

IRA Investing for Real Estate a Case Study

Offered by Adam King

www.IRA-And-PrivateMoney.com

It's a simple dilemma; who do you invest your IRA with? You may already know the benefits of investing in real estate by your IRA custodian (See www.IRA-And-PrivateMoney.com/info.htm for more information). But how do you make a choice which real estate company is the best to lend your money to? It seems there are many out there wanting to borrow private money, but do they know how to use it effectively and/or efficiently? Now imagine lending money to a company that is a lender themselves. Imagine working with a company that has nationwide experience and knows the benefits, pitfalls and most importantly HOW to lend money.

Investing into a System

Robert Kiyosaki (Rich Dad Poor Dad) talks about investing into a "system" rather than just a business. *There is a reason for this.* If you invest solely into a "business" then you are at the risk and limitations of that business's experience. You could be investing into one person's ideas or ideals and if they lack the proper experience or counsel, it could become a very risky endeavor. Let me explain.

Let's say you decide to invest with "ABC Real Estate Company". They want you to invest your IRA into their real estate business plan for the purpose of purchasing distressed property. They have a great presentation and tell you that your money will be secured by a first lien with a mortgage. They tell you that they "guarantee" payments and your money will come back when it's supposed to *safe and sound*.

Now think about this; what exactly is that company doing with your capital? Sure, you're getting a first or second lien position on the real estate, but "what" is the business truly doing with it? What is their model? Does it affect you positively or negatively if something goes wrong? There are many questions you should be asking yourself such as;

- Is the company intending to hold the property?
- Is the property going to be properly managed and by who?
- Are they going to fix up the property and sell it retail?
- How much experience does the company have in real estate? (Have they made mistakes and more importantly have they *learned from them*?)
- Do they have a relationship with your IRA custodian and understand what you can or cannot do?

Now Consider This:

- Do they have cash reserves to cover payments if required?
- What happens if they don't make payments or can't sell it?
- How are they going to manage the rehabilitation of the property if it's out of state?
- Can they actually spend your money? In other words, do they have inventory or a system to locate the property you can lend on?
- What happens if "you" get the property back? Can "you" handle it?

The ILOC Program™

The ILOC Program was created (See Mosaic Investments, LLC below) as a solution to these questions. First and foremost, the ILOC is a private lending “solution” itself. It’s not just loan for the purchase of real estate, but a completely supportive system (WITH CASH RESERVES) in order to purchase, rehabilitate and hold income producing real estate. It was created by a national team of experienced investors and attorneys. But more importantly the system itself was created to turn any piece of real estate into a turn-key, fully managed *income producing asset*.

What this means to an IRA investor is that when they invest into the ILOC, they will have the benefit of knowing EXACTLY how the acquisition will play out, how it will be managed and how all numbers work *before* they invest.

ILOC Example

Let’s look at a piece of real estate not only as a vehicle for how your money will be returned, but how it will be “leveraged”. It’s important to see that it all must make sense and not just be a concept.

FourPlex IRA Example



The following is an example for purchasing a 4 unit income property. This example is a break down of all numbers for the purpose of understanding the IRA Investor’s leverage. This an example only and does not include tax advantages or depreciation.

Purchase Numbers

1. Purchase Price: \$60,000.00 (50% LTV)
2. After Repaired Value: \$120,000.00
3. \$450.00 Rent Per Unit = \$1,800.00 per month gross
4. Repair Cost: \$15,000.00
5. Title Policy: \$1,000.00 (for Lender Protection)
6. Appraisal: \$400.00
7. Inspection: \$300.00
8. Title/Attorney Fee: \$500.00
9. Taxes and Insurance: \$250.00 per month
10. Management Company Fee: \$1,800.00 (one month rent for placement)

Total: \$79,250.00

70% LTV (Loan to Value) = \$84,000.00

Expenses

1. \$180.00 per month (10% Management Fee)
2. Taxes and Insurance = \$250.00 per month
3. \$700.00 per month (Loan at 10%)

Total: \$1,130.00 per month

Total Cash flow: \$670.00 Per Month

IRA Investor Profit

1. 2 Points on \$84,000.00 = \$1,680.00
2. 10% on \$84,000.00 = \$700.00 per month

Total Profit at 12 Months = \$10,080.00 (tax deferred or tax free in your IRA)

ILOC Program Break Down

Basic Security Agreements (First or second lien position)

