

Real Estate Transaction Guide



**Combine IRA tax advantages
with real estate investment
opportunities from Roofstock.**



Step One: Before You Invest

IRA Account Types that can Invest in Real Estate

- Traditional IRA
- Roth IRA
- SEP IRA
- SIMPLE IRA
- Individual 401(k)
- HSA



Important Things to Remember

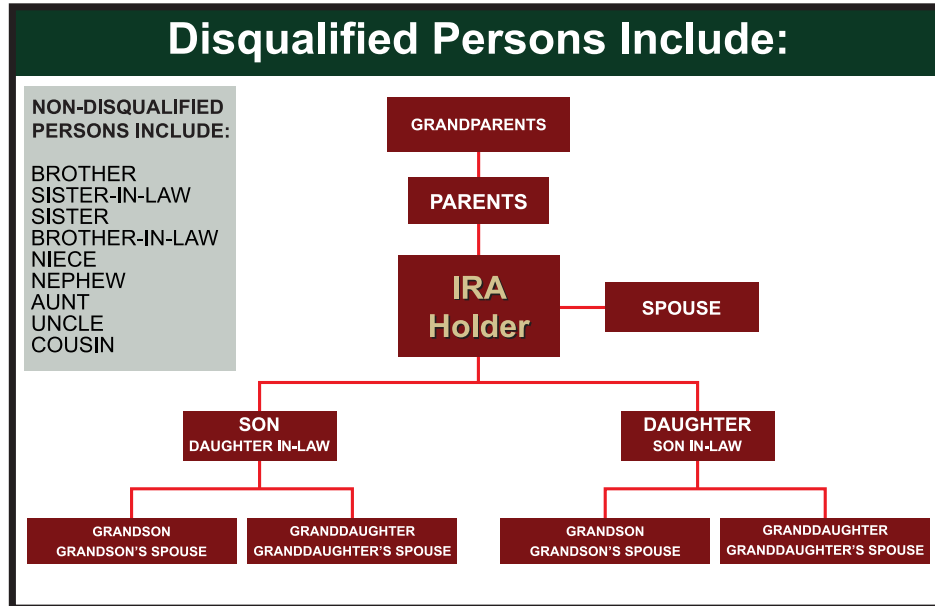
IRAs require special treatment and must follow specific rules. Accordingly, we understand you may have some questions, so please don't hesitate to call our office. Please remember:

1. You and your IRA are not the same.
 - a. Your IRA is a completely separate legal and financial entity from you. It even has a different name.
 - b. You cannot sign on behalf of your IRA. If something needs a signature, you sign that the document is "Read & Approved," then New Direction signs as the buyer or investor.
2. You, personally, may not pay any of the IRA's expenses.
 - a. The IRS considers this a prohibited transaction.
 - b. The IRA cannot reimburse you.
 - c. Any expense of the IRA's that you pay becomes a taxable and penalized distribution from the plan. This includes earnest money.
3. Unrelated Business Income Tax (UBIT) may be due on profits made as a result of using leverage (borrowed money).
 - a. It is your responsibility to calculate, report and have your IRA pay this tax.
 - b. Your CPA or tax preparer may be able to help with the calculation. You may also visit www.irataxeservices.com for more information on UBIT.
4. Any violation of IRS rules that results in a Prohibited Transaction may result in the distribution of related funds plus penalties. This rule is defined in IRC, Section 4975.

Step One: Before You Invest

DQ Persons & Prohibited Transactions

Disqualified persons to your IRA or HSA



DQ Persons also include:

- Certain Fiduciaries (CPAs, Attorneys, Financial Planners, etc.)
- Retirement Plans held by a disqualified person
- Entities owned or controlled by disqualified persons are also disqualified

Prohibited Transactions:

Prohibited Transactions are activities that a disqualified person or entity cannot have with an IRA. These activities are defined by IRC, Section 4975. Examples of some of these transactions are listed below. If you have questions regarding prohibited transactions or would like to run a scenario by our IRA partner representatives, please call New Direction at 877-742-1270. New Direction IRA is familiar with IRC Section 4975 and will be happy to share that information upon request. Please note that you can be penalized by the IRS or required to do a full distribution if a prohibited transaction is discovered in your account.

