

TRUST SOLUTIONS

SERVING THE NEEDS OF REAL ESTATE PROFESSIONALS AND THEIR CLIENTS

JOINT OWNERSHIP FINANCING

KICK-OFF SEMINAR

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Option #1: Foreclosure

After a payment is missed the bank issues a N.O.D. (Notice of Default).

Once a N.O.D. is filed the property enters into a 90 day period wherein the owner may reinstate the loan. Reinstatement requires that all back payments, late fees, legal fees, reinstatement fees and any other miscellaneous fees be paid prior to reinstatement of the loan.

Without reinstatement the property will go into the Publication Period at the end of the 90 day Reinstatement Period.

Publication Period is 21 days. During this time the lender will publish, usually in the largest newspaper in the county, the owners name, the property address and the probable auction date and location. Reinstatement is no longer possible. If loan is not fully repaid prior to the end of the 21 day Publication Period the property will be sold at auction.

Foreclosure action will lead to tax consequences for the owner and a major blemish on their credit record.

Option #2: Bank Approved Short Sale

Lender is contacted by Seller or their Agent with an offer to buy the property at a price that will not be sufficient to fully repay what is owed.

Lender usually takes several weeks to make a decision about the potential Short Sale. Frequently the lender takes so long to make a decision that the Buyer loses interest in the property and moves onto another possible purchase.

If and when the lender agrees to a short sale the transaction can move forward. Frequently, lender only agrees to short sale if certain conditions are met. Additional requirements often cause either the buyer or the seller to terminate the agreement.

Agents involved with transaction are sometimes paid less than contracted amount due to lender conditions.

At the conclusion of the short sale wherein the lender was not paid in full the seller will face numerous tax consequences as well as a "Not Paid As Agreed" mark on their credit.

Option #3: Trust Conveyance

Buyer and Seller enter into a Trust Conveyance transaction wherein Buyer will take over the existing financing on the property and cure any payment deficiencies. Buyer will also be able to take over the existing tax basis of the property.

Under Federal and State law the lender must except the transfer of title to the Sellers Revocable Real Estate Trust.

Depending on how the transaction is structured the Seller can take the Capital Gains exclusion of up to \$500,000 or they may choose to report the gain in the future when it can be deferred via a 1031 exchange.

Buyer is eligible to take all of the active tax deductions on their tax return even though their name is not on title or have never qualified for the existing financing.

Both Buyer and Seller have the potential of future appreciation in the property via a equity sharing arrangement inherent in the transaction.

Huge benefit of this transaction is that the Sellers credit is not negatively impacted as it is in foreclosure or short sale.

Potential Tax Issues With Foreclosure or Short Sale

Assume \$500,000 property value with \$525,000 still owed to lender.

Foreclosure

\$25,000 potential 1099
Misc Income
Plus any miscellaneous fees
like commissions or
rehabilitation costs that
lender must pay to sale
property.

Assume 28% Federal tax
bracket and 8% State tax
bracket owner could be
liable for up to an additional
\$9,000 or more in taxes for
the forgiveness of debt.

This amount of tax could be
eliminated if the seller
declares bankruptcy which
has become much more
difficult in recent times.

Short Sale

\$60,000 potential 1099
Misc Income from the sale
that shorted the lender
\$25,000 plus the real estate
commission the agents
earned.

Assume 28% Federal tax
bracket and 8% State tax
bracket owner could be
liable for up to an additional
\$21,600 or more in taxes
for the forgiveness of debt.

Short Sale most frequently
leads to a higher tax bill
than foreclosure.

This amount of tax could be
eliminated if the seller
declares bankruptcy which
has become much more
difficult in recent times.

TRUST SOLUTIONS PROGRAM:

Simply put, the TRUST SOLUTIONS Program is three (3) distinctly different stand alone transactions all put together in a unique way that makes it possible to accomplish the affiliates' desire to place individuals into properties without all of the hassle and time constraints required by traditional institutional lenders.

