



Entrust Group

Imagine the Possibilities With Self-Directed Retirement Plans



Self-Directed Retirement Plan Services

Know How to Grow

Speaker Introduction

H. Quincy Long is President of Entrust Retirement Services, Inc.

Attorney at Law licensed in Texas since 1991

Certified IRA Services Professional (CISP)

Former fee attorney for American Title Company

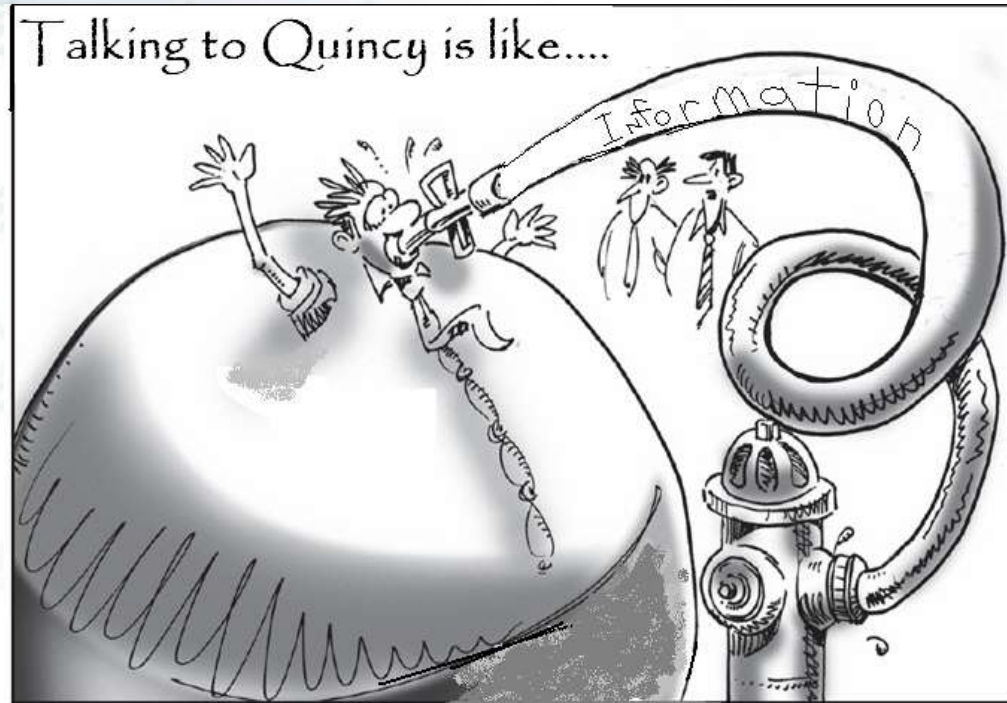
Author of numerous published articles and co-author of the book “Real Estate Investment Using Self-Directed IRAs**” with Dyches Boddiford and George Yeiter**

Disclaimer

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All information and materials are for educational purposes only. All parties are encouraged to consult with their attorneys, accountants and financial advisors before entering into any type of investment.

Methodology



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Who is Entrust?

LARGEST NETWORK of Self-Directed TPAs.

NO CONFLICTS OF INTEREST with how you want to invest.

WITHOUT LIMITS imposed by other custodians.



OVER 25 YEARS managing self-directed accounts!

