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  Whether you need to learn how to buy or lease option or get private money, I am here to help you! Best Wishes, Brian Gibbons Team@REISkills.com

Archives

- February 2008

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February 20, 2008

February 20, 2008

Real estate IRAs with checkbook control gain clout -Setup helps consumers save on annual fees, acquisition costs

Wednesday, February 20, 2008

By Tom Kelly
Inman News

Individual retirement accounts that feature self-directed real estate purchases have become more understood in recent years, and consumers now a have speedier avenue to time-sensitive investments.

Many providers of self-directed real estate IRAs now can set up a limited liability company (LLC) that allows consumers to write their own checks for property investments -- including foreclosures and recreational properties -- without waiting for a custodian to process paperwork or courier documents.

"The costs for setting up an IRA with checkbook control can be considerably more than a standard IRA, but the IRA holder doesn't pay additional transactional, special asset-based or holding fees," said David Nilssen, president and CEO of Bellevue, Wash.-based Guidant Financial Group.

Continue reading "Real estate IRAs with checkbook control gain clout -Setup helps consumers save on annual fees, acquisition costs" »

Posted by Brian Gibbons on February 20, 2008 at 12:35 PM in IRAs and Real Estate Purchase, IRAs and Self-Directed IRAs, Self-Directed IRA | Permalink | Comments (0) | TrackBack (0)

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February 09, 2008

The Great 401(k) Escape - If the offerings in your employer's plan aren't so great, put your money elsewhere.

Retirement Guide
Ashlea Ebeling 02.25.08, 12:00 AM ET

Ritch S. Wright, now 60, doesn't plan to retire from his job as a

Boeing

finance director until 2014, when his youngest daughter should be finishing college. Yet earlier this year the Huntington Beach, Calif. resident rolled nearly $1 million, a big chunk of his Boeing 401(k), into an individual retirement account, using a little-known maneuver: an "in-service" distribution.

Employers and 401(k) plan administrators don't advertise this fact, but most workers 591TK2 and older, and even some younger ones, can roll over 401(k) funds while they're still working and contributing to the plan. This option isn't right for everyone. But in some cases it can provide more attractive investment choices, a better way to leave money to your kids or even a chance (new in 2008) to move 401(k) dollars directly into a Roth IRA.

The law allows workers to empty their 401(k) accounts once they hit 591TK2. They can roll all the money into an IRA without paying tax now. Or they can take cash out, pay any ordinary income taxes due and spend what's left. The same goes for participants in government and not-for-profit savings plans similar to 401(k)s.

The law permits this, but employers don't have to permit it. Still, 70% of companies--and 89% of those with 5,000 or more employees--allow these in-service withdrawals, the Profit Sharing/401k Council of America found in a 2006 survey of 1,000 firms. So do some public sector employers; the federal government, for example, allows older workers to withdraw funds, but only once.

As for younger folks, the law permits them to get in-service distributions of money rolled over from previous 401(k)s; of employer (but not employee) pretax contributions; of employee aftertax contributions; and of account earnings. Here companies are less accommodating--only 16% allow this option, the 2006 survey found. Note that if a younger worker spends the cash, instead of rolling it over, he'll owe an extra 10% penalty on the taxable amount, just as he would if he got a "hardship" distribution from his 401(k) or took a loan from his 401(k) and switched jobs without repaying the loan.

One obvious reason to consider an in-service rollover is to escape a bum plan that has expensive or mediocre funds. Some small plans have annual fees on domestic equity mutual funds that top 2% a year. Outrageous. If you're stuck in one of those, you can chop your costs by rolling your 401(k) money into an IRA at a no-load fund company such as Vanguard, Fidelity or T. Rowe Price.

Even workers with reasonable 401(k) fund offerings, however, may want more choices. Only 14% of company 401(k)s offer a brokerage window that gives you access to a broad array of stocks, bonds and funds. A route around this blockade is to yank the money and send it into an IRA.

