

New Product!

Effective January 1, 2006, PENSCO Trust will be offering both the solo 401(k) and the new Solo Roth 401(k). Check our web site this winter for details about these exciting new retirement savings products!

How To Invest Your IRA Funds In Real Estate

**Guest Writer - Mark L. Robbins, Vice-President,
CTX Mortgage Company, Marin County, CA**

The ability to purchase real estate with your IRA has been in existence for many years. However, most people believed that they had to buy their property entirely with cash. They did not know that they could obtain a loan to help them with their purchase. For those few who have heard they could get a loan, they have not known how to go about getting one. Further, for those who have known they could get a loan, they have not known who to call on for help to obtain this special financing. I am here to provide that help.

Before I can inform you how to invest your IRA funds in real estate, I have to tell you the reason it's so difficult to do. The IRS does not permit the IRA owner to personally guarantee a mortgage for the purchase of property with their IRA. The majority of banks that issue mortgages require a personal guarantee for those loans.

Under normal circumstances, if the mortgagee (property owner) cannot or does not meet the payment requirements of the mortgage, the bank can use whatever legal means at its disposal to obtain payment from the mortgagee. The bank can sue the property owner and obtain that individual's personal assets to satisfy the mortgage debt.

As a result most banks will NOT lend money to purchase real estate through an IRA, because they cannot obtain that personal guarantee from the borrower. The only 'recourse' the bank has to satisfy the mortgage debt incurred by the IRA is the property and the rental revenue that the property generates. Therefore, the IRA owner must obtain what is called a NON-RECOURSE loan in order to purchase real estate if they cannot pay the entire purchase price in cash.

That brings us to the 'HOW TO' of making an investment in property with your IRA. The first step in this process is to establish your IRA account with a custodian such as PENSCO Trust, that specializes in handling an individual's IRA investment in real estate. This is necessary for several reasons. Again, the IRS does not permit the IRA owner to handle any financial transactions in respect to the ownership of the property. The custodial company must pay all bills and receive all rents associated with the ownership of this real estate.

Once you have established this account, the time is right to find a property worthy of your investment. In order to identify the right property to invest in, there are a few important things for you to know. First, you will need to have enough money in your IRA to make a minimum down payment of 30-35%. Depending

upon the type of property and the lender, you may need to make a greater down payment. Second, you need to find a property that is either already rented or will be easily rentable once you own it. The property being purchased by your IRA must be an investment property. It cannot be a primary or secondary home. The third thing you need to keep in mind is that the rent the property will generate should be 1.2 times greater than the mortgage payment required by the loan. If you find that your property is not generating enough rent to exceed your mortgage payment by 20%, then make sure that your IRA has sufficient assets to cover any deficit for a prolonged period of time. This will include other monetary items such as property taxes, insurance and homeowner association dues. The lender will look closely at the IRA's assets as a pre-requisite to obtaining the mortgage.

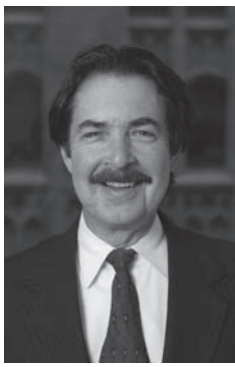
“... the IRA owner must obtain what is called a NON-RECOURSE loan in order to purchase real estate if they cannot pay the entire purchase price in cash.”

Once you have identified an investment property to purchase, then you need to call a mortgage broker who knows how to help you structure a non-recourse loan with a non-recourse lender. As previously mentioned, there are very few non-recourse lenders. After many months of research, I have found several lenders that will establish a non-recourse mortgage for an IRA owner. It is important to have the right mortgage consultant for this kind of transaction so they can make sure that you have all the necessary qualifications to get the loan approved.

For more information about obtaining a non-recourse loan, contact Mark Robbins at mark.robbins@ctxmort.com or 415-893-1744. ■

IRA Alert Newsletter

In a response to the dearth of information concerning self-directed IRA investment options, and a 'boom'-ing population of retirees and others hungry for this knowledge, PENSCO Trust also launched a monthly E-Newsletter last quarter called 'IRA Alert'. So far, over 1000 subscribers have signed up for this free monthly newsletter in order to stay abreast of current changes to laws and regulations affecting self-directed IRAs. 'IRA Alert' will also include exciting case studies of innovative retirement investment strategies. Sign up for IRA Alert on the right-hand side of our home page at www.PENSCOTrust.com.