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Traditional Advisors

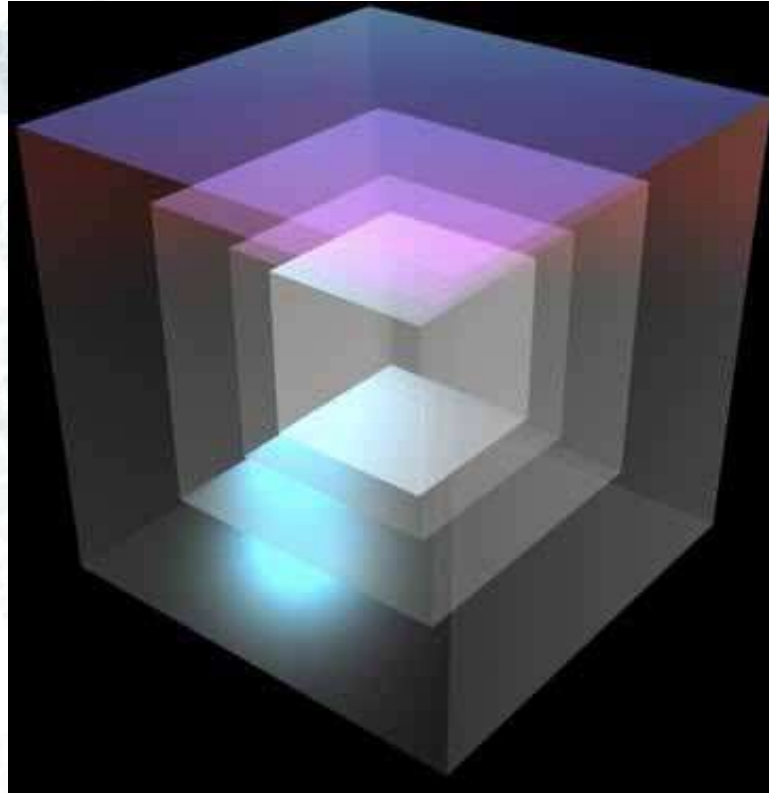


"Never, ever, think outside the box."

"Never, ever, think outside the box"

Know How to Grow

Entrust's Philosophy



You don't have to think outside the box, just realize the box is bigger than you think!

Know How to Grow

Why save for retirement?

“When I was young, I thought money was the most important thing in life; now that I’m old, I know it is.”

- Oscar Wilde, the 19th century Irish playwright, novelist and poet



What is a “Self-Directed” IRA?

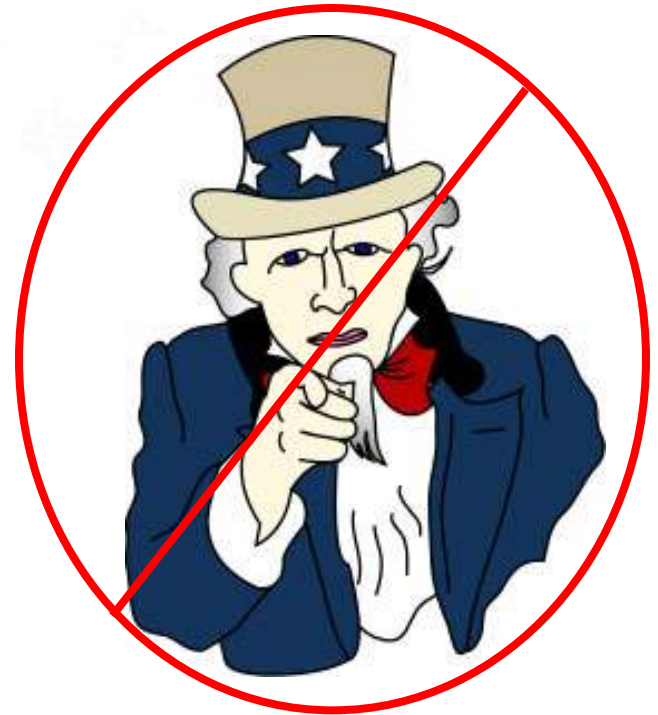


An IRA in which the IRA owner directs all investments in the account. There is no legal distinction between a “self-directed IRA” and any other IRA except with a truly self-directed IRA the account agreement allows the broadest possible spectrum of investments.

What are the benefits of self-direction?



IRA Investor



IRS

Tax Savings

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What are the benefits of self-direction?



Diversification

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What are the benefits of self-direction?



Social investing! It's midnight. Do you know where your IRA dollars are?

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What are the benefits of self-direction?



Take control of your retirement!

Know How to Grow

What are the benefits of self-direction?



Invest in what you know best!

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What types of plans can be self-directed?

- **Traditional IRA**
(including rollovers)
- **Roth IRA**



Roth IRA Advantages

Qualified distributions are **TAX FREE FOREVER!**

No Required Minimum Distributions from a Roth IRA for the original owner or the owner's spouse.

Can be left to a non-spouse beneficiary and provide them with tax free income for life (subject to RMDs).

Stretch Roth IRA



How much would a \$100,000 Stretch Roth IRA be worth to a young beneficiary who inherited it at age 6?

<u>Starting \$ Amount</u>	<u>Beginning LEF</u>	<u>Yield</u>	<u>Total Distributions</u>
\$100,000.00	75.8	6%	\$ 2,033,743
\$100,000.00	75.8	12%	\$ 80,496,367
\$100,000.00	75.8	18%	\$3,420,454,810

Roth IRA Contribution Rules

\$5,000 for 2009.

\$1,000 catch-up if you reach age 50 or over by end of year.

Subject to income limitations – no more than \$120,000 MAGI for single persons in 2009 and no more than \$176,000 MAGI for married persons filing jointly in 2009.

Contribution rules do not change in 2010.

