Guide to Using a Self-Directed IRA to Make Loans or Buy Notes

The IRS permits the use of IRA funds to make loans or purchase notes from third parties. IRS rules permit you to engage in almost any type of private loan or promissory note investment, aside generally from any investment involving a disqualified person.

Tax Advantages of Making Loans or Buying Notes with a Self-Directed IRA

When making loans or purchasing promissory notes with a Self-Directed IRA, in general, all income and gains generated by your pre-tax retirement account investment would generally flow back into the retirement account tax-free. Instead of paying tax on the interest or gains from the loan or note investment, tax is paid only at a later date, leaving the IRA investment to grow unhindered. In many cases, a Self-Directed IRA investment is made when a person is earning higher income and is taxed at a higher tax rate. Withdrawals are made from an investment account when a person is earning little or no income and is taxed at a lower rate.

Popular Types of Lending Investments

Using a Self-Directed IRA in connection with a lending transaction has become a popular investment for many retirement account investors. Due to a low interest rate environment and turbulent equity markets, the prospect of generating a steady rate of return from a loan or note has become quite attractive. Most lending transactions are structured where the minimum interest rate is at least Prime as per the Wall Street Journal, which as of February 1, 2016 is 3.5%, and a maximum rate that is under the applicable state Usury limits. Based off a survey of clients, in 2015 the average interest rate charged on a Self-Directed IRA loan was between 4%-10%. Other than the prohibited transaction rules, the IRS does not impose many restrictions on the type of loan made or how it is structured.

In general, a loan can be secured or unsecured. A secured loan is one that is connected to a piece of collateral - something valuable like a car or a home. With a secured loan, the lender can take possession of the collateral if you don't repay the loan as you have agreed. A car loan and mortgage are the most common types of secured loans. Whereas, an unsecured loan is not protected by any collateral. If you default on the loan, the lender can't automatically take your property. The most common types of unsecured loans are credit cards, student loans, and personal loans.
In the case of a Self-Directed IRA lending transaction, as along as the loan does not involve a disqualified person and there is economic substance to the transaction (it is a loan and not a gift), the IRS will not impose any restrictions on the transaction. Therefore, it is up to the IRA holder to determine whether the loan will be unsecured or secured, and if secured, the identity of the asset(s) of the borrower which will secure the loan.

Navigating the Prohibited Transaction Rules

The Internal Revenue Code does not describe what a Self-Directed IRA can invest in, only what it cannot invest in. Internal Revenue Code Sections 408 & 4975 prohibits Disqualified Persons from engaging in certain types of transactions. The purpose of these rules is to encourage the use of IRAs for accumulation of retirement savings and to prohibit those in control of IRAs from taking advantage of the tax benefits for their personal account.

The IRS has restricted certain transactions between the IRA and a “disqualified person”. The rationale behind these rules was a Congressional assumption that certain transactions between certain parties are inherently suspicious and should be disallowed.

The definition of a “disqualified person” (Internal Revenue Code Section 4975(e)(2)) extends into a variety of related party scenarios, but generally includes the IRA holder, any ancestors or lineal descendants of the IRA holder, and entities in which the IRA holder holds a controlling equity or management interest.

In the case of a loan or promissory note transaction, so long as the loan does not involve a disqualified person the use of IRA funds is generally permitted.

Open a Self-Directed IRA Account Today!
It's quick and easy and will take only a few minutes.
Using a Checkbook Control Self-Directed IRA to Make Loans or Buy Notes

Making a loan or purchasing notes with a Checkbook Control Self-Directed IRA LLC is essentially the same as making a loan or buying a note with personal funds.

**Step 1:** Establish a Self-Directed IRA account with IRA Financial Trust Company.

**Step 2:** Work with a Self-Directed IRA LLC facilitation company, such as IRA Financial Group, to establish your special purpose LLC, acquire the LLC EIN, and prepare the LLC Operating Agreement.

**Step 3:** Roll your existing retirement funds to your newly established account with IRA Financial Trust Company. IRA Financial Trust has partnered with Capital One Bank, one of the most respected banks in the world, to offer our Self-Directed IRA clients a safe and secure way to make Self-Directed IRA investments. IRA Financial Trust is a non-banking IRA Trust company that is responsible for administering your Self-Directed IRA account. IRA Financial Trust's clients' IRA assets will be held with Capital One Bank, providing your IRA assets with FDIC protection up to $250,000.

**Step 4:** Open a LLC bank account at any local bank of your choice and provide the new account information to IRA Financial Trust Company.

**Step 5:** Identify a borrower for a loan of note you would like to purchase. Review the IRS prohibited transaction rules to verify that no disqualified person will be directly or indirectly involved in the transaction.

**Step 6:** Request IRA Financial Trust Company to fund your LLC with the IRA funds held at Capital One Bank. The newly established LLC will be owned 100% by one or more IRAs.

**Step 7:** Make a loan or purchase a note involving a non-disqualified person with the Self-Directed IRA LLC using funds from the LLC account. The property is purchased in the name of the LLC offering you Checkbook Control over your IRA assets. Making an IRA investment is as easy as writing a check.

Work with **IRA Financial Trust** to establish your Self-Directed IRA or Checkbook Control IRA account today!