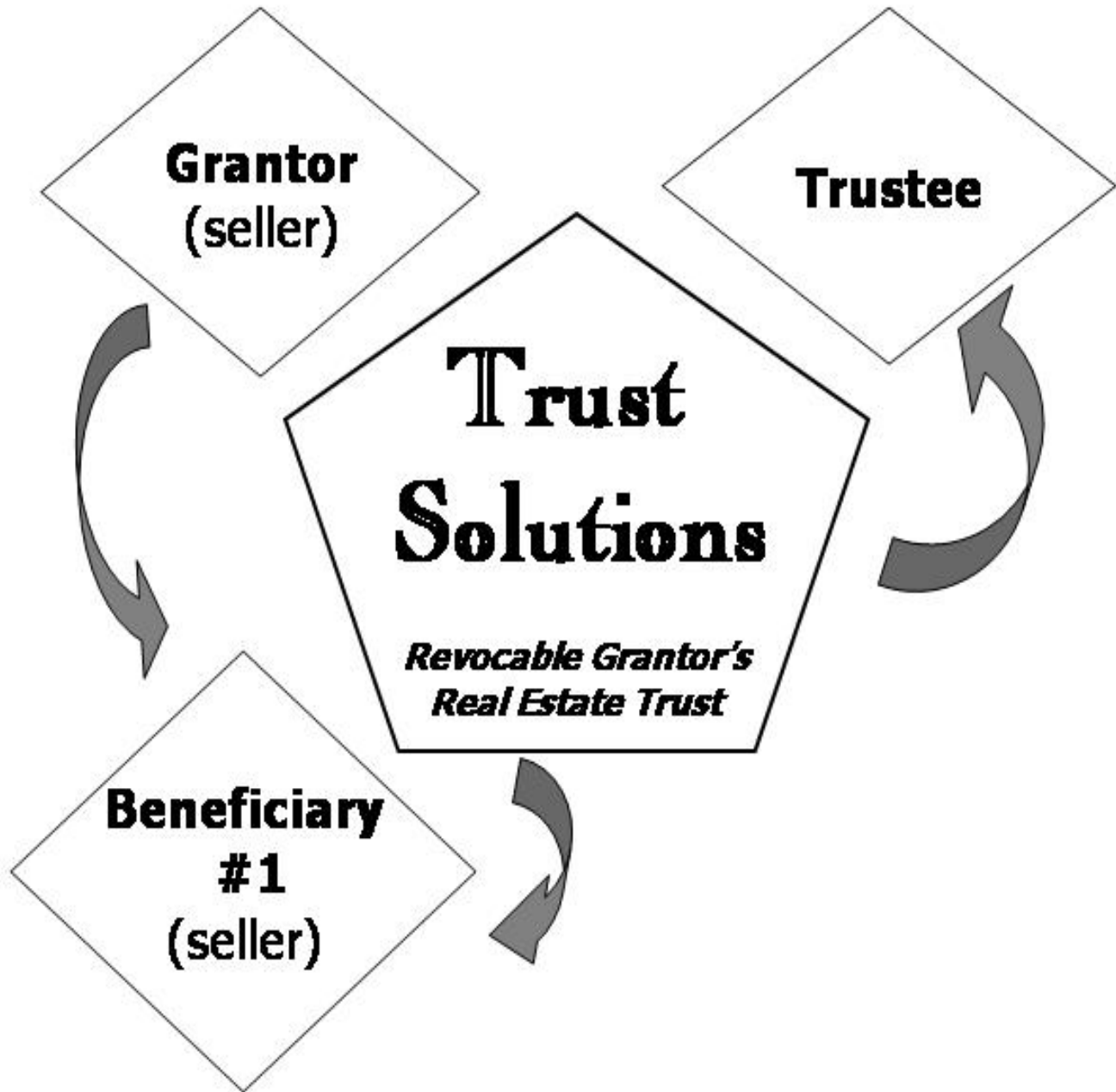


STEP 1

The Trust Agreement

1. This document transfers, via a grant deed, title of the property to a trust in the name of the Seller(s).
 - a. The Roberts Family Trust
 1. It also names the Seller(s) as the Beneficiary(s) of the Trust.
 2. The document also declares that a neutral, third party be named as the Trustee of the Trust.
 3. Transferring of title to a Trust in which the Seller(s) is named as a Beneficiary is not considered, by most legal advisors, a violation of the "Due On Sale Clause".
 - a. Living Trust is the most common example.