- Mortgage (Deed of Trust)
- Mortgage Note
- Title Insurance Policy
- Hazard Insurance Policy

Purchase Steps

1. Property is located (Demographic plays a very important role)
2. Offer is made on property and earnest money is paid
3. Property is appraised (Appraiser is hand selected for "full" market appraisal)
4. Property is electronically re-evaluated to support actual market numbers (By Mosaic)
5. Contractor's Rehabilitation Proposal
6. Inspection (Inspector also over looks Contractor's proposal for cost justification)
7. Title search and review (Note: it is also important to look for "multiple purchase and sales" of the subject property to identify false or inflated value)
8. Title commitment is produced by attorney or Title Company
9. HUD is prepared (Settlement Statement)
10. Package is sent to IRA investor for review

Sample IRA Investor Package

1. Appraisal (with pictures)
2. Executive Summary (Explaining purpose, use and outlook of property)
3. Mosaic market analysis and property evaluation
4. Inspection Report
5. Controlling agreements (Mortgage, Note etc)

Purchase Steps Final

1. Title Commitment and insurance policy are produced
2. Hazard Insurance is produced
3. Mosaic works with IRA custodian directly to wire purchase funds (Mosaic DOES NOT touch the IRA capital. The money is wired directly to closing attorney or Title Company)
4. Mortgage and Note are signed and notarized by Mosaic
5. Acquisition closes and is funded
6. Deed and Mortgage/Note are registered

ILOC Program (System Steps)

1. Property is purchased and funded
2. Acquisition consultants (Mosaic's Team) step in to manage rehabilitation (For the general purpose of managing contractor and other companies)
3. Management company is hired to fill "rent" units (if applicable)

The key to a successful acquisition is not only making sure the numbers work, but first making sure that they are “real” numbers. The second key is proper management or simply “control”. No matter how much we would like to think it’s all about the property, it’s truly about the people once that property is purchased.

The ILOC uses a blend of proper facilitation and management services for each acquisition. This starts with the numbers and location of the property itself, but there must be steps in place to assure that the property is attractive and functional for a renter or end user. Once this is accomplished, it is crucial that they are serviced properly. Again, they are the ones paying the rent and unarguably the life-blood of the transaction.

How you are secured by the ILOC Program

The key is the ILOC Program. Why? Simple; it was created as a lending solution. This means that all acquisitions lent by the ILOC were managed in such a way as to provide leverage over investor failure to perform. This means that the ILOC comes with security features built in that go above and beyond normal investor criteria.

For example

1. Properties typically are not funded above 70-75% ARV (After Repaired Value)
2. The acquisitions are always planned for an “investor” (not live-in homeowners) purchase and/or refinance. This simply makes the property available for alternative investors “turn-key” because of the way it was rehabbed, managed and purchased.
3. Interest rate is rarely below 10%. This makes it easy to sell the note (mortgage) if the IRA lender wants their cash out. This accompanied with a low LTV makes the property more desirable on the note market.
4. Interest rate is never above 12% (for 6 month or longer holds) so investors can realize cash on investment.
5. Mosaic and their consultants manage the outcome personally. As simple as it sounds, the company and associates have years of experience in lease options, rentals, property maintenance and market evaluation.
6. The ILOC allows cash back at closing, which gives the investor reserves to hold and maintain the property. (up to 70-75% ARV)
7. Mosaic has a \$25,000.00 security account (proof upon request) in order to cover payments and miscellaneous issues if/as they arise. *This number will rise as acquisitions accrue.*
8. The ILOC was built on an 80% LTV (loan to value) 70-75% cash model allowing a future buyer to have cash equity while leaving another 20% in equity the property.

First or Second Lien

First lien position is usually predicated on if you are lending the “entire” purchase of the property and/or rehabilitations costs. Based on our strategies (See below examples), it would put you at a lower LTV. This simply means that an all cash purchase usually means a better deal for the purchaser because the seller doesn’t have to wait for their money. And finally, it opens the doors to bank owned properties. (Note: the REO “real

estate owned” market for multi-family units is very low. Most multi-family units do not go into foreclosure because of the income advantage over single family homes.)

Single Family or Multi-Unit

There is a distinct difference between single family income properties and multi-units. The case for which is better is hands down; *multi-units win every time*. However, there is also a case for single family rentals as they are easier to come by, but also have their disadvantages. (Note: Apartment complexes “5 units or more” are not currently used for this example, contact us for more information about these types of investments)

Let’s look at some pros and cons for these two types of investment vehicles.

