



Non-Recourse Financing

Learn how to purchase leveraged property with your IRA

FREE MONTHLY 'WEDNESDAY WEBINAR' SERIES

Wednesday, June 7th, 2006

11 am PDT / 12 pm MST / 1 pm CST / 2 pm EST

Special guests:

Matt Allen, North American Savings Bank

Mark Robbins, CTX Mortgage

Hosted By:

Tom Anderson, President & CEO, PENSCO Trust Company

Robyn Levin, Marketing Director, PENSCO Trust Company

PENSCO Trust does not give legal or tax advice. We do our best to understand and educate about building wealth through self-directed IRAs. However, you are advised to consult your own legal and tax advisors for specific guidance regarding your investments. This document is for educational purposes only.

**Heather Anderson,
Sr. Marketing Manager, PENSCO Trust**

- **Heather Anderson is a recognized expert on the topic of self-directed IRAs who speaks both locally and nationally about the benefits and logistics of using IRAs to make tax-deferred and tax-free investments into non-publicly traded assets such as real estate and private placements. Heather has over ten years of industry experience in both sales and operational capacities. As Senior Marketing Manager at PENSCO Trust Company, she formed PENSCO Trust's national network of Preferred Professionals, a rapidly expanding list of CPAs, Attorneys, Financial Planners and Real Estate professionals who receive ongoing education and passive referrals from PENSCO Trust Company.**
- **She graduated Phi Beta Kappa from UC Davis with a BA in German Literature and Translation. An active songwriter and composer, she is currently working on a musical work of “autobiofictionalography,” as well as the soundtrack for an animated short concerning the endangered Western Snowy Plover.**

An example of a leveraged real estate IRA purchase and the tax effects

Purchase of a rental property that does not generate income in excess of \$1,000 after deducting expenses

- **All cash purchase of \$400K**
- **Sells after being held one year for a 10% profit**

Comparative Effects of Leverage: Single Building Purchase

IRA purchases a single building for \$400,000 cash. After 1 year, the building appreciates in value by 10%, but generates no income.

Purchase of Building with 100% IRA funds		\$400,000
Amount Leveraged	+	\$ 0
Amount of Rental Income generated	+	\$ 0
Appreciation in one year	+	\$ 40,000
Value of building sold at end of 1 year	=	\$440,000
UDFI generated tax		- \$ 0
Net Return on Investment in one year	=	\$ 40,000
Percent of Return on Investment		10%



Comparative Effects of Leverage: Multiple Building Purchase

Same IRA purchases 4 buildings with leverage, at \$400,000 each. Buildings produce no rental income and appreciate 10% in 1 year.

	<u>Bldg #1</u>	<u>Bldg #2</u>	<u>Bldg #3</u>	<u>Bldg #4</u>	<u>Total</u>
IRA downpaymt	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000
Leverage	\$300,000	\$300,000	\$300,000	\$300,000	\$1,200,000
Total Price	\$400,000	\$400,000	\$400,000	\$400,000	\$1,600,000
10% apprec.	\$40,000	\$40,000	\$40,000	\$40,000	\$160,000
Bldgs Sold for	\$440,000	\$440,000	\$440,000	\$440,000	\$1,760,000
-UDFI (cap gain)	-\$4,500	-\$4,500	-\$4,500	-\$4,500	-\$18,000
Net Return					
On Investment	\$35,500	\$35,500	\$35,500	\$35,500	\$142,000

% Return on Investment

35.5%



Conclusion

- **Leveraged transactions** generate \$160K gross income, less \$18K capital gains tax*, for a profit of \$142K and a return of 36%

- **Cash purchase** generates \$40K gross and tax-deferred return (10% yield)

- Which would you prefer?:
 - 36% after-tax return growing tax-deferred
 - Or a 10% return growing tax-deferred

*could be deferred through 1031 exchange

Guest Speaker:

Matt Allen, NASB

- **Matt Allen is the Director of IRA Lending for North American Savings Bank based out of Kansas City, MO. He has been with North American Savings since 2003 and has 5 + years experience in the mortgage industry. Matt has spent the last 2 years promoting NASB's IRA Non-Recourse Loans to investors nationwide. North American Savings Bank, F.S.B. has been providing loans to Individuals since 1927.**
- **As a leader in the mortgage industry, NASB offers a variety of mortgage loans and is the only nationwide Non-Recourse lender for IRA real estate investments.**

IRA Non-Recourse Loans



North American Savings Bank

www.iralending.com

(866)-735-6272

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Q:Who Is North American Savings Bank?