Roth IRA



**There are worse problems to have!
But wait...there's hope!**

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Roth Conversions in 2009

Traditional IRAs (including SEP IRAs), SIMPLE IRAs that are more than 2 years old, and since 2008 any former employer's 401(k) or other qualified plan, 457 plans, and 403(b) plans can all be converted to a Roth IRA.

Must have MAGI of \$100,000 or less (married or single).

Married individual filing separate return ineligible to convert to a Roth IRA.

Income included in year of conversion.

Roth Conversions in 2010



2010



The restrictions against converting with MAGI of more than \$100,000 and on married persons filing separately are eliminated.

Conversion income is added to taxable income 50% in tax year 2011 and 50% in tax year 2012 unless the taxpayer elects to pay all the taxes in tax year 2010.

Roth Conversion Tax Implications

Realtor Rose, a single woman, will have \$100,000 in taxable income for 2009.

Rose's marginal tax rate is 28% because her income is over \$82,250 and below \$171,550.

Rose's total tax bill for 2009 is \$21,720.



Roth Conversion Tax Implications

Rose decides to convert her traditional IRA which has a balance of \$50,000, all in before-tax contributions and gains.

Rose's taxable income is increased from \$100,000 to \$150,000.

Rose's total tax bill for 2009 is increased to \$35,720, an increase of \$14,000 over what she would have paid had she not converted. This is 28% of the converted amount, because she remained in the same tax bracket.



What types of plans can be self-directed?

Employer plans:

- **SEP IRA**
- **SIMPLE IRA**
- **Individual 401(k)**
- **Roth 401(k)**



What types of plans can be self-directed?

Special plans:

- **Coverdell
Education Savings
Account (ESA)**
- **Health Savings
Accounts (HSA)**



What types of plans can be self-directed?



ALL of the above accounts can be self-directed!

Restrictions on IRAs

People Restrictions



Transaction Restrictions



Investment Restrictions



People Restrictions on IRAs



Disqualified Persons = Those persons who cannot benefit from or enter into transactions with your IRA or other plan.

People Restrictions on IRAs



You



Mr. Ira

Think of your IRA as Mr. Ira

People Restrictions on IRAs



You

NO



Mr. Ira

NO

Disqualified persons may not enter into transactions with Mr. Ira

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People Restrictions on IRAs

Mr. Ira



Fiduciary

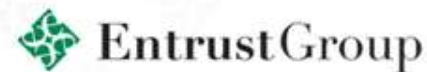


Disqualified Persons

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IRA



**Fiduciary “F”
(includes IRA Owner)**

Member of F’s
Family

F’s Spouse

F’s Ancestor

F’s Lineal
Descendant
“LD”

Corporation “C” if F
owns
(directly or indirectly)
50% or more of vote or
value of stock

10% or
more
partner or
joint
venturer
with C

Officer or Director
of C

Highly Compensated
Employee of C (10%
or more of wages)

10% or more
shareholder of C

Partnership “P” if F
owns
(directly or indirectly)
50% or more of
capital or profits
interest in P

10% or
more
partner or
joint
venturer
with P

Person with
management
or administrative
functions of P

Highly
Compensated
Employee of P
(10% or more of
wages)

10% or more
partner of P

Trust or Estate “T” if
F owns
(directly or indirectly)
50% or more of
Beneficial interest in
T

10% or
more
partner or
joint
venturer
with T

Trustee of T

Highly Compensated
Employee of T (10%
or more of wages)

10% or more
beneficial interest
owner of T

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What is the effect of a prohibited transaction?



Is there an IRA Jail?

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What is the effect of a prohibited transaction?



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What is the effect of a prohibited transaction?



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Investment Restrictions



Life Insurance Contracts

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Investment Restrictions



Collectibles

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What can I invest in with my IRA?



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**What investments are
you knowledgeable
about?**



**You can buy that
in your IRA!**



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Investment Choices

- Real Estate, including foreign property
- Real Estate Notes
- Secured/Unsecured Notes
- Limited Liability Companies
- Limited Partnerships
- Private Stock
- And a whole lot more.....



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Investment Choices



Horses

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Steps to Purchasing Real Estate Assets in a Retirement Plan

1. Open a self-directed IRA
2. Contribute or move funds into the self-directed IRA
3. Locate an investment
4. Make offer in the name of the IRA or other plan

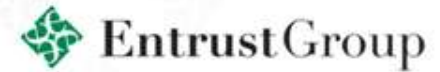
Note: The earnest money comes from the IRA

5. Complete a *Buy Direction Letter* and submit to Entrust along with the “read and approved” sales agreement



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Steps to Purchasing Real Estate Assets in a Retirement Plan



6. At closing, review and approve all closing documents
7. After your approval of all documents, Entrust signs the closing papers and wires funds to the escrow company or attorney
8. Asset is recorded in the name of your IRA, for example:
Entrust Retirement Services, Inc. FBO John Smith IRA #12345-11
9. All expenses come from your IRA and all income stays in your IRA

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Can IRA investments be taxable?