Another strategy: roll over part of your money. Jeffrey Bryant, a 56-year-old senior business analyst at PG&E in San Francisco, rolled part of his 401(k) into an IRA so he could invest in seven funds from Dimensional Fund Advisors, including small-capitalization and value funds; there were no comparable offerings in his company plan. He left the rest in his 401(k)'s bond and index funds, one with a rock-bottom expense of only 0.01%. a year--just one basis point. Bryant is buying the DFA funds through a fee-only financial planner at Merriman Berkman Next. So he's raising his total investment costs, even though the DFA funds are less expensive--at 0.29% to 0.74% a year--than the funds he sold off in his 401(k). Bryant is betting that with better funds and professional asset allocation and other advice, he'll come out ahead.

Not surprisingly, outside financial planners and brokers push rollovers, since it gives them more money to manage and collect fees for. Fifty-year-olds, as they near retirement and their 401(k) balances grow, want and are willing to pay for such help.

Wright will continue to invest the smaller amount he left in his Boeing 401(k) himself--he calls it his "play money." But he's handing management of his rolled-over funds to William Jordan, a financial planner at Sentinel Group in Laguna Hills, Calif. "I've reached that time in my life I need to become more conservative," says Wright, who has favored growth and international funds. His new objective: "Making sure I can eat all the way through retirement and making sure there is something left over for the kids."

Jordan plans to increase Wright's fixed-income allocation and construct a ladder of individual bonds with different maturity dates. In his 401(k), which doesn't let him buy individual securities, Wright's only choice would be a bond fund, whose maturity structure cannot be customized.

There are a few other reasons to consider an in-service rollover. One is a provision, new this year, that allows you to roll 401(k) money directly into a Roth IRA, where future earnings will be tax free. If your plan administrator is ready to cut a separate check with just your aftertax contributions, it appears (although the Internal Revenue Service hasn't issued rules on this) that you can roll that money directly into a Roth IRA and pay no taxes on the conversion. For now Roth rollovers are allowed only for those with family incomes of $100,000 or less. That income restriction is due to end in 2010.

Another reason to do an in-service rollover pops up if you're leaving retirement money to your kids or grandkids instead of to a spouse. A spouse who inherits either a 401(k) or an IRA can roll it into his or her own IRA with all the flexibility that an IRA offers its original owner. Kids, grandkids or other nonspousal heirs who inherit an IRA can't do that, but they can keep the money in an "inherited" IRA, potentially stretching out withdrawals and tax deferral for decades. Under a 2006 law change, kids and other nonspousal heirs can roll 401(k)s into inherited IRAs--but only if the employer permits it, which not all do. If yours is balky, get the money out now and put it into an IRA that won't have any employer getting in the way of your family's needs. (A nonspousal heir can't Rothify an inherited IRA.)

Before you rush to roll, consider some advantages to a 401(k). In a good plan the fees, particularly for index funds, may be extremely low. If you retire early, you can make penalty-free withdrawals from a 401(k) at age 55; with an IRA, you generally have to wait until you're 591/2. In a pinch you can take a loan (of up to $50,000) from your 401(k) but not your IRA.

Plus, if you hold your employer's stock in your 401(k), you may be eligible for a tax break at retirement. If you transfer that stock to a taxable account, you'll pay ordinary income tax (at rates of up to 35%) only on what the stock was worth at the time it was put into your 401(k). Any further appreciation won't be taxed until you sell the stock and then only at the long-term capital gains rate--which now tops out at 15%. There are some really crazy rules here that determine whether you're eligible for this break. So if you've got your employer's stock in your 401(k), check with your plan administrator and your tax adviser.

Posted by Brian Gibbons on February 09, 2008 at 03:24 PM in 401(k) Investing Tips, Retirement Planning General, Self-Directed IRA, Solo 401(k) | Permalink | Comments (0) | TrackBack (0)

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January 30, 2008

Using Their IRAs to Make Home Loans; using self-directed IRAs to invest in mortgages

September 11, 2007

By KELLY GREENE
September 11, 2007

In the midst of the mortgage meltdown, some lenders are actually rooting for foreclosures: investors who make mortgage loans with their IRAs.

Through a little-known tool known as a self-directed individual retirement account, individuals can pursue a wide variety of investments, from real estate to businesses. Now, at least several thousand people are trying to goose their retirement savings by using self-directed IRAs to invest in mortgages, according to companies that promote the strategy.

Typically, IRA investors aren't looking to back 30-year conventional mortgages; more often, they make loans with terms lasting from three months to a few years to fixer-uppers, small-scale developers or families who are relocating and need a bridge loan between home sales. They normally find borrowers through an informal network of real-estate agents, mortgage brokers and other investors.