STEP 1 (Illustrated)

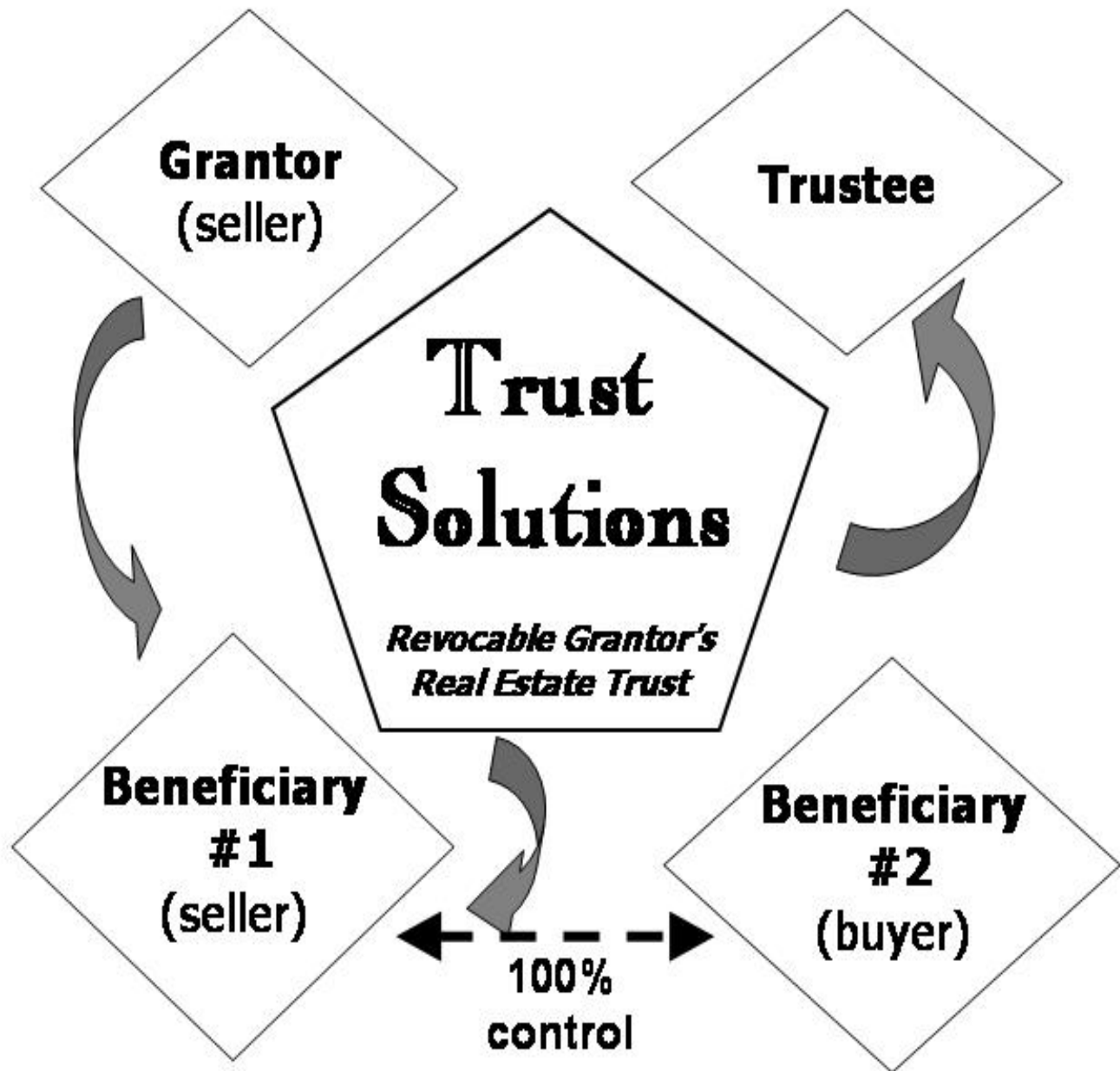


STEP 2

Agreement Assigning Interest In Trust

1. This document, for a certain amount of funds, sells part of the Beneficial Interest in the Trust to an outside individual.
 - A. Both the courts and the IRS have ruled that property, once placed into a trust, becomes personal property, regardless of the type of property it was prior to being placed into a trust.
 1. Real property converts to personal property.
 2. The purchaser of the Beneficial Interest In Trust is simply making an investment into a trust that happens to hold title to a piece of real estate.
 - a. The purchase of Beneficial Interest does not give the purchaser occupancy rights to the Trust Property.
 1. If you buy 100 shares of IBM stock, you can not take up residency in the corporate headquarters of IBM or any other of its buildings.

