

YES!

YOU CAN INVEST IN REAL ESTATE WITH YOUR IRA!

**THE OFFICIAL
SELF-DIRECTED IRA INVESTORS GUIDE**

8

CHAPTER

STEP-BY-STEP: BUYING REAL ESTATE WITH YOUR IRA THROUGH DIRECT PURCHASE

Ready to purchase real estate directly, with the funds in your self-directed IRA? This chapter will walk you through it. Follow our step-by-step guide to completing a direct purchase of real estate with your self-directed IRA.



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Introduction

The process for investing in real estate with a self-directed IRA is much like a traditional property investment, with just a few key differences.

In a self-directed IRA, once you buy the property it becomes an asset of your IRA. This means your IRA owns it. You don't own it personally, and you can't use it for personal reasons. It's important to know that since the IRA directly owns the asset, the IRA holder cannot benefit from the asset. You, as the account holder, cannot live in the property or use it as a vacation home, for example. The property is held for the exclusive benefit of the IRA. Also, your IRA cannot purchase a property from you or any disqualified person.

Buying real estate with your IRA isn't too different than what you're used to. The IRA is treated more-or-less like a person, but there are some extra rules. If your IRA has the full purchase amount in cash, it's like a traditional all-cash investment and the process is straightforward.

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STEP ONE:**Open and Fund a Self-Directed IRA**

As with any investment in an IRA, to begin you need to [open and fund your IRA](#). You can find details and instructions on this process in chapters 5-6.

If you want to speed up the process, submit your paperwork as quickly and completely as possible. Send your account application with your [funding paperwork](#) and be clear about your intentions to invest in real estate. Our team can help you preemptively prepare, so you are ready to go once the investment is ready for purchase.



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STEP TWO:

Locating the Investment

How do you find real estate investments? Through friends, family, other investors, or real estate clubs? However you typically find deals, you can use the same method to find deals for your IRA. Just remember: You can't buy property from a [disqualified person](#) including property you already own personally.

Due Diligence

It's essential to remember that your IRA custodian isn't going to vet or review your investment for financial viability or legitimacy. We will go over your paperwork to make sure it follows basic self-directed rules, but it's up to you to make sure your investment is sound.

Does the property provide cashflow? Where is it located? What's the condition? Have you seen the property with your own two eyes, and does it stand up to scrutiny? You need to be asking these questions, and if you don't know the answers, find a team or advisor who does.

If you need more information, the [SEC has some tips for investors](#).

Know the Rules: Prohibited Transactions and Disqualified Parties

It's essential to educate yourself on what the IRS considers a prohibited transaction. Making a [prohibited transaction](#), even unintentionally, will strip away the tax-free or tax-advantaged status of your IRA. You must be careful not to engage in transactions with what the IRS calls [disqualified parties](#). This means that you or your lineal ascendants and descendants cannot benefit from the property directly or indirectly.

For example, if your IRA purchases a property and your son's family moves in—this is not allowed. Your son is a disqualified person, and your IRA's tax status would be in jeopardy. You would be penalized and your IRA would be distributed, which could result in major tax consequences.

For a complete explanation of prohibited transactions [visit our website](#).

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STEP THREE:

Purchasing the Property

Making an Offer

Once your account is funded, you can make an offer in the name of the IRA. To make an offer, you need to complete a real estate or property purchase agreement in the name of the IRA (the buyer).

The name or title on the purchase agreement will depend on your strategy: direct purchase, partnering, or LLC.



NOTE:

FBO means “For the Benefit Of”


Vesting of Purchase Agreement and Documents

When working with your real estate agent and completing the purchase agreement, make sure it is in the name of the IRA and not you personally. The same thing goes for all documents completed on behalf of the IRA. See the graphic in green.

Do not sign any documents on the “buyer” lines. IRAR will then sign the purchase contract/agreement and all documents. You will sign as “read and approved” at the top of documents— more on this later.