BETTING ON THE HOUSE

More IRA owners are making short-term mortgage loans with their retirement savings. Some pros and cons:

- Investors typically extend loans for fixer-uppers or bridge financing, charging interest of 10% or more.
- If the borrower defaults, lenders often are able to take possession of the property at a discount.
- Foreclosing on a property can run up legal fees and other costs. If the IRA can't pay them, it risks running afoul of IRS rules.

IRA owners pay an annual custodial fee and transaction fees, ranging from $50 to a few thousand dollars a year, depending on asset size and activity. They typically charge borrowers a rate of at least 10%. If the borrower defaults, the IRA can wind up owning the property at a deep discount, since these deals are typically structured with the property as collateral.

"I really don't trust the stock market right now, and by doing this I can get a great return secured by real estate," says Doug Blackwell, a Phoenix real-estate adviser who set up a self-directed IRA last month with $100,000 from other retirement savings so he can fund mortgages.

For investors, one risk in foreclosing on a house is racking up so many expenses -- from legal fees to repair bills -- that the IRA runs out of money. If that happens, the IRA owner faces a difficult choice: Get a loan, or close out your IRA and pay any taxes or penalties.

Still, some IRA lenders welcome foreclosures because they increase their potential returns. No one tracks IRA loan defaults, but experienced individual lenders say it has happened rarely -- though they are bracing for an uptick, given the shaky state of the housing market in many areas.

"You don't want them to pay you," says Charlie Adams, a Houston investor who has made about 20 mortgage loans through his and his mother's IRAs in the past 10 years, typically charging 15% interest for one-year loans. "What's the worst thing that can happen -- you wind up owning a house at 70% of its cost?" He lends no more than 70% of a property's value and charges interest-only payments. More conservative lenders will go no higher than 50%.

With the one foreclosure he's done, his mother had lent $40,000 to a renovator to refurbish a house worth $85,000. The borrower made 12 months of interest payments, then stopped, and did not make the balloon payment due. Mr. Adams foreclosed on the house, his mother's IRA spent $14,000 to finish fixing it up, and they sold it in three months for $85,000, he says, adding that he helped his mother's IRA increase in value to $140,000 from $50,000 in five years.

Other lenders try to avoid foreclosures. Dennis Galbraith, who also lives in Houston, makes short-term bridge loans with his IRA, for which he says he charges 12% to 15% interest, and takes what's called "first-lien position," meaning he's first in line to get his money back from the borrower. But he's had to restructure two loans in recent months because the borrowers' "exit strategy was initially to sell the house, and it didn't work because the buyer didn't get financing approval."

Mr. Galbraith extended the loan terms so the borrowers can rent out the properties for a year and pay him off "like a normal mortgage" with the rental income. "If I choose to foreclose, I could, but I'm personally willing to work with the borrowers," says Mr. Galbraith, who works for an energy company and moonlights as a real-estate agent.

Like Mr. Galbraith, many people lending their IRA assets are connected to the residential real-estate business. Others are people phasing out of corporate careers who learn about such lending through local clubs for real-estate investors. They say that they usually connect with borrowers through word of mouth.

The maximum loan rates that self-styled IRA lenders can charge are regulated by usury laws that vary from state to state. In California, for instance, interest rates are typically capped at 10%, says Hugh Bromma, chief executive of Entrust Group Inc. in Oakland, Calif., which administers self-directed IRAs.

Self-directed IRAs make up less than 2% of the overall $4.2 trillion IRA market, but they are increasing in popularity. And the handful of firms that handle such accounts are logging increased usage by self-styled mortgage lenders.

Two thousand of the 40,000 self-directed IRAs handled by Entrust are making real-estate loans, and the average account is valued at $250,000, says Mr. Bromma. The number of accounts with such activity has doubled each year since 2005.

The story is much the same at Pensco Trust Co. of San Francisco, where about $367 million of the $2.2 billion in IRA

assets it has in its custody has been lent for real-estate deals.

Guidant Financial Group Inc. in Bellevue, Wash., sets up limited-liability companies through which IRA owners invest in accounts with an average value of $180,000. It says it has seen interest in lending, mainly for real estate, increase 20% in the past two months.

