**Trust Deeds vs Mortgages: What’s the Big Difference?**

If you are planning to invest in turnkey real estate development collateralized by real property, one of the top items on your due diligence check list should be to determine which mortgage theory the state follows per the location of the subject property. This understanding can be detrimental to your recovery strategy if your borrower is unable to uphold their end of the deal and defaults on the loan. Each state adheres to either title theory or lien theory, though there are a few states that follow both. In title theory states, Deeds of Trust are the binding agreements utilized between lenders and borrowers, and Mortgages are the agreements utilized in lien theory states. Both documents serve the same purpose in a real estate deal between a lender and borrower, but how they affect the relationship between the parties involved and the subject property is what makes the big difference.

**What are some similarities between Trust Deeds and Mortgages?**

Mortgages and Trust Deeds both secure repayment of the loan by placing a lien on the property, and are considered, by law, evidence of the debt as they are generally recorded in the county where the property is located. If the borrower defaults on the loan and the lien is in first position, the lien gives the lender the right to take the property back through foreclosure and sell it. In other words, both Mortgage and Trust Deed Documents are used as leverage to ensure the borrower pays back the loan in full. The ability to sell the property gives real estate investors and lenders the potential to recoup the original principle lent on the loan. Depending on the value of the property, there is the potential for the recovery of back due interest, late fees, and even capital gain.

**What are the main differences between Trust Deeds and Mortgages?**

*Number of Parties*

A Mortgage involves two parties: a borrower (the Mortgagor) and a lender or investor (the Mortgagee). A Trust Deed involves three parties: a borrower (the Trustor), a lender or investor (the Beneficiary), and the title company or escrow company (the Trustee). The Trustees main functions are to hold the title to the lien for the benefit of the Beneficiary and to initiate and complete the foreclosure process for the Beneficiary in the case of default by the Trustor.

*Property Title & Foreclosure Processes*

The main difference between Trust Deed and Mortgages is who holds the title to the property encumbered by the loan for the duration of the loan term. In a Mortgage State, the borrower holds the title of the property. Therefore, if the borrower defaults on the loan, the lender must go through the courts to take back the property through foreclosure. This is known as *judicial foreclosure* and this process involves the lender filing a lawsuit against the borrower. This can be a costly and time-consuming process for both parties involved.

In a Trust Deed State, court can be bypassed because the Trustee holds the title to the property. You would follow the *non-judicial foreclosure* process, which almost always results in faster execution and resolution for all parties involved, especially for the lender. The speed of foreclosure can be detrimental to minimizing carrying costs and getting the property on the market quickly to sell in what may be a more promising market than one met at a later date.

**What are First Trust Deeds?**

A First Trust Deed is as it implies, is recorded first before any other financial liens on the subject property, whether they be secondary mortgages, trust deeds or even mechanics liens placed by subcontractors. This means the First Trust Deed holds a priority or “senior” position, making all other liens encumbered by the loan subordinate or “junior” to the senior loan. Obtaining first position is important because in a foreclosure scenario, all outstanding subordinate liens are eliminated. This makes it so the lender does not have to worry about reconciling those other debts on top of their own.

**Why invest in First Trust Deeds?**

Hard money lenders like Ignite Funding, tend to operate more in Trust Deed states. First Trust Deed investments offer an attractive yield with relatively low risk to Ignite Funding investors due to their senior lien position on the property and the foreclosure process that is more conducive to the investors who are the Beneficiaries on the loan. This allows investors to earn double digit annualized returns paid as a monthly fixed income with REAL property as their collateral.

If you are interested in becoming a Trust Deed investor or want to learn more, you can schedule a FREE consultation with an Investment Representative, please [click here](http://info.ignitefunding.com/ads-sponsoredcontent-consultation).

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