Here is how the “buyer” or “offer from” on the agreement should read:

IRAR Trust Company FBO John Doe, Account #12345



CALIFORNIA ASSOCIATION OF REALTORS®

CALIFORNIA RESIDENTIAL PURCHASE AGREEMENT AND JOINT ESCROW INSTRUCTIONS
(C.A.R. Form RPA-CA, Revised 12/15)

Date Prepared: _____

1. **OFFER:** IRAR Trust FBO John Doe, IRA #12345

A. **THIS IS AN OFFER FROM** _____ (“Buyer”).

B. **THE REAL PROPERTY** to be acquired is _____, situated in _____, _____ (City), _____ (County), California, _____ (Zip Code), Assessor’s Parcel No. _____ (“Property”).

C. **THE PURCHASE PRICE** offered is _____ Dollars \$ _____.

D. **CLOSE OF ESCROW** shall occur on _____ (date) (or _____ Days After Acceptance).

E. Buyer and Seller are referred to herein as the “Parties.” Brokers are not Parties to this Agreement.

2. **AGENCY:**

A. **DISCLOSURE:** The Parties each acknowledge receipt of a “Disclosure Regarding Real Estate Agency Relationships” (C.A.R. Form AD).

B. **CONFIRMATION:** The following agency relationships are hereby confirmed for this transaction:
 Listing Agent _____ (Print Firm Name) is the agent of (check one):
 the Seller exclusively; or both the Buyer and Seller.
 Selling Agent _____ (Print Firm Name) (if not the same as the Listing Agent) is the agent of (check one): the Buyer exclusively; or the Seller exclusively; or both the Buyer and Seller.

C. **POTENTIALLY COMPETING BUYERS AND SELLERS:** The Parties each acknowledge receipt of a “Possible Representation of More than One Buyer or Seller - Disclosure and Consent” (C.A.R. Form PRBS).

3. **FINANCE TERMS:** Buyer represents that funds will be good when deposited with Escrow Holder.

A. **INITIAL DEPOSIT:** Deposit shall be in the amount of _____ \$ _____
 (1) Buyer Direct Deposit: Buyer shall deliver deposit directly to Escrow Holder by electronic funds transfer, cashier’s check, personal check, other _____ within 3 business days after Acceptance (or _____);

OR (2) Buyer Deposit with Agent: Buyer has given the deposit by personal check (or _____)

Example of California Residential Purchase Agreement

Real estate purchase agreements or contracts vary from state to state. The most important thing is that the “buyer” (how the new title will be vested) is in the name of the IRA. If the agreement is not in the name of the IRA, then IRAR can’t fund the earnest money deposit unless these are corrected.

From time to time this does happen. If that is the case, you need to amend the agreement and change the buyer’s name to the IRA, as seen above. This will delay your purchase but can be fixed. IRAR Trust Company can discuss this with your real estate agent if they aren’t familiar with self-directed IRAs.

Completing the Paperwork

IRAR needs these documents to process:

- IRAR Real Estate Purchase Offer Review Form
- IRAR Real Estate Buy Direction Letter
- A copy of the purchase contract

Complete and submit these to IRAR so we can sign on behalf of the IRA. Allow up to one business day for review and processing.



NOTE:

In some states it is required that before IRAR Trust Company can fund the earnest money deposit (EMD) for investment purchases, we must have a fully executed Purchase Contract agreement signed by both parties: Seller and Buyer (the IRA).

TIP:

Make sure to list all parties involved in the transaction in the Buy Direction Letter-Real Estate to avoid communication delays with professionals involved in the transaction.

IRAR Trust Company Signs the Purchase Offer/Contract

IRAR Trust Company needs to sign on behalf of your IRA wherever initials or signatures are required (see examples below). Your IRA is purchasing the real estate, not you.

However, IRAR Trust Company does need your approval to sign on behalf of your IRA. You would need to review and sign (anywhere on contract) as “read and approved” with your signature next to it.

Example of Read and Approved:

Do this on all pages where a signature or initials are needed.

Read and approved: *John Doe*

IRAR Trust Company will review the agreement and sign on behalf of the IRA within 24 business hours if all documents are in order.