STEP 2 (Illustrated)



STEP 3

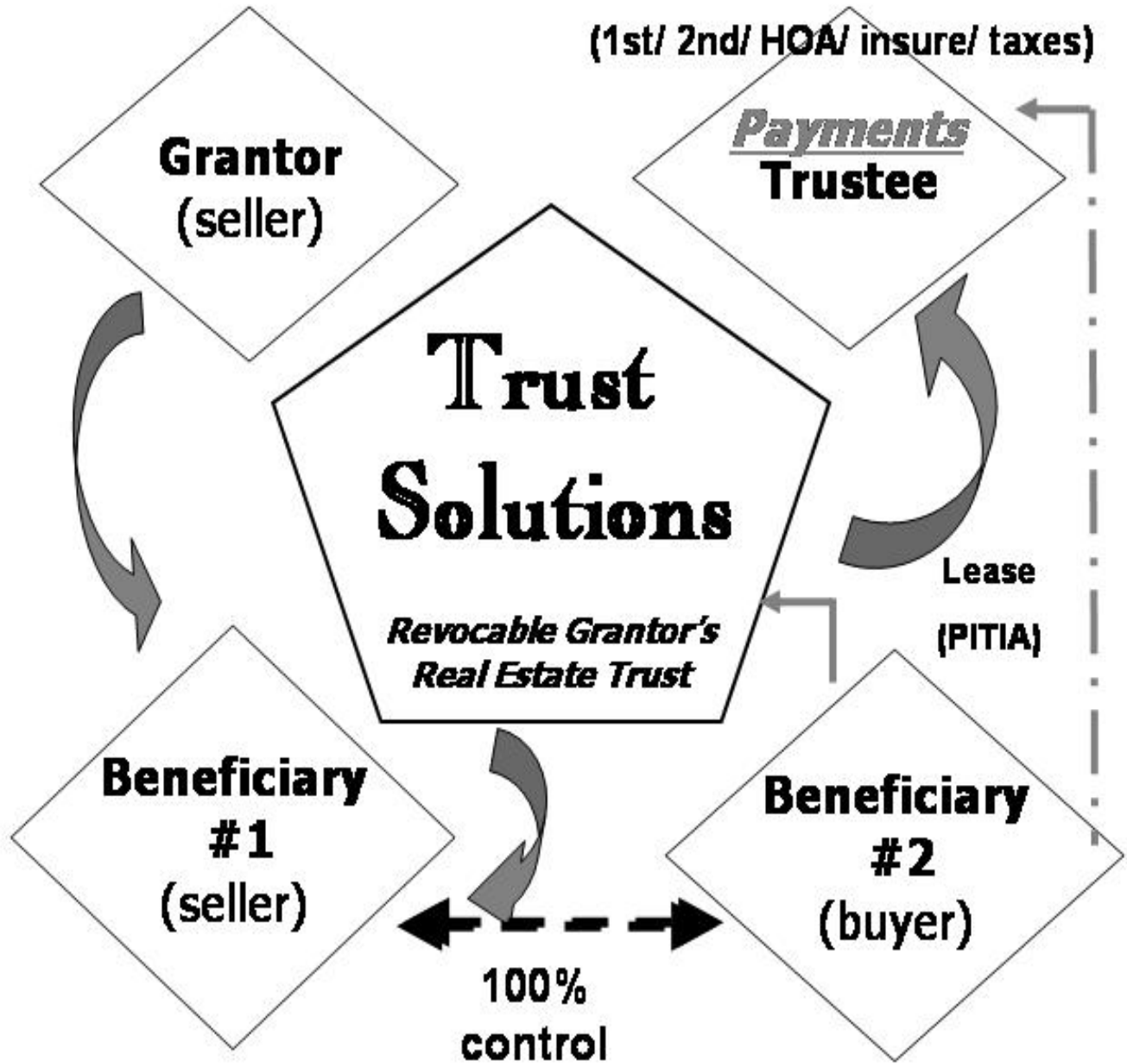
Lease Agreement

1. This document is a standard "Triple Net Lease."
 - A. The lease obligates the Resident Co-Owner to make all of the payments on the Trust Property:
 1. Principal and interest.
 2. Taxes.
 3. Insurance.
 4. Association Fees.
 5. Management Fee.
 6. Maintenance and repairs.
 - B. The payments are made directly to the Trustee.
 1. Trustee then makes all the required payments.
 2. Should the tenant default on a payment, the Trustee files a "3-Day Notice To Pay Rent Or Quit."
 3. If the 3-Day Notice To Pay Rent Or Quit does not cure the default the Trustee will then file a "Complaint - Unlawful Detainer."
 - a. Experience dictates that an attorney can usually get a court date in almost half the time that a private citizen can.
 4. Because the Resident Co-Owner's occupancy is granted solely through the Lease Agreement, a foreclosure action is not required to evict a nonperforming tenant.
 - a. This will usually speed up the eviction process by as much as 3 months.

5. Resident Co-Owner does not lose their equity position because of a default.
 - a. Through a series of calculations, the defaulting Resident Co-Owner is given a note for any remaining equity that they may still have after the costs of eviction and delinquent payments.
 - b. Because the Resident Co-Owner could retain some of their investment dollars, most judges have no problem in evicting the tenant as they do in a Lease Option transaction.
- C. Because of the unique structure of this type of program, the Resident Co-Owner is entitled to take all of the active tax deductions on the Trust Property.
 1. IRS section 163 (h)(4)(a) "Qualified Residence"
 - a. Interest deductions
 - b. Property taxes
- D. This type of transaction can be completed in as little as five to seven working days.
 1. Most escrows are delayed by the loan process.
 2. Investor Co-Owner is the loan committee.
 - a. Investor Co-Owner can make an intelligent, make-sense decision based on Resident Co-Owners credit history.
 1. Short time on the job is not an automatic NO.