I want you...to pay taxes!

Unrelated Business Income Tax (UBIT)

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Unrelated Business Income (UBI)



Owning a Business



Renting Personal Property

Unrelated Debt Financed Income (UDFI)



**Debt Financed
Rental Income**



**Debt Financed
Capital Gains**

Unrelated Business Income Tax



Partnership Income

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Unrelated Debt Financed Income (UDFI)



401(k) Exemption

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Tales from The Money Vault



Know How to Grow

Tales from The Money Vault



- **Purchase Price: \$40,000**
- **Tax Value: \$94,000**
- **Square Footage: 2,928**

Tales from The Money Vault



- **Purchase Price: \$330,000**
- **No. of Units: 10**
- **Rents Collected in April, 2008: \$5,235**

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Tales from The Money Vault



- **\$12,000 converted on 2-28-05.**
- **Estimated taxes on conversion: \$3,360 (28%)**
- **Purchase price of mobile home 2-28-05: \$11,613.22**
- **Net cash on sale of mobile home 4-18-05: \$25,134.00**
- **Plus note paid off 7-18-2005: \$5,000.00**
- **Total profit on mobile home deal: \$18,520.78**

Tales from The Money Vault



Bottom Line:

Would you pay \$3,360 in taxes now to make \$18,520.78 in **TAX FREE FOREVER profit in 7 weeks?**

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Tales from The Money Vault



Purchase price for 10 acre tract:	\$16,000
Basis after subdivision into 5 lots:	\$23,891
Cash return to date:	\$62,743
Appraised value of remaining lots:	\$36,180
Profit amount:	\$75,032 or 314%

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Tales from The Money Vault



Purchase, Rehab and Resale

Know How to Grow

Tales from The Money Vault



- **Purchase Price: \$101,000**
- **Rehab Costs: \$30,000**
- **Sales Price: \$239,000**
- **Profit After Sales and Holding Costs: \$94,000**

Tales from The Money Vault



Purchase and Immediate Resale (Flipping)

Know How to Grow

Tales from The Money Vault



- **Purchase Price: \$503,553.60**
- **Sales Price: \$650,000.00**
- **Net Proceeds to IRA/401(k): \$146,281.40**

Know How to Grow

Tales from The Money Vault



**Assignments and Options –
Getting Paid NOT to Buy!**

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Tales from The Money Vault



- **Purchase Price: \$5,500**
- **Earnest Money: \$100**
- **Assignment Fee: \$8,500**
- **Profit in Only 30 Days: 8,400%!**

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Options Basics

Definition

Once consideration for the option is paid, it is Owner's ("Optionor") irrevocable offer to sell to Buyer ("Optionee") under the terms of the option for a certain period of time.

Buyer has the RIGHT but not the OBLIGATION to buy.



Tales from The Money Vault



- **Long Term Option Fee Paid: \$5,000**
- **Option Price: \$191,000**
- **Property Appraisal: \$273,200**
- **Option Cancellation Fee: \$35,191**

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Tales from The Money Vault



- **Purchase Price: \$75**
- **Tax Value: \$302,000**
- **Delinquent Taxes Due: \$97,000**
- **Profit Before UDFI: \$43,500**
- **Net Profit After Paying UDFI Tax: \$30,000**

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- **Purchase Price: \$438,900**
- **Loan Amount: \$307,000**
- **Loan Terms: 8.15% fixed, non-recourse, annual payments**
- **Cash from IRA: \$137,391**

Tales from The Money Vault



- **Sales Price 18 Months Later: \$614,460**
- **Net Profit Before UDFI Tax: \$124,462**
- **UDFI Tax : \$12,591**
- **Net Profit After Paying UDFI Tax: \$111,871**
- **Net Return on Investment: 81.43%**

Tales from The Money Vault



- **Initial Investment: \$50,000**
- **Partnership Distributions: \$59,321**
- **Current Estimated Equity: \$31,598**
- **Estimated ROI: 82%**
- **Total UDFI Tax Paid to Date: \$173**

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Tales from The Money Vault



Private or Hard Money Lending

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Quote of the Day

“Neither a borrower nor a lender be; For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry.”

