

***IRA Wealth: Revolutionary 21<sup>st</sup>  
Century Strategies to Build Wealth  
through Real Estate Investing with  
your IRA***

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# What is a self-directed IRA?

It simply means you choose your IRA's investments. This means that you have MORE CHOICES & MORE FLEXIBILITY for your retirement savings plan.

**Currently 97% of Americans retirement plans are invested in:**

- **Mutual funds**
- **Stocks and bonds**
- **CDs**
- **Money markets**
- **Cash equivalents**

**That is why only 5% of Americans retire with a comfortable lifestyle! This is shameful.**

## **Fact:**

- **75% of U.S. millionaires did it with real estate**
- **5% of Americans owns 80% of all assets**

**The IRS only defines the following assets as excluded (prohibited)**

- **Life insurance contracts**
- **Collectibles (Antique rugs, cars, stamps, etc)**

## **Your IRA can buy:**

- **SFH rental properties**
- **Tax developed lots**
- **Duplex,4-plex & commercial property**
- **Condos**
- **Raw land**
- **Boat slips**
- **Mobile homes**
- **Airplanes**
- **Race horses**
- **Tax certificates**
- **Foreign real estate**
- **Fishing rights in the State of Alaska**
- **Business**

**All must be for investments only and cannot be for personal purposes**

# Magic of Compound Interest: The Rule of 72

**72 Divide by Rate of Return=How many years for the money to double in value**

**Assumption: 72 divide by 5%=14 years**

- **Example #1: You have \$50,000 in your IRA invested in mutual funds today**

**14 years from now at 5%=\$100,000**

**Instead you roll the \$50K IRA into Self-Directed IRA to buy Real Estate: Assume a similar 5% rate of return**

**Net monthly cash flow of  $\$500.00 \times 12 = \$6,000.00$  per year  $\times 14 = \$84,000 + \$100,000 = \$184,000$  after 14 years**

- **Example #2:**

**You are already retired:**

**You have \$400K in mutual funds/stocks/whatever in your retirement accounts.**

**Scenario #1: You are taking out 5% of the portfolio as an monthly withdrawal:  $\$400K \times 5\% = \$1,666.00$  a month  $\times 12$  months = Annual retirement income of  $\$20,000.00$**

**Assuming a very low rate of return, you will run out of money in 20 years:  $\$400K$  divide by  $\$20,000 = 20$  years**

**“American’s biggest fear is running out of money before their life expectancy”**

## Scenario #2:

- You convert your \$400K into Self-Directed IRA to buy real estate
- You will use \$40K to buy a rental property with all-cash or with IRA Non-Recourse loan
- Each property will produce \$500.00 monthly net passive income
- 10 rentals x \$500.00=\$5,000.00  
monthlyx12months=\$60,000 annual income, for life
- By the way, your rent should increase 3% per year
- If average price of each home is \$60,000 at 5% appreciation rate, the total value of your 10 properties today are: \$600,000 (\$60,000x10). Using the rule of 72, the value of your real estate portfolio in 14 years will be: \$1.2 million. In 28 years, 2.4 million

# **How can I Create a Self Directed IRA (SDIRA)?**

- **Transfer or rollover from an IRA, Roth IRA, Coverdell Education Savings (ESA), Qualified Annuity IRA, 401K, 403B, 457, SEP IRA, Profit Sharing Plan, Government Eligible Deferred Compensation, Defined Benefit Plan, Keogh, ESOP, Solo(k), other qualified Pension Plans, etc**

# *What about current employer retirement plans?*

- **Historically it is common misconception that they cannot be transferred into a self-directed IRA**
- **However, based on recent research, about 25% of all current employer retirement plans do have a provision whereby part of the portfolio can be transfer in an SDIRA. Call your current employer plan provider, HR department or custodian and say “I would like to transfer current employer retirement plan money into an IRA”. Be prepared to run into obstacles. They do not want you to take the money out. Why? They will lose their fees and commissions!**

**What are the percentages of Americans retirement plans are Self-Directed to purchase real estate?**

- 3%
- Remaining 97% of Americans invest in low performing stocks and bonds, mutual funds, money market, CDs
- Americans today are disillusioned over their traditional investment choices and many have lost 20-40% of their portfolios in recent years (1.7 trillion) and may never be recovered.

**Do you know the definition of insanity?**

## *How do I buy real estate with my IRA?*

- **Transfer your IRA or rollover your retirement accounts to a self-directed IRA custodian. Then instruct the custodian to purchase the property. Then you will have a rental property as part of your IRA portfolio earning positive cash flow and appreciation tax-free instead of mutual funds, stocks, or CDs potentially earning negative returns.**

# **Why can't I ask my financial planner or stockbroker about SDIRA?**

- **Because they are incompetent, clueless and brainless!**
- **Because they make a living (commissions) selling mutual funds and stocks from the inventory of their employing brokerage companies and banks. They do not make money helping you buy real estate inside your retirement plans. Also, their companies deliberately do not inform them about using SDIRA for real estate.**
- **98% of current day financial planners, stockbrokers, realtors, attorneys, CPAs are not aware that you can buy real estate inside your IRAs.**
- **Banks, insurance companies, brokerage houses, mutual funds companies make their money when you buy their traditional investment products.**
- **But things are changing rapidly. The SDIRA phenomenon is here! The revolution has begun!**

# **Why is there so little publicity associated with SDIRAs?**


- **Historically, the IRA market has been dominated by Wall Street. Large institutions such as Merrill Lynch, John Hancock, N.Y. Life, Prudential Securities, Scott Trades, and others have exerted strong influence over the years in the consumer market with their huge marketing budgets.**