F. BALANCE OF DOWN PAYMENT OR PURCHASE PRICE in the amount of _____ \$ _____
to be deposited with Escrow Holder pursuant to Escrow Holder instructions.


G. PURCHASE PRICE (TOTAL): _____ \$ _____

Buyer's Initials (*V Garcia* IRAR Trust) (_____) Seller's Initials (_____) (_____)

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When a signature is required on your purchase documents, an IRAR Trust Company authorized signer will sign on behalf of your IRA. The title or escrow company will request documentation validating that the IRAR Trust Company signature is authorized. In the photo example below, Veronica Alvizar is an authorized signer for IRAR Trust Company.

31. EXPIRATION OF OFFER: This offer shall be deemed revoked and the deposit, if any, shall be returned to Buyer unless the offer is Signed by Seller and a Copy of the Signed offer is personally received by Buyer, or by _____, who is authorized to receive it, by 5:00 PM on the third Day after this offer is signed by Buyer (or by _____ AM/ PM, on _____ (date)).

One or more Buyers is signing this Agreement in a representative capacity and not for him/herself as an individual. See attached Representative Capacity Signature Disclosure (C.A.R. Form RCSD-B) for additional terms.

Date _____ **BUYER** *Veronica Alvizar* (Authorized IRAR Representative)

(Print name) Veronica Alvizar

Date _____ BUYER


(Print name) _____

Additional Signature Addendum attached (C.A.R. Form ASA).

Seller's Initials (_____) (_____)

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Also, when a social security number is required (like on purchase documents or contracts), you'll need to use IRAR Trust Company's Employer Identification Number (EIN) instead of your personal social security number. IRAR Trust Company will provide you that number.

Earnest Money Deposit

The seller might require an earnest money deposit (EMD) along with the offer. An earnest money deposit is a deposit made to the Broker or Title Company showing the buyer's good faith in the transaction, and it may or may not be applied to the down payment or closing costs.

If your deal involves an EMD, you'll need to complete all pages in the Buy Direction Letter-Real Estate and submit it with the purchase agreement to IRAR Trust Company for review. If everything is in order, IRAR Trust Company will fund your EMD within 24 hours.

Inspections and Appraisals

When it comes to inspections, appraisals, and such, purchasing real estate in an IRA is no different than when someone purchases a home.



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STEP FOUR:

Closing

Escrow

Escrow is opened for your IRAR self-directed Real Estate IRA. When the title company is ready to close escrow, IRAR will need these documents:

- a. Warranty or Grant Deed
- b. Preliminary Title Report
- c. Estimated Closing Statement
- d. Loan Documents (if applicable)

IRAR will review the paperwork and fund the remaining balance. Allow up to three business days for review. When the paperwork is completed, IRAR will fund the next business day.

Title Insurance

Title insurance is an indemnity contract that will reimburse you for a loss in the event someone asserts a claim against the property that is covered by the policy. It works, along with a title company, to make sure that the title to the real estate is legitimate.

Title insurance is not required, nor does IRAR provide, offer recommendations, or instruction, but we do see clients often going this route.

How can there be a title defect if the title has been cleared by the title company?

Title insurance is issued after a careful examination of public records. But even the most thorough search cannot absolutely assure there are no title hazards. In addition to matters shown by public records, other title problems may exist that cannot be disclosed in a search.

Here are some of the things title insurance will protect you against:

- False impersonation of the true owner of the property
- A forged deed, release or will, and instruments executed under invalid or expired power of attorney
- Undisclosed or missing heirs
- Mistakes in recording legal documents
- Fraud
- Gaps in the chain of title
- Administration of estates and probate of wills of missing persons who are presumed deceased
- Issues concerning the rightful conveyances by corporate entities
- Probate matters



What protection does title insurance provide against defects and hidden risks?

Title insurance will pay to defend you, the insured, against any lawsuit attacking the title, and will clear up title problems or pay the insured losses. For a one-time premium, the title insurance policy remains in effect as long as you or your heirs retain an interest in the property.

