



# SUMMARY OF RISK FACTORS RELATED TO TRUST DEED INVESTMENTS

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## INTRODUCTORY STATEMENT

Anchor Mortgage ("Anchor"), formed in 1998, is licensed as a California real estate broker and originates, arranges, negotiates, places, purchases and services loans ("Loans") evidenced by notes ("Note") secured by the deeds of trust ("Trust Deeds") on California real property. Some of the Trust Deeds may be Junior Trust Deeds. The California Real Property covered by the Trust Deeds will usually be single family residences but may also include commercial and other income producing properties as well as unimproved land. Most, but not all, of the loans will be made for the purpose of facilitating the purchase, rehabilitation and resale of single and multiple family dwellings ("Rehabilitation Loans"). To the extent the proceeds of Rehabilitation Loans are utilized for constructions and repair purposes, Anchor will withhold an appropriate portion of the loan proceeds from the borrower until the work has been completed.

Anchor will service the loans for investors pursuant to the terms of its servicing agreement which should be carefully reviewed by investors.

Each Trust Deed sale to an investor, or arrangement for an investor to fund a Trust Deed loan, will be accompanied by a required California form of Lender/Purchaser Disclosure Statement which contains specific information about each loan, including information about the property, the borrower, appraisal data, other encumbrances, if any, and loan to value computations. This Summary contains important information concerning certain risks involved in Trust Deed lending generally and should be thoroughly reviewed before a decision is made to invest in Trust Deeds.

## RISK FACTORS

The following factors, among others, should be carefully considered by investors before making any decisions to purchase Trust Deeds:

### **A. Fluctuating Values of California Real Property.**

Any investment in Notes And Trust Deeds will be materially affected by the value of the property securing the Note because (i) Anchor may be relying primarily on the value of the property securing the Note, and not on the credit of the borrower, in its loan underwriting analysis and (ii) in many instances the loan will, either by law or as a practical matter, be non-recourse to the borrower. In such instances, upon any default the investor's primary or sole source of recovery will be through foreclosure upon and sale of the property securing the Note. In the event that the proceeds of such a sale are in an insufficient amount the investor will recognize a loss of all or a part of his or her investment. Although Anchor believes that the loan-to-value ratios it will use will provide an adequate cushion to shield against a loss in the event of foreclosure, a substantial decline in value of the property securing any loan will be detrimental to its holder.

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California real property has in the past generally appreciated in value, thus protecting lenders secured by California real property; however, recently values generally have declined due to a recession from which recovery now appears to be in progress. However, should a decline in California real property values return, the default rate on real estate loans is likely to increase and the recovery rate on foreclosures is likely to decrease. Moreover, Anchor anticipates that a significant portion of its loans will be balloon payment loans some secured by Junior Trust Deeds and, balloon payment loans create a materially greater risk of default than fully amortizing loans; and Junior Trust Deeds have a materially greater risk of repayment than first Trust Deeds.

**B. The Ability of Borrowers to Make Payment on Trust Deed Notes; Effect of Recession.**

A second material factor relevant to an investment in Notes secured by Trust Deeds is the ability of the borrower to pay interest on the Note and to repay its principal upon maturity. Both of these issues will be directly affected by the income of the borrower. In turn, the income of borrowers will be affected by a wide variety of factors, substantially all of which will be outside of Anchor's control. In particular, adverse general economic events, such as a recession, or a borrower's financial failure may have an adverse effect on the ability of borrowers to repay their loans.

**C. Bankrupt of the Borrower.**

If the borrower enters bankruptcy, either voluntarily or involuntarily, an automatic stay of all proceedings against the borrower's property will be in effect. If the loan is in default, this stay will prevent foreclosure on the property until relief from the stay can be obtained from the bankruptcy court. No guarantee can be given that the bankruptcy court will lift the stay, and significant legal fees and costs may be incurred in attempting to obtain such relief, although such fees and costs are generally recoverable as additional obligations secured by the Trust Deed. Further, in certain bankruptcy reorganization plans, the bankruptcy court may modify the terms of the loan as part of a reorganization plan of the debtor.

**D. Risk of Incurring Uninsured Loses.**

Anchor typically will require borrowers to maintain insurance of the kind that is customarily obtained for similar properties. However, certain disaster-type insurance (covering events of a catastrophic nature, such as earthquakes) may not be available or may only be available at rates that are prohibitive. In the event that an uninsured disaster should occur to the real property underlying the Loans, or in the event a borrower does not maintain the required insurance and a loss occurs, the Company could experience difficulty recovering the principal amount of the Loan and any interest due thereon.