- North American Savings Bank, F.S.B. has been providing loans since 1927.
- Based out of Kansas City, Missouri.
- North American offers a variety of mortgage loans and is the only nationwide non-recourse lender for IRA real estate investments.
- ***\$1.5 Billion in assets.***
- ***Publicly traded on NASDAQ under NASB.***

Q: What Is a Non-Recourse Loan?

- A non-recourse loan is one in which the IRA/SEP account holder is not personally liable for repayment of the loan.
- The security instruments allow no recourse against the individual account holders or the balances of your IRA/SEP funds.
- In the event of default/foreclosure the lender can only recover the property and your equity.

Q: Who is eligible for a Non-Recourse Loan using their IRA to purchase rental/investment properties?

- Anyone who has at least 30%-35% of the purchase price vested in an IRA/SEP/LLC has the opportunity to buy rental properties using a non-recourse loan.**

Q: How much down payment is required?

- **30% to 35% of the purchase price is the minimum down payment required for a non-recourse loan. Insufficient cash flow or the condition of the property may require a larger down payment.**

**North American Savings can
finance eligible property with
non-recourse loans in all 50
states.**

NORTH AMERICAN

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R E S I D E N T I A L L E N D I N G

**Q: What Is the Processing Timeframe
for a Non-recourse Loan?**

**If the IRA Account Holder has already
set up their IRA/LLC, we can typically
close in 30 days.**

Q: What Type of Loan Programs Are Available?

NASB offers a 5 Year ARM. NASB does not offer a 30 year fixed or an interest only loan for the non-recourse financing.

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Cash Out Refinance

The funds are distributed back into the IRA. This allows the account holder the option to purchase other assets within their self-directed IRA.

Property Eligibility

- **Single family residential**
- **warrantable condo's (100% complete, 33% or more sold, and HOA turned over by developer)**
- **puds/townhomes**
- **duplexes**
- **4-plexes**
- **multi-family (5 or more units)**
- **commercial property: including retail, warehouses, and office buildings.**

Ineligible Properties Include:

- Residential with large acreage
- Raw land
- Farms
- Manufactured or log homes
- Non-warrantable condos (Most condo conversions and less than 100% complete)
- Hotels, condo-hotels
- Co-ops, Timeshares
- Senior or assisted living facilities
- Non-franchise restaurants
- Entertainment properties
- Mini-storage

***Condominiums: Condos must meet the following minimum criteria to be considered warrantable.**

1. The project building must be 100% complete, including common areas.

2. The units within the building must be 60% sold.

3. 33% of all building units must be owner occupied or 2nd homes.

Q: Is There a Prepayment Penalty for NASB's IRA Non-recourse Loans?

o **No, there is not a prepayment penalty.**

The loan may be repaid in full or in part at anytime without penalty.

Q: What Are the Income Requirements for Rental Property?

- The financed property must generate sufficient net operating income to exceed debt service payments by:
 - ✓ **10% Single Family Homes**
(Less than 10% or negative cash flow is acceptable with sufficient reserves on SFR)
 - ✓ **10-15% 2-4 Unit Properties**

Debt Service Coverage Ratio Example (200k Property)

- Gross annual income

Rent ($\$1,400/\text{month} \times 12$)=	\$16,800
1. Vacancy (7% x GAI)	\$-1,176
2. Taxes	\$-2,500
3. Insurance	\$-800
4. Maintenance (\$420/unit)	\$-420
5. Management Fee (6% x GAI)	\$-1,008

Net Operating Income	\$10,896

Net Operating income = \$10,896

Annual Principal & Interest \$11,177
(Based on 140k loan at 7%)

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

➤ **$\$10,896/\$11,177 = .97$ DSCR**

Requirements for Debt Financing

- Purchase/refinance transactions for investment property only
- IRA assets must be verified for purchase along with reserves (10%-20% of loan amount).
- No employment or income verification.

Properties May Be Held in a:

- 1. Self-Directed IRA**
- 2. LLC**
- 3. C- Corporation**
- 4. Partnership**

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NASB will quote interest rates on a case by case basis, on the basis of the collateral type and down payment. The following fees and costs apply:

1. ___% origination fee to nasb (origination fee is based on the loan amount, type of property, and DSCR)
2. \$385 underwriting fee to NASB
3. \$200 processing fee to NASB
4. \$16 flood certification fee
5. \$500 estimated appraisal fee (including rent comps) – due at time of application

* Escrows for taxes and hazard insurance are required.