- William Shakespeare, English playwright, in Hamlet



Quote of the Day

**“Shakespeare was
WRONG!”**

**- H. Quincy Long, President of
Entrust Retirement Services, Inc.**



Foreclosure



Worst Case Scenario

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Foreclosure



Best Case Scenario

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Lender's Perspective



Things to consider from a lender's perspective:

- 1. Do not loan on something you wouldn't be excited to own if the borrower defaults.**
- 2. Generally, do not advance funds for repairs until the repairs are done, and inspect before advancing funds.**
- 3. Do not loan to someone you would feel uncomfortable foreclosing on!**

Lender's Perspective



Things to consider from a lender's perspective:

- 4. If the loan goes into default, do not delay – take action immediately!**
- 5. Collect interest monthly so you will know if the borrower is getting in trouble.**
- 6. If you are unsure about a loan, hire a professional to help you evaluate the deal.**

Lender's Perspective



Things to consider from a lender's perspective:

7. Get title insurance.

Case Study – Hard Money Loan



- **Loan Amount: \$25,000**
- **Interest Rate: 12%**
- **Discount Points: \$1,500 (6%)**
- **Lien Position: 1st Lien**

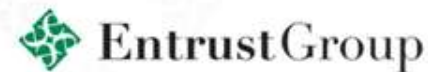
Does IRA lending work?



- **Balance of Account 9/25/2006: \$64,960.09**
- **Anticipated Balance 3/24/2009: \$87,257.43**
- **Dollar **Increase** in 30 Months: \$22,297.34**
- **Percentage **Increase** in 30 Months: 34.32%**

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Borrower's Perspective: Making Money NOW

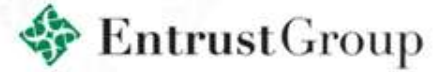


Things to consider from a borrower's perspective:

- 1. Borrowing private money is all about one thing – your relationship with the lender!**
- 2. Take the lender's temperature when it comes to risk tolerance and how desperate they are for the income.**
- 3. Make the process painless for your lender! If done within an IRA, learn the IRA custodian's procedures so that all the lender has to do is sign the buy direction letter.**
- 4. Protect your lender's interest at all costs, even if it means you lose money on the deal!**

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Borrower's Perspective: Making Money NOW



O.P.I. OTHER PEOPLE'S IRAs

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Borrower's Perspective: Making Money NOW



Create your own private financing source

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Borrower's Perspective: Making Money NOW



Partnering with OPI

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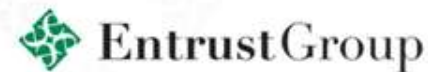
Borrower's Perspective: Making Money NOW



**There are *TRILLIONS* of dollars
in retirement accounts!**

Know How to Grow

Borrower's Perspective: Making Money NOW



**At every gathering there are MILLIONS
of dollars available for investment.**

Know How to Grow

Borrower's Perspective: Making Money NOW



**Spread the knowledge,
then use their money!**

Know How to Grow

Borrower's Perspective: Making Money NOW



Have a “success book” available!

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Borrower's Perspective: Making Money NOW



Provide the prospective lender with the details of the transaction, including your price and comparable sales to show value.

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Borrower's Perspective: Making Money NOW



- **Interest Rate: 15%**
- **Points Charged: \$0**
- **Entrust Fees (Paid by Borrower): \$370**
- **Attorney Fees (Paid by Borrower): \$450**
- **Minimum Loan Term: 3 months**

Borrower's Perspective: Making Money NOW



Results:

- **Interest Paid to IRA: 3.75% in 6 weeks**
- **Profit made by Borrower: \$20,000**
- **Amount of Borrower's Money Used: \$0**

Borrower's Perspective: Making Money NOW



- **Appraised Value: \$99,370**
- **Loan Amount: \$67,000**
- **Escrow for Repairs: \$5,000**
- **Interest Rate: 10%**
- **Loan Term: 3 years**

Case Study - Shared Appreciation Mortgage

House can be bought as is for \$70,000, needs minor fix-up for \$3,000, and is worth around \$100,000.

Taxes and insurance are around \$250/month.

Tenant with long term lease is in the house for \$900/month.

Property will not cash flow with 12% interest (-\$100/month).

Case Study - Shared Appreciation Mortgage

The solution:

The borrower had his financial friend's IRA loan him \$75,000 at 6% interest with a shared appreciation mortgage.

The borrower walked away from closing with cash in his pocket for repairs, a property which will now cash flow at positive \$275/month, and one-half of the equity.

How can I get more information?



For More Information:
www.TheEntrustGroup.com

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