EQUITY TRUST®

Self-Directed Real Estate 101

How Does Real Estate Investing in a Retirement Account Work?

Part I: What Does it Mean to Self-Direct My Real Estate Investments?

Many investors are surprised to learn it is possible to invest in real estate using their retirement accounts.

Self-directed IRAs and other self-directed retirement accounts can hold a variety of assets, including real estate, tax liens, promissory notes, private entities, and more.

Many investors open self-directed accounts to diversify their portfolios with alternative investments, within a tax-advantaged environment.

Though some investors have never heard of the concept, self-directed investing is nothing new. Since IRAs were introduced in 1974, the IRS has only listed a handful of items that are not permitted in an IRA (the entire list can be found in IRS Publication 590 at IRS.gov).

With a self-directed retirement plan custodian, any retirement plan can be self-directed.

People are often surprised to learn there are several retirement plans available to investors. The most common accounts are the Traditional IRA and the Roth IRA. These accounts are designed for individuals and offer tax-advantaged growth, but there are differences between them.

Traditional IRA	Roth IRA
• Funded with pre-tax dollars	• Funded with after-tax dollars (no tax deduction)
• If qualified, investors receive a tax deduction for the amount contributed in a given year	• Tax-free investment growth while inside the account
• Tax-deferred investment growth while inside the account	• Tax-free qualified distributions when withdrawn from the account
• Taxable distributions when withdrawn from the account	• Subject to income eligibility requirements
• Subject to Required Minimum Distribution (RMD) requirements at age 70½	• Not subject to Required Minimum Distribution (RMD) requirements

For more details regarding income limits and contribution limits, visit www.IRS.gov.

Certain types of retirement accounts allow you to contribute more than $50,000

In addition to individual plans, business owners may have the option to take advantage of the Simplified Employee Pension (SEP) or Savings Incentive Match Plan for Employees (SIMPLE) IRAs. Both plans are designed for small businesses but may also benefit self-employed individuals.

The SEP and SIMPLE IRAs allow you to potentially make larger contributions than the Traditional and Roth IRAs. Both IRAs offer tax-deferred growth and yearly tax deductions. All distributions are subject to taxes.

Health plans can be self-directed, too...

A Health Savings Account (HSA) is a tax-advantaged account for individuals or their families with high-deductible health plans, allowing them to set aside funds for qualified medical expenses now and in the future.

Pay for your child's education as well…

The Coverdell Education Savings Account (CESA) is available to assist in paying for qualified education expenses. The plan can be self-directed in a tax-free environment and all distributions used for qualified education expenses are tax-free.

As you can see, there are a number of different types of self-directed retirement accounts that allow you to invest in real estate (or other alternative assets). Depending on your specific situation and financial goals, it may be possible to take advantage of more than one of these plans.

It may also be possible to rollover or transfer an existing IRA, 401(k), 403(b), Thrift Savings Plan, or other retirement account to a self-directed custodian. Part II explains this process in more detail.

Part II: Example of a Self-Directed Real Estate Investment

After you've found a property to purchase, you will need to provide your self-directed IRA custodian the specifics of the property you'd like to purchase with your IRA, how much money you need, where to send the funds, and if documentation requires signing. At Equity Trust you would need to submit a Real Estate Direction of Investment (DOI).

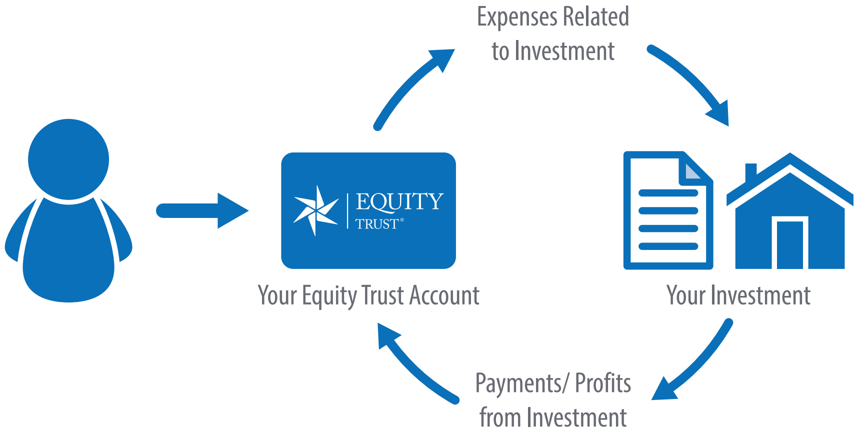
Investment must be at "arm's length"

IRS rules state that you and the investment must be at arm's length. In other words, you cannot directly benefit from an asset owned by your retirement account.

