

How to Invest Your IRA Funds in Real Estate

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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/trust type company 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.

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.

Once you have consulted with me or another mortgage broker who is well versed in this subject, there are several items that will be needed to complete a loan package for the lender. All lenders require a financial statement and credit report which I will help you obtain. You will also need to provide a copy of your agreement with the custodial company that is managing your IRA account and a recent statement of your IRA's assets. Some lenders require 2 years of tax returns even though you're not personally guaranteeing the loan. This is why it is best to consult with a mortgage expert. If you want to obtain the subject property that you're in contract to purchase, it is best that you know ahead of time what lender you're going to use and what they're going to require. This will protect you against any surprises that might result in being turned down for your non-recourse loan.

In summary, it is in your best interest to contact me or a mortgage expert who is knowledgeable about the 'NON-RECOURSE' loan so that you can be better assured that you and your IRA will qualify for it. This will put the odds in your favor so you can successfully complete your IRA purchase transaction.

For further information please call Mark Robbins @ 877-893-9100 or email me: ask.mark@ctxmort.com

Mark Robbins will be one of the featured speakers at East Bay Wealth Builders [club meeting in July 2005](#) at the Fremont Marriott from 6 pm to 9 pm. Mark is a ... He can be reached at [Lerman & Lerman](#), a law firm with offices in San Rafael,

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