Documentation Required for Loan Approval:

1. Completed loan application/checklist
 2. Most recent asset statement verifying IRA assets for purchase and reserves
 3. Purchase/sales contract.
 4. Acceptable real estate appraisal for the property to be financed. The appraisal must be ordered directly by nasb.
 5. Copy of drivers license
 6. Documentation from the IRA custodian/administrator needed for closing.
 7. Homeowners insurance should read the IRA/LLC as the insured.
- *Documentation and guidelines can be found at www.iralending.com*

North American Savings Bank

NA
SB

1-(866)-735-6272

SAVINGS BANK, F. S. B.

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www.iralending.com

Guest Speaker:

Mark Robbins, CTX Mortgage

- **Mark Robbins is a Mortgage Consultant and Branch Manager with CTX Mortgage, one of the largest mortgage origination companies in the U.S. and a subsidiary of The Centex Construction Company. He manages the Marin County office and specializes in residential, construction and commercial lending. He was the top producing mortgage originator for fiscal year 2004-2005. In 1989 he founded a hi-tech executive search firm which specialized in the recruitment and placement of computer software sales and consulting professionals. His company, Search Solutions Inc., was the largest recruitment firm for Oracle application software professionals on the West Coast from 1995 to 2001.**
- **He has a B.A. in History from New York University and a J.D. from Western State University College of Law.**



Missed our previous webinars?

**Go to this webpage to listen to the recording and
download the corresponding worksheets:**

<http://www.penscotrust.com/education/webandaudioconferences.asp>



Next Month's 'Wednesday Webinar' IRA Investment Strategies

July 5th, 2006

By request, we are featuring several guest experts that will discuss unique real estate investment strategies:

■ **Patrick Rice, Author of 'IRA Wealth' & President of IRA Resource, Inc.**

Strategies to be covered:

- Wealth building
- Income generation
- Income & wealth building
- Reviewing past projects and taking a look a future projects

■ **Carolita Oliveros, Investors Advantage**

- Hassle-free investing

We will also discuss investment vehicles to consider for your IRA, including:

- Pre-construction investing with developers
- Commercial properties & land acquisition
- "Hands Free" real estate investing with income generation.
- Success stories from clients who have invested their IRAs into non- traditional assets.



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If you're a professional and you're interested in adding Self-Directed IRAs as part of your business practice contact us:

Phone: 866-818-4IRA (4472)

Email professionals@pensco.com

Or go to this webpage for more information:

http://www.penscotrust.com/brokers/preferred_professionals.asp

Upcoming Seminar for P2s:

Self-Directed IRAs and Alternative Investments Advanced Training for Professionals

- **June 22nd, 2006, PENSCO Trust, 104 Congress St., Portsmouth, NH**
- **Audience:** Existing members of PENSCO Trust Preferred Professional Program.
- **Objective:** The objective of this course is to provide in-depth knowledge of Alternative Investing within Self-Directed IRAs including prohibited transactions, disqualified persons, leveraging, tax implications and the actual investment process. Considerable time will be spent analyzing various investment scenarios.
- **For more information and to register:** Contact Shannon Johnson
 - Toll-free at 866-818-4472, ext. 5705
 - or email her at sjohnson@pensco.com.

Reference Materials Available:

eBook

Get the Answers to Investors' Top 50 Questions on Investing with a Self-Directed IRA!

Go to: <http://www.penscotrust.com/education/pdfs/Ebookweb.pdf>

Or click on the eBook icon on the right side of any page at www.PENSCOTrust.com.



Get Started CD

This interactive CD for your computer gives you the quick overview of the references needed to self-direct your IRA and helpful direct links to the webpages at www.PENSCOTrust.com.

Please email takecontrol@pensco.com to request one.





Contact PENSCO Trust

Business Development Center:

866-818-4IRA(4472)

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For more information:

www.PENSCOTrust.com

PENSCO Trust does not give legal or tax advice. We do our best to understand and educate about building wealth through self-directed IRAs. However, you are advised to consult your own legal and tax advisors for specific guidance regarding your investments. This document is for educational purposes only.