**E. Effect of California Anti-deficiency Legislation and other Legislation.**

California has four principal statutory provisions that limit the remedies of a beneficiary under a Trust Deed. The first two statutory provisions limit the beneficiary's right to obtain a deficiency judgment against the trustor following the foreclosure of a Trust Deed. Under the first of the statutory provisions, a deficiency judgment is barred where the foreclosure was obtained by means of a non-judicial trustee's sale. Under the second statutory provision, a deficiency judgment is barred in any case where the foreclosed Deed of Trust secured a "purchase money" obligation, i.e., a promissory note given to the seller as payment for all or part of the purchase price of the property, or given to a third party lender as payment for all or part of the purchase price of a residential dwelling for four or fewer families that is occupied, at least in part, by the purchaser.

The third statutory provision, commonly known as the “one form of action” rule, requires the beneficiary to exhaust the security under the Deed of Trust by foreclosure before bringing a personal action against the trustor on the promissory note. The fourth statutory provision limits any deficiency judgement obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair value of the property at the time of sale. This provision prevents a beneficiary from obtaining a large deficiency judgement against the debtor as a result of low bids at the judicial sale.

Other statutory provisions, such as laws governing certain priorities of federal tax liens, may have the effect of delaying enforcement of the lien on a defaulted loan and may, in certain circumstances, reduce the amount realizable from sale of a foreclosed property.

**F. Fluctuations in Interest Rates.**

Mortgage loan interest rates are subject to abrupt and substantial fluctuations. Although for the most part Anchor does not intend to make long-term loans, the purchase of Trust Deeds is a relatively illiquid investment. If prevailing interest rates rise above the interest rate being earned on a particular loan, the investors may wish to liquidate the investment in order to take advantage of higher returns available from other investments, but may be unable to do so.

**G. Environmental Concerns.**

Toxic contamination reports or other environmental site assessments may, but will generally not be obtained by Anchor in making the Loans. Under current federal and state law, a mortgage lender who has acquired title through foreclosure will probably not be liable for clean up costs, unless the lender operates the property or causes it to be contaminated, in which case the lender may be liable for all costs associated with any remedial action necessary to bring the property into compliance with applicable environmental laws and regulations. However, the mere existence of hazardous substances on the property may depress the market value of the property such that the loan is no longer adequately secured, and safe harbors under environment clean up statutes do not protect against actions by private parties.

Anchor does not and will not participate in the on-site management of any facility on the property in order to minimize the potential for liability for cleanup of any environmental contamination under applicable federal, state, or local laws.

**H. No Public Market.**

There is no public market for the Trust Deeds, and none is expected to develop in the foreseeable future. The Trust Deeds are not being registered under the Securities Act of 1933, as amended (the “Act”), or the securities laws of any other appropriate jurisdiction in reliance on exemptions from such registration requirements. The Trust Deeds may not be resold or otherwise transferred unless they are registered under the Act and the securities laws of any appropriate jurisdiction, or unless exemptions from such registration requirements are available. Accordingly, an investor may be unable to liquidate an investment in the Interests and should be prepared to bear the economic risk of an investment in the Interest for an indefinite period. In addition, an investor should be able to withstand a total loss of his or her investment.

**CONFLICTS OF INTEREST**

With respect to all Trust Deeds Notes, Anchor and/or its affiliates, will earn and be paid by borrowers certain fees usually ranging from three percent (3%) to six percent (6%) or more of the principal amount of each Note and/or may purchase such Notes at a discount from its face value. Since Anchor and/or its affiliates may earn substantial fees and/or profits in connection with the origination or acquisition of loans, Anchor will have a conflict of interest in determining whether or not to make or acquire certain loans because it or its affiliates may earn substantial fees or profits as a result of the investment irrespective of the success or failure of the investment.

Anchor or an affiliate or designee may act as servicing agent of all or some portion of the Trust Deed Notes. As servicing agent it will receive \$5.00 for each disbursement it makes on each Note in consideration for servicing the Notes and Trust Deeds. Anchor may also in certain instances own all or part of the Trustee under any Trust Deed; in such instances the Trustee would be compensated in accordance with general practice in California and applicable law. Finally, Anchor may own Interests with respect to the Trust Deed Notes together with the investors.

**ADDITIONAL INFORMATION AND UNDERTAKINGS**

Anchor undertakes to make available to each investor every opportunity to obtain any additional information from it necessary to verify the accuracy of the information contained in this Summary. Anchor will provide such information to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes documents or instruments relating to the operation and business of Anchor, which are, material to the Trust Deeds and the transactions contemplated hereby and described herein.

The undersigned acknowledges receipt of a copy of this Summary.

**Investor Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Co-Investor Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_