Your retirement account is designed to provide for your retirement and is not intended to benefit you now. You cannot receive a direct or indirect benefit from the property purchase. It's considered an "indirect benefit" if your IRA is engaged in transactions that, in some way, can benefit you personally.

A few examples include:

- **Using property held in the retirement account:** Using real estate purchased through your IRA as an office, personal residence, vacation home, retirement home, etc. is not allowed.
- **Receiving personal benefits from your retirement account:** You cannot lend yourself money from your IRA or pay yourself, or a company you own, to do work on a home purchased by your IRA.



Additionally, IRS rules state that a self-directed retirement account may not: buy an investment from, sell it to, or otherwise be involved with a "disqualified person." A disqualified person includes you as the account holder, service providers of the IRA, fiduciaries, family members of lineal ascent or descent, and entities of which 50 percent or more is owned directly or indirectly by a disqualified person.

Whenever making an investment decision, please consult with tax, legal, and accounting professionals.

Refer to the IRS for more information: Internal Revenue Code 4975 and IRS Publication 590.

Additional documents needed to complete the investment

To process your investment, additional documentation may be needed to support the transaction. Your custodian may require the purchase agreement, settlement statement, HUD statement, sales contract, etc.

In addition, documents should include your self-directed account custodian's tax ID number instead of your personal Social Security number. If you're unsure of your custodian's tax ID, please contact your custodian before sending the documentation.

Ensuring proper titling: you and your retirement account are not the same

One of the most common mistakes (and cause of delays) of investing with a retirement account is improper titling of the investment documents. Before any documents are created, make sure you notify the title company of the proper titling.

Remember, you and your retirement account are two separate entities and, as such, the property needs to be titled in the name of your retirement account and not you personally. Frequently, the retirement account owner's personal name is incorrectly used on the title of the property.

The correct title for an investment held as a single owner in your IRA is:

Equity Trust Company Custodian FBO *Your Name* IRA

Preparing for closing

Once you've completed the DOI and titled the documents properly, you are now ready to close. Closing documents, which are prepared by a title company, are forwarded to your self-directed IRA custodian to be signed on behalf of your retirement account.

Funds sent from your retirement account

Per your instructions, your self-directed retirement account custodian will send funds from your retirement account to the title company for your investment. Funds can be remitted by check, cashier's check, bank wire, or ACH. Check with your custodian for fees related to the payment method you select.

How long will this take?

At Equity Trust, it typically takes three to five business days for regular processing unless corrections are required. If you need to close more quickly, Equity Trust offers expedited service and can process your documents the same day, as long as the documents are received in good order (additional service fees may apply).

After the closing, the last step is to ensure all final documentation is executed and recorded, if applicable, and sent to your self-directed retirement account custodian to ensure your account records are complete. It's important to keep copies for your own recordkeeping as well.

Your retirement account now owns the property.

If you have questions about this section or self-directed IRA investing in general, please contact an Equity Trust Senior Account Executive at 855-673-4721.

Part III: What Happens After You Purchase a Property with Your Retirement Account?

This section will explain two important principles: how to handle expenses like property taxes, maintenance, and utilities; and how rental income is returned to your account.

Paying Property Expenses from Your Retirement Account

Your retirement account is responsible for all expenses

A self-directed IRA investment property is similar to a property investment outside of a retirement account. From time to time, bills for items such as property taxes, maintenance, or upgrades to the property will need to be paid.

All expenses related to an asset owned by your retirement account must be paid from that account. Expenses cannot be paid with personal funds.

Simple process for paying expenses

For any expenses related to your investment, you'll need to complete a Bill Pay Direction of Investment (DOI) form and submit supporting documentation such as a bill or invoice. This form provides specific information regarding what needs to be paid, the amount needed, and where your self-directed IRA custodian should send the funds.

Equity Trust provides a convenient online account management system, called myEQUITY, where expenses related to your investment can be paid.