 2. Explainable credit issues will not kill your deal.

- E. New title insurance is not required.
 - 1. Since the current loan already has title insurance, a "Lot Book With Lien Search" or "Pirt" policy is all that is required.
- F. Escrow, in this transaction, is really an accounting and recording accommodation; the escrow officers can complete their work almost immediately.
 - 1. Unlike traditional escrow, the escrow instructions in this transaction are not signed until almost the close of escrow.

STEP 3 (Illustrated)



There are several key concepts that must be kept in mind continually as you proceed with this type of real estate transaction.

First, and most importantly, every aspect of this transaction is negotiable. Unlike traditional transactions, the Buyer(s) or Seller(s) can pay any of the fees or costs. In many of the transactions, the Buyer(s) will pay all of the costs, including the real estate commissions. Because of the unique design of the program, all of the fees paid by the Buyer(s) are returned at the end of the transaction, usually three to five years in the future.

Secondly, unlike traditional real estate transactions, a 1099 is not created at the close of your escrow. Because, technically, we have not transferred title to a new buyer, the time clock for capital gains does not start until sometime in the future when the Resident Co-Owner(s) actually gets a new loan and takes title in their name.

One of the greatest aspects of this type of transaction is that there is never a delay to the close of your escrow because of a lender issue. Since the existing financing is being taken over by the Resident Co-Owner(s), they only need to approve the loan for substance. The Investor Co-Owner(s) is free to make a common sense loan decision. They can decide if the purchaser has been on the job long enough, or if the credit flaws really do have good explanations. You and your clients will no longer be subject to decisions of an underwriter or loan committee that has no vested interest in your transaction. In fact, they have every real incentive to deny your clients loan application.