With a self-directed IRA, you can invest in things other than mutual funds, such as rental property, businesses or community-bank stock -- just as long as any profits go to the IRA and not your regular bank account. (You're also prohibited from using the property as a personal residence.)

Entrust charges IRA owners $250 a year to invest in one mortgage, or $2,000 a year for unlimited transactions. Setting up a Guidant account costs $130. IRA lenders also have to pay other mortgage loan costs, including escrow and closing fees. At least some of those costs, though, usually can be passed along to borrowers.

Another risk to investors is running afoul of the Internal Revenue Service's rules for IRAs. "You cannot take any kind of fee from your IRA for doing something inside your IRA, and if you have to start using money from other sources to bail out something happening with the loan inside the IRA, that's a big problem," says Natalie Choate, a Boston tax attorney. So it's important to make sure the IRA has enough money in it to pay any legal fees involved in foreclosure, or property taxes and insurance costs if you wind up owning a house for a while before you can sell it.

The IRA can borrow to pay those costs, Ms. Choate says, but doing so creates taxable income and complicates your tax return.

Don Baglien, a truck-stop manager in Roseburg, Ore., recently rolled over $100,000 from a former employer's 401(k) to a self-directed IRA because "I'm just too busy to follow the stock market closely and stay on top of it," he says. After attending a Guidant seminar, he set up an account and recently made a second-mortgage loan, with a two-year term and 20% interest, to a local pizza parlor in need of repair. So far, it's borrowed $40,000 for a new heating-and-air-conditioning system and roof, he says. The restaurant owner owes $900,000 on the building, appraised at $1.3 million, "so I definitely felt like there's some equity there.

"If he doesn't pay, I guess I'm going to be eating an awful lot of pizza," Mr. Baglien says. "Hopefully, they'll still have some beer left."

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Posted at 01:11 PM in IRAs and Self-Directed IRAs | Permalink | Comments (0) | TrackBack (0)

Private Lending Articles

February 19, 2008

To Thine Own Self - Want more investment options? With a self-directed IRA, you decide where your money goes.

By Farnoosh Torabi | Entrepreneur Magazine - November 2007

URL: http://www.entrepreneur.com/magazine/entrepreneur/2007/november/185588.html

Interested in a retirement-friendly, tax-deferred way to invest in, say, reality TV? How 'bout a beach house in Malibu or a burger franchise in Eastern Europe? Self-directed IRAs can help. Unlike traditional IRAs that limit investors to stocks, mutual funds and bonds, this alternative account allows for a broader, more creative range of assets, including real estate, private equity, foreign companies and even racehorses.

Continue reading "To Thine Own Self - Want more investment options? With a self-directed IRA, you decide where your money goes." »

Posted by Brian Gibbons on February 19, 2008 at 06:01 PM in IRAs and Real Estate Purchase, IRAs and Self-Directed IRAs, Private Lending, Solo 401(k) | Permalink | Comments (0) | TrackBack (0)

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February 05, 2008

Funding a Real Estate Mortgage Case Study -Buying and selling real estate is certainly one potentially profitable way to invest the funds in a self-directed IRA, but it is not the only real estate-related investment strategy.

Funding a Real Estate Mortgage Case Study -Buying and selling real estate is certainly one potentially profitable way to invest the funds in a self-directed IRA, but it is not the only real estate-related investment strategy.

Our story begins with a **real estate broker, Jack,** who was working with a client to try to sell a $200,000 property.

The property had been on the market for about one year.

Jack had found a potential buyer, Emma, who placed the property under contract.

Emma had lined up a **loan for $160,000**, but still **needed $15,000 to fund the purchase.**

Her lender was not willing to increase the amount of the loan since Emma had not worked during the past two years.

Jack was concerned that the deal was going to fall through.

Byron, also a broker, was an acquaintance of Jack's.

Jack was aware that **Byron was interested in sound opportunities to loan money to fellow brokers' clients.**

Byron had a **self-directed Entrust SEP-IRA with a balance, at that point, of roughly $250,000**.

Jack brought Byron and Emma together, and **Byron agreed to have his self-directed IRA lend her money.**

He was able to **negotiate the terms of the loan directly with Emma**, however **the actual lender documents could only be signed by his IRA administrator on Byron's behalf.**

Byron offered Emma two loan options.