Recurring expenses can be paid automatically

If your property has recurring bills (such as property insurance or association fees), you can schedule recurring payments through myEQUITY as well.

Rental/Mortgage Income and Your Retirement Account

Depositing income from your investment property back to your retirement account

If your real estate investment generates cash flow, you will need to ensure that all income related to an asset is returned directly to your retirement account. To properly deposit funds into your self-directed retirement account, you'll need to first make sure the payment is titled correctly.

Similar to the titling for your property, you need to ensure payments are made to your retirement account, NOT to you.

Remember, you and your retirement account are two separate entities and, as such, checks need to be written to the name of your retirement account and not you personally.

Documentation needed for income

In addition to ensuring the correct titling on checks, a deposit coupon is required for all funds deposited to your self-directed retirement account.

The correct title for an investment held as a single owner in your IRA is:

Equity Trust Company Custodian FBO *Your Name* IRA

Either you or the sender of the check must provide a deposit coupon with the submitted checks. Similarly, a deposit coupon must be faxed or emailed to your custodian if funds will be wired. This helps to ensure funds are directed in the appropriate manner to the correct account(s) and asset(s).

Making sure rental/mortgage payments are made

Rental/mortgage payments received by your custodian are deposited to your account. Equity Trust's online account management system, myEQUITY, allows you to monitor payments deposited into your account as soon as they are processed.

Manage your Account with myEQUITY

The online account management system myEQUITY allows clients to manage their accounts and complete investments quickly and with ease. myEQUITY offers the following capabilities:

- **Responsive experience** for computers, tablets, and mobile devices offering unlimited account access at home or on the go.
- **Help with processes:** Quickly pay bills, take distributions and transfer accounts using the myEQUITY step-by-step wizards.
- **eSignature** for new account applications, distributions, and beneficiary management.
- **Ability to upload documents** directly in myEQUITY using our document upload tool.
- **Educational content** and downloadable resources to assist in answering frequently asked questions.
- **Intuitive and interactive site** for account management and transaction submissions.

Part IV: How to Sell Your Investment

The following example is to demonstrate how the process works:

You purchased a home 10 years ago with your self-directed IRA for $100,000 and now plan to sell to a buyer willing to purchase the house for $150,000. Similar to the purchasing process, you must sell the real estate in an "arm's length" fashion. You may not sell property owned by your IRA to yourself or any other disqualified person.

Working with a Title Company

Before funds can be returned to your account from the sale of the property, you must complete the sale process through a title company. The following are examples of documents the title company may require to complete the sale:

- A settlement statement, HUD 1, closing statement, purchase agreement (whichever is applicable)
- A Warranty Deed that releases your IRA as owner and gives ownership to the buyer

Ensure proper title

After the $150,000 contract price has been accepted, ensure the sales agreement/contract is titled properly and any earnest money is submitted to your self-directed IRA, not you.

You and your IRA are two separate entities and, as such, any earnest money must be made payable to your IRA, not you. The contract must also be titled in the name of your IRA.

Work with Your Self-Directed IRA Custodian: What You Need to Provide

Notify custodian with Real Estate Sale Direction of Investment

Before the closing, you need to complete a Real Estate Sale Direction of Investment (DOI) form. This form provides Equity Trust with the specifics regarding the investment property you plan to sell, how much money your IRA is expected to receive from the sale, and what supporting documents your custodian may be required to sign on your behalf.

It is important that all information is complete on the Sale DOI and that you indicate which documents will need to be signed by your custodian for the closing.

Submit documents from the title company for signature with your DOI

Once the Sale DOI is completed, submit all documents from the title company that require a signature. Your self-directed IRA custodian will sign all closing documents on your IRA's behalf. Additional supporting documentation may also be required.

Custodian submits final documents to title company

After receiving a sale DOI with necessary documents, the custodian will remit all paperwork to the title company/ escrow agent. Once the title company/escrow agent processes the paperwork, the asset will be removed from your IRA in exchange for the proceeds of the sale.

All proceeds of the sale return, tax-advantaged, to your IRA!

The title company/escrow agent may remit payment to your account by physical check or a bank wire. After your custodian receives these proceeds, your account will be credited.

The funds are then available to reinvest into another investment opportunity.

If you have questions about this section or self-directed IRA investing in general, please contact an Equity Trust Senior Account Executive at 855-673-4721.

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