# **What is the typical investment allocation associated with your retirement plan?**

- **Some financial planners say 25% of one's retirement savings should be in real estate. I say at least 50% or more, given the tremendous opportunities which exist in today's real estate market**

# **Are IRA Investments income or gains taxable?**

- **No. All positive cash flow income and appreciation of the rental property inside the IRA are tax-deferred (regular IRA) or tax free (Roth IRA) if the purchases were all cash with IRA funds.**

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- **If the IRA borrows (non-recourse loans), any capital gain or cash flow income that is attributable to the IRA loan will be subject to taxation. The tax applied is called UBIT – Unrelated Business Income Tax.**


## **For example:**

- **30% cash from IRA (\$85,000 purchase price) then IRA Non-Recourse Loan of 70% on a SFH Rental Property**
- **UBIT means 70% of the net profit is subject to UBIT**
- **If net profit after expenses for the year was \$7,000 then \$4,900 is subject to UBIT ( $\$7,000 \times 70\%$ )**
- **The tax is charged at the trust tax rate schedule because an IRA is considered a Trust for the purpose of tax. The tax applied is called Unrelated Debt Financed Income tax or UDFI tax.**
- **UBIT is filed on IRS For 990-T**
- **Is not reported on individual federal tax return**

- **However, if you decide to take withdrawals from your SDIRA before age 59  $\frac{1}{2}$ , you will pay a 10% early withdrawal penalty plus you are taxed at your current ordinary income tax rates on the amounts of your withdrawal. So therefore it is wise to withdraw your funds or assets after age 59  $\frac{1}{2}$  (without 10% penalty) assuming you are at or close to retirement age, you are in a lower tax bracket.**

**So therefore what are the advantages of owning real estate using a SDIRA vs buying real estate outside your IRA?**


**When you buy real estate outside of a IRA, you will pay ordinary tax rates on any passive income as reported on your Schedule E (Supplemental Schedule). In addition, if you sell your rental property in the future at a profit, you will be subject to the federal capital gains tax rate of 15% unless you do a 1031 tax deferred exchange.**



**As mentioned above, an SDIRA pays no taxes on any income or capital gains (except the amount which is debt-financed as in the case of the IRA non-recourse loan)**

# **How to leverage your SDIRA with a IRA Non-Recourse loan**

- **You can benefit using leverage to increase your returns to your SDIRA. There is tax on the leveraged portion, but you will usually generate more absolute after tax returns by borrowing with your IRA than if you did not. This will result in a rapid growth in your SDIRA retirement account, so you will have a bigger nest egg when you retire.**

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- A non-recourse loan is a loan secured entirely by the collateral. Upon default, the lender can only recover the property and your equity. The IRA owner is not personally liable.
  - Most main stream banks do not offer this type of loan

# **Who is eligible for a non-recourse loan using a SDIRA?**

- **If you have at least 30% down payment of the purchase price in an SDIRA. 40% for 2-4 units, 40% for condos and Commercial property. Slight variation from lender to lender.**
- **Minimum loan size is \$50,000. Typical loan programs are 25 year Fixed and 5 year ARM options. Typically with principal and interest payments. Interest rates are competitive versus conventional investor loan programs.**

- **Since the minimum down payment is 30% from an IRA and the minimum loan amount is \$50,000, the minimum purchase price of a rental property is typically \$72,500.00. The IRA down payment is \$22,500.00 ( $\$72,500 \times 30\%$ ) + \$50,000 loan amount = \$72,500.00. Therefore any purchase price of less than \$72,500.00 will require full amount of the IRA.**

# **Properties Not eligible for a Non-Recourse loan**

- **Raw land**
- **Farms**
- **Condo-Conversions**
- **Condo-Hotels**
- **Senior Assisted Living Facilities**
- **Mini-storage**
- **Manufactured homes**
- **Restaurants**
- **Coops**

# **What are the rental property income requirements to qualify for a Non-recourse loan?**

- The financed rental property must generate sufficient net operating income to exceed the debt service payments by:
  - 20-25% for SFHs
  - 25% 2-4 Units

**Debt Service Coverage Ratio: Example: \$100K  
property**

**Gross Annual Income**

**Rent: ( $\$1,200/\text{month} \times 12$ )=  $\$14,440$**

**• Minus:**

**1. Vacancy ( $7\% \times \text{GAI}$ )  $(1,008)$**

**2. Taxes  $(2,000)$**

**3. Insurance  $(600)$**

**4. Mngt Fee ( $8\% \times \text{GAI}$ )  $(1,155)$**

**5. Maintenance  $(350)$**

**Net Operating Income  $\$9,327.00$**

**Annual Principal & Interest  $\$5,600.00$**

**Based on  $\$70\text{K}$  loan at  $7\%$**

**Net Operating Income/Annual P & I**

**$\$9,327.00/\$5,600.00=1.66$  DSCR**

- **Oh, by the way, whether you are using all of your cash from your SDIRA or do a partial minimum down of 30% from your IRA and finance the 70% with a non-recourse loan, for all intent and purposes it is considered an all-cash purchase**
- **When you buy a rental property inside your SDIRA, you do not need to submit your income, credit reports, tax returns, and all the supporting documentation. This is because the IRA is buying the property, not you!**

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**List of Self-Directed IRA Custodians**

**Robert Batt, Equity Trust Co.**

**(888) 382-4727 Ext 394**

**email: r.batt@trustetc.com**

**Matt Allen, North American Savings Bank – IRA Non  
Recourse Lender**

**(816) 347-4222**

**(913) 327-2041 (Cell)**

**email: mallen@nasb.com**