- One, a first mortgage on the property for $175,000, with a 30-year amortization, at a fixed rate of 7.825%. This was just a little higher than the bank's current rate. The deal included a 1-point fee for the loan.
- Alternatively, Byron was **willing to complement the bank's loan, if that is what Emma preferred. This meant lending her $16,000 for a second mortgage, with interest-only payments for three years. At the end of three years the loan principal would be due.**
- Byron set the interest rate at 8%, with a $500 fee.

Keep in mind that **Byron alone assessed the relative risk in making these loans.**

He also set the terms of the loans.

He was well aware that his IRA administrator could not advise him on these matters.

Uncomfortable with balloon payments, Emma decided on Byron's first option for $175,000.

She negotiated with Byron to increase the loan slightly to cover the cost of the 1-point fee. Ultimately, Byron reduced the fee to ¾ point, and set the amount of the loan at $178,000.

With the parties agreed on the terms, **Byron called his title company to have them prepare the loan documents, carefully instructing them that the lender was his SEP-IRA (Entrust, FBO Byron IRA.)**

He then contacted his **local Entrust office** to provide them instructions for funding the closing.

- He had them make sure that all matters regarding the loan were carefully finalized.
- This included making sure the loan was properly recorded, that the trust deed secured the note with the property,
- that insurance on the property was in place, and
- that Entrust FBO Byron IRA was listed as loss payee for up to the amount of the loan.
- His Entrust office then sent a wire transfer from Byron's IRA for $176,665 to closing ($178,000 less the $1,335 fee).

Meanwhile, **Emma had found a job, and was doing well.** She proved completely reliable, consistently making her required payments.

Per instructions, she made these payable to "Entrust, FBO Byron IRA," but she mailed them directly to Byron.

- Byron tracked the payments, properly noting both the interest and principal amounts, prior to forwarding Emma's check to Entrust.

Byron did have the option of **hiring a loan servicing company to handle the payments.** The servicing company would have kept all the details for the loan, and handled reporting to the borrower. The loan servicing company would forward the

payments to the IRA once recorded.

Emma's credit rating had improved so after six months Bryon decided to sell the note to another lender, whom we will call Plancomp, Inc.

Plancomp evaluated the loan, which then had a balance of $177,245 and determined that the market rate for the loan was about 6 ¾.

They agreed to buy the note at an interest rate of 7.125%.

Since the note was already paying interest at 7.825%, as Emma and Byron had initially agreed, the value of the note—$189,722—was more than its balance.

The note purchaser sent a check to Entrust FBO Byron IRA, who then, at Byron's instruction, assigned the note to Plancomp, and Plancomp promptly took over servicing the loan

Let's review the outcome.

- Byron's IRA invested $176,665, and received back $189,722 plus six monthly payments totaling $7,706, less expenses of $295 paid to Entrust for their administration services.
- This is a net gain of $20,469, or more than 11%, in six months.
- Byron now has about $270,000 in his SEP-IRA and is only too happy to remind brokers to come to him if they have clients having trouble getting a loan.

Remember that while Entrust provides excellent educational resources, we do not endorse or sell any investment products. The Entrust Group respects your privacy. Please read our Privacy Statement.

Article Source: http://www.theentrustgroup.com/elc/knowledge/article/7/30/

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January 15, 2008

Outside the Bubble - Alternative financing options fuel real estate investor's success

By Tamara E. Holmes - Black Enterprise

January 15, 2008 -- An inability to get bank financing would stop most real estate investors in their tracks. But not Henry Calvin Johnson. Bank financing difficulties forced the 29-year-old to explore private financing options–a move that ultimately helped catapult his North Plainfield, New Jersey-based real estate investment firm EXER L.L.C., to the $700 million mark in 2007.

Johnson got into the real estate game at the age of 19 when he invested $7,000 and secured a bank-financed mortgage and renovation loan to rehabilitate a $47,000 property. Three years later, he sold the home for "about nine times what I bought it for," he says, prompting him to pursue real estate full-time. "I was intrigued with the fact that it is a business where you can make money and be your own boss," he says.

That first property purchase was followed by three more that Johnson planned to rehabilitate and sell, but in 2005, the business almost went up in smoke when a newly-renovated house caught on fire. "It burned down and the insurance company denied my claim," Johnson says. The resulting loss left Johnson suddenly unattractive to lenders, so he had to get creative.

