funding Inc. ("AF") continuously strives to create an environment where investors choose to purchase Trust Deeds because we:

- Consistently offer good quality, fair yielding investments
- AF staff will maintain open communication at all times
- AF will respond to borrowers and their representatives to answer questions they have about the loan transaction and specific loan documents and disclosures, during origination and or closing the loan.
- AF will respond to those who make or arrange loans (brokers, banks, business professionals) in a timely and professional manner
- AF creates a professional work environment, with a friendly atmosphere, supporting our employees in furthering their education and knowledge in our industry

- AF strives to remain in the forefront of technology and product innovation recognizing that change is not only constant but necessary
- AF will, at all times, strive to remain an outstanding organization

WHAT ARE THE MERITS OF TRUST DEED INVESTING?

- Monthly income from interest payments (where applicable)
- High yields from 9% to 12% per annum.
- Minimal Management – Applewood Funding Inc. arranges the loan to be serviced by a servicing company
- Your invested capital is SECURED BY REAL ESTATE.
- A Title Company or service company services the loan. Collecting and distributing the monthly payments, and taking care of the payoff information.

WHY BORROWERS NEED PRIVATE MONEY LOANS?

- Quick funding for time sensitive loans
- Loss of bank loans, for any reason, including declines and excessive conditions
- Borrower's election to avoid the long hassle of processing a bank or institutional loan
- Applewood Funding Inc. ability with more flexible terms than most banks
- Short term bridge loans (90 days to 1 year)
- Property purchased with large percent of down payment in the form of seller carry back financing
- Construction
- Borrower has an opportunity to make an investment using the equity in his/hers real estate. Crossed collateral/both properties.
- Borrower has circumstances making it difficult to obtain a bank loan, including but not limited to:

Complex financing structures (LLC's, partnerships Trusts and Corporations)
Credit problems
Foreclosure or receivership
Bankruptcy (old or recent)
Other liens (judgment liens, homeowners associations, property taxes, etc.)

MOST COMMON TYPES OF TRUST DEED INVESTMENTS

Property Commonly Securing the Investment:

Single Family residence
Income property-residential and commercial
Land and Vacant lots
Manufactured home and land
Churches

RISK vs. REWARD:

1ST TRUST DEEDS

TYPE OF PROPERTY	MAX LTV (loan to value)
Single Family Residence	75%
Condominiums	70%
Commercial and Industrial	65%
Land	50%
Residential Lot	60%

RISKS ASSOCIATED WITH TRUST DEED INVESTMENTS

There are risks associated with Trust Deed Investments. The risks may include:

- Trust deed investments are not insured by the FDIC or any other government agency
- Applewood Funding Inc., its principals, and associates are not allowed to guarantee the success of the investments.
- The investments are suitable only for persons of adequate means who anticipate no need for immediate liquidity
- The value of property is given by an appraiser reflecting his/her opinion of the value at the specific date. There is no assurance that the appraised value will reflect a fair market value, as general and local economic conditions may change.
- You should not entrust all aspects of the investment decision and subsequent servicing to the broker without full understanding of the delegated responsibilities and rights
- The borrower's ability to repay the loan will depend upon the borrower's financial
- There are general risks associated with real estate investments including general or local economic conditions, neighborhood values, interest rates, real estate tax rates, the supply of and demand for properties of the type involved, the ability of the borrower to obtain necessary alternative financing, governmental rules and acts of God.
- Default by the borrower could interrupt your monthly payments
- Under extreme cases, it may be necessary to instruct a foreclosure company to foreclose or take other actions to protect your investment. It is possible for the total amount recovered upon foreclosure to be less than the amount of your total investment, with resulting loss of capital to the investor.
- If a borrower files a reorganization or full insolvency bankruptcy, the foreclosure process could be stalled. Additionally, the trust deed investors could incur significant legal fees and cost in attempting to obtain a relief (relief consists of getting court approval to release the property out of the bankruptcy so that the property can be foreclosed upon.). Furthermore, the court could modify the terms of the loan by extending the due date, changing the interest rate and payment structure, or causing the priority of the loan to be subordinated to the bankruptcy court-approved financing plan.

WHAT TO LOOK FOR IN EVALUATING A POTENTIAL TRUST DEED INVESTMENT

Appraised value

There are three approaches, replacement cost, Market or Sales approach, and the income approach.

- AF always obtains an Independent Appraisal of the property
- We get a rental survey if applicable for income producing property

Loan to Value Ratio

- The ratio between a mortgage loan and the value of the real estate pledged as security is expressed as a percentage.
THE LOAN AMOUNT DIVIDED BY THE PROPERTY VALUE IS THE LOAN TO VALUE OR (LTV).
- The higher the loan to value ratio, the greater the lending risks because the protective equity declines as the LTV increases.

Borrower and credit considerations:

- Borrower's credit application
- Financial Information
- Credit report
- Personal interview and interaction

Exit Strategy

When the loan becomes due, what is the pay off strategy?

- Extend the loan term
- Refinance with an institutional lender
- Sell the property and use the proceeds to pay off the loan
- Borrower obtains other funds to facilitate the payoff

Part of our ongoing diligence that we perform

- Coordinate the underwriting and processing of the proposed loan
- Coordinate the escrow function
- Title Insurance insures the property is free of other liens and encumbrances
- Review and explanations of title items and issues
- Fire Insurance policy in effect prior to close of escrow with correct amount of coverage
- Environmental Site Assessment when necessary, case by case basic.(Phase 1,11,111, and remedial action plan, when necessary).

YOUR TRUST DEED INVESTMENT PACKAGE WILL CONTAIN

In order for you the investor to make a good informed decision, we include the following :

BEFORE YOU INVEST- The Investor Loan Package

- The investor disclosure form, a loan summary of the loan
- Loan application of the borrower
- Credit report of the borrower

- Income stated on the loan application or financial statements, pay stubs, and or other financial information
- Appraisal from an independent, certified appraiser with photographs and area maps and directions.
- Copy of promissory note and deed of trust and endorsement and assignment of the deed of trust
- Preliminary Title report issued by the title insurer
- Indication of title coverage to be obtained.

POST CLOSING, THE LOAN HAS FUNDED AND THE ESCROW IS CLOSED

- The prorated interest check from closing until the end of the first month
- Original promissory note goes to the loan servicer, copy to the investor
- Original deed or trust goes to the loan servicer, copy to the investor
- Title insurance policy, when issued by Title Company goes to the investor
- Fire Insurance endorsement

LOAN SERVICING

Loans serviced by an appointed title company. You the investor are able to contact the servicing title company at any time and ask questions and obtain information on your loans.

IF PROBLEMS OCCUR

If the borrower fails to pay the loan as promised, the deed of trust and the promissory note allows the lender to sell the property through a non-judicial foreclosure procedure. Invested capital maybe recaptured at the foreclosure sale from the purchase by a successful third party bidder or through subsequent resale of the foreclosed property.

YOU CAN RELY ON APPLEWOOD FUNDING INC. TO:

- Try to have contact with the borrower
- Assist in initiating foreclosure proceedings, if necessary
- Recommend an attorney to act on your behalf if borrower files a bankruptcy case to forestall the foreclosure sale
- Each investor pays their share of attorney's fees. These fees are reimbursed by the borrower in the event of reinstatement
- Discuss work out arrangements with borrowers
- If the property reverts back to the investor at the foreclosure sale, locate a realtor to market the property.
- Coordinate any repairs or improvements to the property needed to enhance marketability.

WE WORK WITH OUR INVESTORS TO INSURE SUCCESS