

# Private Lending in a Self-Directed IRA



In these transactions, the IRA lends funds to an individual or entity in the same manner a typical lending institution would. Borrowers may be seeking funds for a new home, vehicle, capital for their own investment, for business funding, and more. Self-directed retirement accounts can also participate in fractional ownership of notes and can purchase existing, discounted, or distressed notes.

## The Benefits

- The IRA earns tax-sheltered income that flows directly into that account at rates that are generally higher than more traditional investments such as bonds, CDs or mutual funds.
- The borrower is able to acquire income somewhat quickly and without the hassle of today's restrictive lending requirements imposed by typical lending institutions.

## Case Study

In 2009, Buddy buys a property in his IRA for \$50,000. In 2010, Buddy sells the property and offers seller financing. The contract price is \$65,000 (\$15,000 down from the buyer) with a \$50,000 five-year loan to the buyer secured with a mortgage.

The mortgage is paid in monthly, fully amortized payments of \$1,014. In 2015, the loan is paid in full. Interest paid in the amount of \$10,829 along with the full principal of \$50,000 - all tax sheltered gains within Buddy's IRA.

## How It Works

1. The IRA owner performs due diligences, including fully vetting the borrower.
2. The IRA owner sets the terms of the loan such as interest rate and life of the loan.
3. The loan can be secured by collateral (which the IRA claims ownership of in case of default) or unsecured with a higher interest rate.

**Midland IRA IS NOT A FIDUCIARY.** Midland IRA's role as the administrator of self-directed retirement accounts is non-discretionary and/or administrative in nature. The Account holder or his/her authorized representative must direct all investment transactions and choose the investment(s) for the account. Midland IRA has no re-sponsibility or involvement in selecting or evaluating any investment. Nothing contained herein shall be construed as investment, legal, tax or financial advice or as a guarantee, endorsement, or certification of any investments.

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