Tom's Column

Q. I am about to close on the purchase, for cash, of a small commercial building, all of which I plan to rent out to commercial tenants. I planned on purchasing it with an LLC that I formed and funded specifically for this purpose.

Can I establish a self-directed IRA, after the closing, and make it a member of the LLC in exchange for half of the purchase price of the building?

A. No. Because you funded 100% of the LLC, it becomes a "disqualified person" (IRC 4975) in relationship to your IRA, and vice versa. A transaction between two disqualified persons is a prohibited transaction for an IRA. You could contribute your new property (or your existing LLC that holds the property), after the closing, to a new LLC that would then consist of the old LLC (or property) and your IRA, presuming that both investments in the new LLC were concurrent. The new LLC would then have cash from your IRA and the property (or the old LLC that owns the property). You could not take the cash and buy or exchange the property from the old LLC (which is also the new LLC member), however. That's because both members of the new LLC are disqualified persons in relation to each other and, therefore, any transaction between them would be prohibited. So I don't know what that would do for you other than providing liquidity for any further development you might want to undertake. ■

What's New At PENSICO Trust Newsletter

This electronic newsletter is exclusively for PENSICO Trust clients, and is one more reason to make sure that we have your most current email address on file. Instead of a monthly format, we will use the 'What's New' Newsletter to announce news pertaining to your PENSICO IRAs in a timely fashion, as it occurs. We want to make sure that you, our clients, are the first in the nation to hear breaking news that will make you smarter and more successful investors. "What's New" will also allow us to send you helpful reminders about contribution limit increases and deadlines. What to do to make sure you receive it:

- Log in as a client at www.PENSICOTrust.com to update your email address if necessary.
- Make sure that emails from whatsnew@pensico.com reach your inbox safely.

Really Simple Syndication (RSS) - Sign up for our Self-Directed IRA News Feed

We are proud that once again, we've employed cutting-edge technology in an effort to keep you informed about self-directed IRAs. By clicking an RSS button on our site to sign up, anyone with an RSS reader may receive instantaneous news alerts pertaining to IRAs as we post them. Really Simple Syndication (RSS) is an XML format designed for sharing headlines and other Web content. Developed in 1997, RSS has evolved into a popular means of sharing content between sites (including the BBC, CNET, CNN, Disney, Forbes, Motley Fool, Wired, Red Herring, Salon, Slashdot, ZDNet, and more. For more information go to this URL:

<http://www.penscotrust.com/news/Newsfeeds.asp>

"IRA Wealth" Patrick Rice/Jennifer Dirk

We were happy to have Patrick Rice, author of the highly acclaimed book, *IRA Wealth*, as a guest speaker in our September 14th Audio Conference. He and Tom Anderson discussed "Successful Real Estate Strategies within IRAs".

Because we find Rice's book so useful, we have reenacted our special offer of a complimentary copy of "IRA Wealth" to anyone opening an account through our on-line application. If you have a friend or family member who would like to open a new PENSICO Trust account, direct them to our interactive on-line application at www.PENSICOTrust.com and have them write "FREE BOOK" at the top of their Application page before mailing in to receive their free copy. For help with the application, anyone may call our Business Development Center toll-free at 866-818-4IRA (4472). To contact Patrick Rice or to buy a copy of his book, go to www.IRAResource.com.



FREE Audio Conference Series

PENSICO Trust has recently held a 6-week audio conference series, hosted by Tom Anderson, President & CEO of PENSICO Trust. These hour-long conferences spotlighted various guest speakers who discussed a range of IRA-related topics. Listen to any of these informative sessions now and/or check for upcoming web and audio conferences at:

<http://www.penscotrust.com/events/webandteleseminars.asp>

PENSICO Trust Holds 6-Week Audio Conference Series

- September 7th** Tom Anderson, Pres. & CEO, PENSICO Trust Co. "Expanding Your Business Practice Using Self-Directed IRAs"
- September 14th** Patrick Rice, Author of "IRA Wealth" "Successful Real Estate Strategies Within IRAs"
- September 21st** Tom Standen, Sr., President, Note Servicing Center, Inc. "Lending From Your IRA"
- September 28th** Allen Olson, CEO & Manager, Rockmann Development Group, LLC "Building And Structuring Your Real Estate IRA"
- October 5th** Harb, Levy and Weiland, LLP "Tax Consequences of Investing Your Self-Directed IRA"
- October 12th** Chuck Kissée "Effective Wealth & Estate Consulting"

To access recordings of these conferences, go to: <http://www.penscotrust.com/events/webandteleseminars.asp>