It is prohibited to:

- Buy a property/asset from the plan
- Sell a property/asset that you already own to the plan
- Live in the property/ Use the property personally as a vacation home or for any other reason
- Rent the property (even if paying fair market rent)
- Pay expenses for the property with personal funds
- Get paid by the IRA (for real estate professionals, this includes taking a commission on the purchase or sale of the property)
- Put personal property or sweat equity into the property (if the IRA directly or indirectly benefits OR is benefited by a disqualified person, that constitutes a Prohibited Transaction.)

Step One - Before You Invest

Purchase Structures

100% Cash

An easy way to purchase real estate for your IRA is using cash from your plan. In this case, the IRA owns 100% of the property, receives 100% of the rental income, and pays 100% of the expenses the property incurs.

Debt Leverage

The IRA may use leverage (a loan) to purchase property. The loan must be non-recourse, meaning that neither you nor any disqualified person can guarantee the loan, nor pledge your personal assets and/or credit. The only security on the loan is the property itself. Non-recourse loans are typically made on income-producing properties, and lenders frequently require between 35% or more down.

Net profits from the leveraged portion of the investment may be subject to Unrelated Business Income Tax (UBIT). Please refer to our report on UBIT for more information. Your loan is a separate asset from the property itself and will carry its own set of fees.

Step Two - Investment Process

Open and Fund Your Account

Open an IRA account with New Direction IRA. If you have a 401(k) with a previous employer or an existing IRA, you can transfer or rollover your funds without paying taxes or penalties. It is that simple. For further assistance, please contact New Direction IRA at: (877) 742-1270.

Find Your Property

You are ready to self-direct once your IRA has been opened and funded. There are no restrictions on the price and/or market value of the property, where the property is located, or the type of real estate purchased.

Use Roofstock to search for properties in our exclusive marketplace. Our certified properties include a property valuation, inspection report, photography & 3D tour, title report, estimated closing costs, lease & tenant verification, and access to a certified property manager. Roofstock's intuitive financial calculator will help you access the best properties that meet your investing guidelines.

Diversify Your IRA

Diversifying your portfolio is one of the smartest things you can do. Real estate investments have been an effective hedge against inflation and have low correlation to both stock and bond portfolios. Purchase just on or a portfolio of properties to diversify your investment strategy.

Step Three - After the Purchase

Congratulations

Congratulations on the addition of real estate in your retirement account! We hope your investment will provide your IRA with significant growth.

Once you have purchased the property, any inquiries you have should be directed to your Client Representative.

In order to protect your retirement account's tax privileged status, here are some guidelines for managing the new property that it holds:

Avoid Prohibited Transactions After the Purchase

The following actions are among those considered prohibited transactions and could result in the distribution of this asset from your plan. Please refer to page 6 of this guide to learn more about prohibited transactions.

1. Personal use of the property by disqualified persons is prohibited; this includes vacations, family get-togethers, guest accommodations for friends and/or family, or renting to disqualified persons or entities (even if they were to pay fair market rent)
2. You, or any disqualified person, may not add value to the property by doing the work yourself (aka "sweat equity").
3. Use of your IRA's assets as collateral for a personal loan

Insurance

Insurance should be in the name of the IRA. However, because the word "Inc." appears in the vesting, some insurance companies will not put the IRA in as the named insured unless they charge you the business rate. If this is the case, tell them they can put you (personally) in as the named insured, BUT they need to show that the IRA is the "First Mortgagee" or the "Loss Payee." Your insurance company must understand that, in the event of a claim, the check must not be made out to you personally, but must be made out to the IRA and mailed to New Direction IRA for deposit.

If hazard insurance is purchased, the IRA must be named as the insured or shown as 1st (2nd) mortgage or loss payee. You must provide New Direction IRA with an insurance binder showing the IRA as the insured. The address shown for the insured is New Direction IRA's address. DO NOT PAY the insurance bill with personal funds.