ORDER OF DISTRIBUTION

1. PAY OFF ALL EXISTING LOANS.
2. PAY THE COSTS OF SALE IF BUYER OR SELLER DO NOT WISH TO PURCHASE THE PROPERTY FROM THE OTHER.
3. RETURN ANY FEES THE SELLER PAID IN THE ORIGINAL TRANSACTION WITH THE EXCEPTION OF THE REAL ESTATE COMMISSIONS.
4. RETURN ANY FEES THE BUYER PAID IN THE ORIGINAL TRANSACTION INCLUDING ANY REAL ESTATE COMMISSIONS.
5. SPLIT ANY PROFITS BETWEEN THE BUYER AND THE SELLER BASED ON A PREDETERMINED PERCENTAGE BASIS.

WHAT DOES IT COST?

REMEMBER, the costs of this transaction can be paid by either the SELLER or the BUYER.

1. TRUST SOLUTIONS FACILITATION FEE IS 1% OF THE PROPERTY VALUE
(\$1,000.00 MINIMUM and \$10,000.00 MAXIMUM)
2. ESCROW FEE IS A FLAT \$750
3. TITLE COVERAGE IS ONLY \$250
4. LEGAL FEES TO SET UP THE TRUST ARE ONLY \$350
5. ONGOING MONTHLY MANAGEMENT FEE IS .5% OF THE PROPERTY VALUE DIVIDED BY 12.

EXAMPLE \$500,000 X .5% = \$2,500 DIVIDED BY 12 = \$208.33

MONTHLY

- MAX FEE = \$150.00

6. 2 - 3 MONTH'S TOTAL PAYMENT AS RESERVES

CASE NARRATIVE

Kick-off Seminar

In this transaction the sellers can not afford to spend anything to sell their property. The buyer has no more than \$50,000 that can go toward the purchase of the house. The seller's agent insists that the buyer place not less than two months total payments with the Trustee for reserves. Further, the buyer and seller agree that all principal reductions are to be credited to the BUYER during the contract period. The profit split should be 10% to the seller and 90% to buyer.

Sale Price: \$500,000

Original 1st Trust Deed Amount: \$430,000

Current Loan Amount : \$425,000

Interest Rate: 5.75% Fixed 30 Years

Payment Amount / P.I. \$ 2,480.18

Original 2nd Trust Deed Amount: \$100,000

Current Loan Amount : \$100,000

Interest Rate: 8.25% Interest Only 10 Years

Payment Amount / P.I. \$ 687.50

Original 3rd Trust Deed Amount: \$

Current Loan Amount : \$

Interest Rate: 00.0% Fixed 00 Years

Payment Amount / P.I. \$ _____

The Property Taxes Are \$4,062.50 Per Year

The Insurance Payment Is \$57.00 Per Month

The Monthly Association Fee Is \$102.00

This is a 5 year agreement. Buyer and seller believe that the average appreciation rate over that period of time will be 5.0% per year.

POTENTIAL EQUITY STATUS AT END OF AGREEMENT

_____ Year Agreement _____ Percentage Increase Per Year

Ending Market Value _____
Ending Loan(s) Balance (_____)
 1st TD: _____
 2nd TD: _____
Total Ending Loan Balance: (_____)
Gross Equity _____
Total Principal Reduction _____

ORDER OF DISTRIBUTION AT TERMINATION OF AGREEMENT

Market Value At Termination Of Agreement _____

#1. Pay Off All Existing Loans (_____)
#2. Pay Back Any Misc. Costs Still Remaining (_____)
#3. Pay Back Sellers Net Adjusted Gross Equity (_____)
#4. Pay Back Any Cost Of Sale To Seller (_____)
#5. Buyer's Remaining Reserve Account (_____)
#6. Pay Back Any Cost Of Sale Paid By Buyer
Including Down Payment & Any Commissions
Paid At Start Or During Agreement Period (_____)
#7. Split Any Profit Between Buyer & Seller
Split Shall Be _____% Seller & _____% Buyer (_____)
#8. SELLER'S AMOUNT _____
#9. BUYER'S AMOUNT _____
#10. Split Any Profit Between Buyer & Seller.
Split Shall Be _____% Seller & _____% Buyer _____
#11. SELLER'S AMOUNT _____
#12. BUYER'S AMOUNT _____

Add Lines 2 if payable to Seller, 3,4,8 & 11 \$ _____

Total Cash Back To Buyer At Termination
Add Lines 2 if payable to Buyer,5,6,9 &12 \$ _____