Johnson told business contacts that he was looking for wealthy individuals to invest in a few real estate rehabilitation projects and eventually he found several private investors. "They would finance the construction, I would do the

construction and follow the project all the way through and then we would split the profits 50-50 in the end," says Johnson.

The shift to private financing also helped Johnson fare better in a weakening real estate market.

Had Johnson secured properties via conventional banks, he would have been responsible for a monthly mortgage payment. With his private investment deals, he splits the profits with investors after the properties sell. "At the end of the day if that property does not sell, you're not paying a mortgage on the property," Johnson says.

Having to pay a traditional mortgage in today's market could prove costly since so many houses are on the market and not selling fast: "People have properties out there that they've been holding on to for two years," says Johnson.

Another ingredient in Johnson's recipe for success is **his knack for keeping expenses low, an ability he attributes to his knowledge of the construction industry.** "Knowing the construction business controls your construction costs," he says, since he understands how much materials and labor costs first-hand. Johnson did much of the construction himself on his earlier properties. Today he farms out most of the work to subcontractors, but "I know how to [negotiate] the subcontractors down to where I would actually feel comfortable paying them," he says.

Moving forward, Johnson is looking to buy multiunit properties and diversify his portfolio, eliminating some of the risk and making his cash flow more stable.

"In my twenties, I had time to have ups and downs," he says. "Once I hit 30 and beyond, if you make a mistake it hurts you."

Posted by Brian Gibbons on January 15, 2008 at 07:42 PM in Private Lending | Permalink | Comments (0) | TrackBack (0)

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June 04, 2007

Why You Must Invest Now

http://www.fool.com/personal-finance/retirement/2007/06/04/why-you-must-invest-now.aspx

Chuck Saletta
June 4, 2007

It's tough to invest successfully. You're putting your money at risk when you invest, after all. You can wind up *with less* than what you started with. Also, unless you pay a mutual fund manager to do your homework for you, you can expect to spend several hours a week researching potential investments.

Worst of all, though, is the reality that every penny you have tied up in an investment is money you can't spend to enhance your lifestyle today.

All that seems to work against the one true aim of investing: growing your nest egg *now* to have more money *later*. You absolutely need to invest today if you want a shot at comfortable golden years.

Why the urgency?

Truth be told, your most important retirement asset isn't your cash -- it's your time. **The longer you have before you must spend your money, the less you need to save per month (and in total) to have what you'll need when you need it. It's just the way compounding works.**

Assume you're looking to retire by age 70 with $1 million socked away, and you think you can roughly match the market's historical 10% annualized return. These numbers show just how important *time* is to meeting your financial goals:

Years to Go	Monthly Investment	Total Invested
50	$57.72	$34,633.25
45	$95.40	$51,514.42
40	$158.13	$75,900.37
35	$263.39	$110,624.19
30	$442.38	$159,257.65

25	$753.67	$226,102.24
20	$1,316.88	$316,051.95
15	$2,412.72	$434,289.21
10	$4,881.74	$585,808.84
5	$12,913.71	$774,822.68

If you thought coming up with $58 a month to invest at age 20 was tough, just try waiting until age 60 and finding nearly *eighty times* as much spare cash in your budget. No matter how you slice it, the sooner you get started, the less painful it'll be.

Start simple, but start now

Of course, deciding to invest for your retirement and actually doing something about it are two different things. With all the different investing options available to you, you may run the risk of "paralysis by analysis" -- not doing anything at all for fear of making the wrong choice.

The easiest way to get started is with a low-cost, total-market index fund like the **Vanguard Total Stock Market Index** (VTSMX). As the name implies, it's a one-stop shop that gets you invested in companies representing approximately 95% of the total U.S. market by capitalization. As the following table shows, with a single fund purchase, you'd get a decent investment in some of the largest and most profitable companies around:

Company	Percent of Holdings
ExxonMobil (NYSE: XOM)	2.84%

General Electric (NYSE: GE)	2.40%
Citigroup (NYSE: C)	1.72%
Microsoft (Nasdaq: MSFT)	1.65%
Bank of America (NYSE: BAC)	1.51%
Pfizer (NYSE: PFE)	1.18%
Altria (NYSE: MO)	1.05%

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