800.472.1043
www.irafinancialtrust.com
Using a Self-Directed IRA Without Checkbook Control to Make Loans or Buy Notes

IRA Financial Trust Company offers Self-Directed IRA investors full IRA service custodial services for traditional and alternative asset investments, such as real estate or private loans. All IRA funds will be held with Capital One Bank, an FDIC insured global banking leader, before the client directs the funds for investment.

To make loans or purchase notes with a Self-Directed IRA without Checkbook Control:

**Step 1:** Establish a Self-Directed IRA account with IRA Financial Trust Company.

**Step 2:** Roll your existing retirement funds to your newly established account with IRA Financial Trust Company. IRA Financial Trust has partnered with Capital One Bank, one of the most respected banks in the world, to offer our Self-Directed IRA clients a safe and secure way to make Self-Directed IRA investments. IRA Financial Trust is a non-banking IRA Trust company that is responsible for administering your Self-Directed IRA account. IRA Financial Trust’s clients’ IRA assets will be held with Capital One Bank, providing your IRA assets with FDIC protection up to $250,000.

**Step 3:** Identify a borrower for a loan of note you would like to purchase. Review the IRS prohibited transaction rules to verify that no disqualified person will be directly or indirectly involved in the transaction.

**Step 4:** When making a loan or buying notes, be sure that the third party understands that the lender or buyer is “IRA Financial Trust Company CFBO [Investor Name] [IRA Account No.]”
To make a loan or buy notes with a Self-Directed IRA without Checkbook Control, the following documents must be provided to IRA Financial Trust Company:

**Unsecured Loan**
- Complete Investment Authorization form with funding instructions
- Original notarized note
- The promissory note must include the following:
  - Amount of loan
  - Date of issuance
  - Interest rate
  - Interest compounding period (annual, quarterly etc.)
  - Re-payment terms
  - Maturity date
  - Both borrower and lender must sign
- Note service agreement, if applicable
- Complete Prohibited Transaction Questionnaire
- Evidence borrower entity is in good standing, if applicable
- Amortization/payment schedule
- Lender should be titled as “IRA FINANCIAL TRUST COMPANY CFBO [INVESTOR NAME] [IRA ACCOUNT NUMBER]”

**Secured Loan**
- Complete Investment Authorization form with funding instructions
- Copy of secured note
- Note service agreement, if applicable
- The promissory note must include the following:
  - Amount of loan
  - Date of issuance
  - Interest rate
  - Interest compounding period (annual, quarterly etc.)
  - Re-payment terms
  - Maturity date
  - Both borrower and lender must sign
· Complete Prohibited Transaction Questionnaire
· Evidence borrower entity is in good standing, if applicable
· Amortization/payment schedule
· Lender should be titled as “IRA FINANCIAL TRUST COMPANY CFBO [INVESTOR NAME] [IRA ACCOUNT NUMBER]”

The following additional documents are needed if the loan is secured by:

Real Estate:
· Copy and recorded of deed of trust/mortgage
· Copy and recorded assignment of deed of trust, if applicable
· Copy and executed note of endorsement, if applicable

Vehicle:
· Copy of certificate of ownership in borrower’s name
· Registration of title/lien holder to IRA FINANCIAL TRUST COMPANY CFBO [INVESTOR NAME] [IRA ACCOUNT NUMBER]
· Evidence the borrower is/will be on title
· Executed security agreement
· Certificate of Ownership

Equipment:
· Copy of UCC filing, if applicable
· Evidence the borrower is/will be on title
· Executed security agreement
· Recorded UCC filing, if applicable

Other Collateral:
· Evidence the borrower is/will be on title
· Copy and executed security agreement
· Executed Certificate of Ownership
Why IRA Financial Trust

With IRA Financial Trust as your Self-Directed IRA Custodian, your funds will be held with Capital One Bank, one of the most respected private banks in the world, which offers our Self-Directed IRA clients a safe and secure way to make Self-Directed IRA investments.

The IRS has always allowed retirement investors to use their retirement funds to make a wide range of investments, such as real estate, precious metals, tax liens, private business investments, private equity, hedge funds, hard money lending, and much more. The reason this is not more widely known is that most traditional financial institutions that hold retirement accounts only make money when you buy financial products they sell, such as stocks or mutual funds. Hence, it does not make much financial sense to allow a client to take their retirement funds and make investments in which they do not sell and do not make any money off, such as real estate. As a result, almost all the traditional financial institutions holding retirement accounts will not allow you to make non-traditional or alternative types of investments with your retirement funds. This is where the IRA Financial Trust Company comes in. By establishing a Self-Directed IRA or Solo 401(k) plan account with the IRA Financial Trust Company, you will gain the ability to make traditional as well as non-traditional investments with your retirement funds providing your retirement account with diversification as well as allowing you to invest in what you know and understand.

Whether you want to make the investment directly from your custodian account or would like a bit more control through a Checkbook Control IRA, the retirement specialists at IRA Financial Trust Company will help you make your investment timely and cost effectively.

IRA Financial Trust Company is a regulated non-banking financial institution that is made up of retirement tax specialists committed to helping you make Self-Directed retirement investments quickly, while minimizing annual fees.

IRA Financial Trust offers one low flat IRA Custodian fee without any transaction fees and annual account valuation fees. We believe that Self-Directed IRA investing should be affordable and simple and IRA Financial Trust is committed to helping all our clients build their retirement wealth through Self-Directed IRA investments without the high costs and complexities.

Work with IRA Financial Trust to establish your Self-Directed IRA or Checkbook Control IRA account today!

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www.irafinancialtrust.com