Property Income

All income from the property belongs to your IRA. Instruct your renters (unless a property manager is depositing these checks to their trust account) to make their rent checks payable to your IRA as follows: **New Direction IRA, Inc. FBO [client name] IRA**

We cannot deposit any income checks into your IRA account that are made payable to you personally. Any such checks will be returned to the renter with correct payee instructions.

Your renters can pay your IRA online via ACH at: www.newdirection.com.



Step Three - After the Purchase

Managing Property Expenses

You have three ways to manage expenses generated by your investment in Real Estate:

Option 1 - myDirection® Online Client Portal (myDirection.com), cost = Free (5 day processing)

or

Option 2 - Submit bills, invoices, etc. to NDIRA, Inc. via fax, email or mail along with a Payment Authorization Letter, cost = \$10 per check (5 day processing)

or

Option 3 - Hire a Roofstock property manager of your choice to pay bills, cost = Whatever is agreed to between you and your property manager

Option 1 - Expenses Paid Using myDirection Online Client Portal

If you meet the criteria listed below, then you are eligible to pay your IRA bills 24/7 using myDirection® Online Client Portal.

- Your IRA owns 100% of the property*
- You want all bills to come to your home for your review on a monthly basis
- You would like to retain records for property expenses in your personal files
- You want HOA notifications to go to you directly to keep you informed on changes to the property
- You want to be informed and act on changes in property tax assessments
- You want to control the timing of bill payment to coincide with tenant rent payment
- You would like to avoid paying \$10 per check fee or the property is jointly owned by another IRA currently held by NDIRA; those partnering with other persons/entities will need to submit bills using a Payment Authorization Letter

Getting Started

Effective January 2013, all bills (with some exceptions) will be placed in the name of the IRA, but sent to you. Retain all IRA-related bills in your files.

Visit our home page and click on the myDirection® logo and follow the instructions provided on the site, or use the myDirection® "How To" webinar recordings.

Option 2 - Expenses Sent to NDIRA, Inc. for Payment

- a. All expenses for the property are the IRA's responsibility. Never pay any bills with personal funds; such payments are considered an excess contribution to your retirement account, subject to penalty by the IRS.
- b. If you choose to have New Direction pay expenses for you, you must have all bills/invoices mailed or faxed to us.

Step Three - After the Purchase

- c. To instruct us to pay an expense for your IRA's property, send us the invoice (signed as "read and approved"), along with a completed Payment Authorization Letter (PAL).
- d. For recurring expenses, you'll need to complete only one PAL, designating the frequency of payments.

- **Recurring Bills:**

- Mortgage Payments
- HOA Dues
- Property Taxes
- Insurance
- Utilities

- **Repairs & Improvements:**

- Remodeling
- Repairs
- Appliances and/or Furnishings
- Cleaning and/or Lawn Care



Option 3 - Property Managers

Choose from Roofstock's list of managers.

- a. The property manager must understand that your IRA owns the property, even though you will be making all the decisions about it.
- b. Choose a property manager that is not a disqualified person or entity.
- c. The property management agreement must be in the name of the IRA and signed by us on behalf of your IRA. We must have a copy of this agreement on file, along with the manager's contact information. You will need to create a new signature line and sign the management agreement as "read and approved" before we can sign on behalf of the IRA as "property owner" or "landlord."
- d. If you choose to have any bills paid directly from the IRA, please provide us with an invoice (signed as "read and approved") and a Payment Authorization Letter (PAL); otherwise, we will assume that everything will be paid by the property manager.
- e. The property management agreement must be signed by New Direction IRA on behalf of your IRA.
- f. A Buy Direction Letter is used to direct New Direction IRA to fund the property management account.
- g. We will need at least a quarterly report from the property manager, showing all income and expenses paid for the property.
- h. Any excess cash should be sent from the property manager back to the IRA.

Unrelated Debt-Financed Income (UDFI/UBIT)

If there is a mortgage on the property—regardless of whether the property is owned directly by your IRA, or by a legal entity owned by your IRA—you may incur Unrelated Business Income Tax. IRS Form 990-T is used to calculate UBIT for your IRA.