For example: Here's a scenario we heard about of an investor who purchased a property in his IRA and did not use a title company.

The investor instructed his IRA administrator to send funds directly to the seller. The seller received the money agreed on in the purchase contract, but neither the seller nor the investor recorded the warranty or grant deed in the name of the IRA. Once the seller had the money, he turned around and sold the property to someone else. The IRA investor lost the investment and his money.

What does using a title company for the purchase of the real estate mean to you?

Peace of mind. Although using a title company or getting title insurance are not required in an IRA transaction, title companies are there to make sure you are protected against fraud.

Closing Documents

When all the closing documents (listed below) are in order and you have reviewed and approved them for your IRA's purchase, the next step is to complete a Real Estate Transaction Read and Approved Acknowledgement Letter. This lets IRAR Trust Company know that you have reviewed and approved all documents. You will submit this completed form with the closing documents.

You must read and approve these documents before funding:

- Warranty or grant deed
- Preliminary title report or title statement
- Estimated closing statement or HUD statement
- Closing instructions (if applicable)
- Loan documents (if applicable)

Remember, do not sign any of the documents on the “buyer” line. IRAR Trust Company will sign the documents on behalf of your IRA and return them to the title company.

Typical Fees at Closing

IRAR charges \$175 to process a real estate transaction, \$175 for processing a RE note, and charges for payment processing depending on method (\$7 per check, \$30 per wire). There may also be additional charges depending on the county, company, or individual deal. Keep that in mind.

Funding Your Investment

Depending on the state where you are purchasing the property, IRAR Trust Company may need the seller's executed documents before we can fund the transaction. We will work with the title company to obtain these. Once we have closing documents in order, we will review, sign on behalf of your IRA, and send the funds to title, finalizing the transaction.

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STEP FIVE:

After Closing

Once you've closed, it's important to make sure the finalized documents end up in the right places. IRAR Trust Company needs to receive your final closing documents, specifically the recorded Grant/Warranty Deed, for both safekeeping and compliance purposes. If you have any other original paperwork, forward it to IRAR Trust Company as well. This paperwork is also stored with us for safekeeping.

Here are your immediate to-do's after closing:

- Provide new and existing rental agreements with the landlord's name as "IRAR Trust Company FBO (IRA Owner name) IRA #(account)" and forward to IRAR Trust Company for our review and signature.
- Provide tenants with information on how to make rent checks payable to the IRA and where to send.
- Utilities should be setup in the name of "IRAR Trust Company FBO (IRA Owner name) IRA #(account)"
- If hiring a property manager, the agreement should be made between "IRAR Trust Company FBO (IRA Owner name) IRA #(account)" and the property management, then forward it to IRAR Trust Company for us to review and sign.
- For payments of property taxes, HOA fees, etc., submit a recurring Payment Authorization Letter (PAL) to IRAR Trust Company so we can make payments as required. Make sure to submit one PAL per vendor.



TIP:

If asked for a tax ID number on any of the paperwork during this process, you don't need to file for your own. You can use IRAR Trust Company' EIN.

Property Insurance

When getting property insurance for your investment, the policy must be in the name of your IRA and IRAR Trust Company must sign the insurance policy. If you have specific questions regarding this, please reach out to us and a representative would be happy to help.



In a Nutshell

Finding attractive properties, using real estate professionals and negotiating terms of a purchase don't change much between personally-owned and IRA-owned properties. Just make sure you are not engaging in what the IRS defines as a "prohibited transaction" or dealing with a "disqualified person".

The real differences come when you're ready to finalize the deal. Your IRA will own the property, not you as an individual, so documents must reflect that. That distinction starts with earnest money deposits and flows through to insuring the property, writing lease agreements, even making recurring HOA payments.

Throughout the process, keep this in mind: We're just a phone call away. IRAR Trust has the knowledge and extensive experience to help you with questions and guide your next steps. After all, we are the real estate IRA experts.



READY FOR THE NEXT CHAPTER?

CHAPTER 9:
Step-By-Step:
Partnering Your IRA to
Invest in Real Estate