The Single Family

The single family home market is immense. There are thousands of bank owned and distressed homes for sale waiting for investors to snatch them up. They are easy to find and easy to purchase. The competitive market (*many investors wanting to purchase*) for these homes is large, but so is the desirability. However, because of the large amounts of foreclosures and lack of current verifiable sales, many lenders can have issues with financing these types of properties.

For example; if a property has not had current sale comparables, the lender may not accept the appraisal. This simply means that they will be forced to go off of “foreclosed” value as it is the only available comparable. It also can force the lender to take too much time in underwriting while reviewing the property. This can cause a loss of profits especially if the investor took out a high interest rate private loan.

Case Study

Let’s say you have three houses. Each house is valued at \$100,000.00 and was recently built. One home goes into foreclosure and the bank puts it back on the market for \$80,000.00 for a fast sale. Then the second seller finds himself motivated and discounts his home to match the bank’s property for a quick sale. Even knowing the owner of the third house is paying taxes on a \$100,000.00 value, his “market” value has now decreased if there are no recent sales reflecting his taxable value. And if there are no current sales in the area, the appraiser is forced to go over what is listed or what has sold over the past six months of more. Since most lenders want recent sales, this can cause “refinancing” or “purchase” issues for investors. However, if the property is purchased cheap enough, this can be overcome.

In a final attempt to defend the single family property, it is a good starting product for new investors. However, you can see that if the investor plans on rehabilitating and retailing the property, they could have issues. This causes fixing and holding to be a more attractive strategy. But once again, the numbers must work. And in order to make “everything” work, the property must be purchased at a steep discount.

The Multi-Unit

The multi-unit is a different animal entirely. As the example above indicates, your investment dollar has more leverage because of the ability to produce more leveraged income by simply having more tenants paying rent. For example; a \$100,000.00 single family rental may produce anywhere from \$600 to \$900 per month rent. Where a

\$100,000.00 four plex can produce as high as \$1,800.00 a month per rent. The other advantage is “leveraged loss”. If a single family rental goes vacant, you have a 100% loss on rent. Where if a multi-unit has a vacancy, that’s a 25% loss on rent.

Another advantage a multi-unit has over a single family rental is “forced appreciation”. What this creates is the ability to purchase, update and raise rents, which can then affect the value. This raises the GRM (Gross Rent Multiple) or “Cap Rate” of the property. For example; if the property was purchased at \$100,000.00 and then rehabilitated (like the single family), this of course raises the value. The added rental rate plus updates raises the value of the property giving it even more leverage over a single family home.

This can make the property more desirable to a bank knowing it is cash flowing, almost twice as much as a single family. So if you’re a private investor lending on a property like this, you can see how it can create even more security for your dollar.

One of the greatest leverages a multi-unit can have over a single family property is the competition. Because single family properties are more abundant, (as mentioned above) the competition is fierce. It is also fierce because most investors don’t have the knowledge to purchase and maintain a multi-unit. This results in “less” competition for multi-units allowing them to be purchased with more leverage.

In closing, there are many opportunities to lend your money on these two types of properties. Yes, multi-units in our eyes are safer, but there is such a demand for single family rentals that in many cases there are opportunities to fund these transactions as well. But for long term (12 months or more), the multi-unit cannot be beat.

Mosaic Investments, LLC

The ILOC Program was created by real estate investor and national speaker Adam King. Mr. King is the president of Mosaic Investments, LLC, a Michigan based Real Estate Company. Mosaic purchases, rehabilitates and holds commercial and single family residential income property.

Mr. King is a private lender himself and understands the game. As a lender he knows that the deal must make sense to begin with or quite simply, the credit worthiness of the borrower doesn’t matter. Because of this, he knows that a lender only wants to know the answers to two basic questions. One, when is my money coming back and two, IS my money coming back? The amount of interest and points is menial if there’s no true leverage by the real estate that the capital funds.

Mr. King and his associates, affiliates and partners have put together hundreds of real estate transactions nationwide. His team is currently in 22 states and Canada. He is also a partner with a national hard money lending company that currently lends in 44 states.

Contact Adam King at: adam@ilocprogram.com or call; 810 433 0003 for more information.