



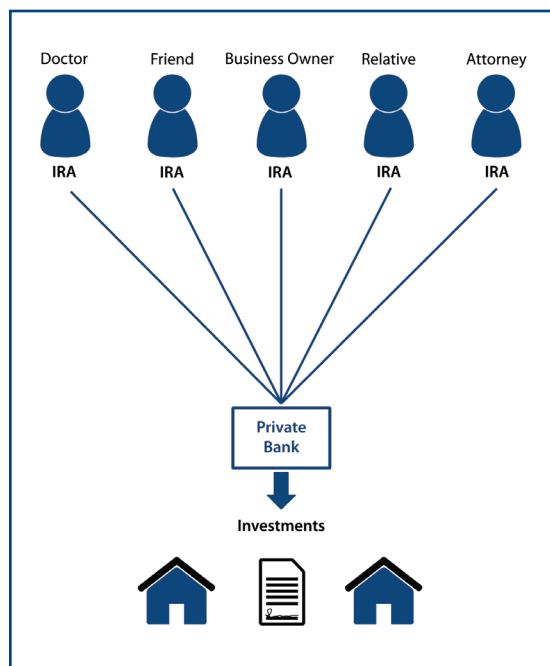
The Private Bank Concept

by Richard Desich

EQUITY TRUST COMPANY®

The most common stumbling block to investing in real estate is not having enough cold, hard cash to act quickly to participate in the hot deals. What if you could create a hassle-free, never-ending supply of money to do all the deals you want? What if there were no red tape delays from big money lenders? What if you were finally in control of your own destiny? It would be just like tapping in to your own “private bank...”

The Private Bank Concept is one the fastest growing strategies real estate investors are using to execute more deals than ever before.



So, what exactly is a “private bank?” In simple terms, it’s borrowing money from an individual (not a financial institution) for real estate transactions. For example, an investor can borrow money from someone else’s IRA to complete the real estate transaction and pay the IRA back an amount of interest that’s agreed upon in advance. Since IRAs are an exempt entity, interest earned on the money loaned is tax-free or tax-deferred, depending on the type of IRA.

The Private Bank Concept is appealing to both the seasoned, hands-on real estate investor (we will call him/her the “funds seeker”) and the investor who prefers hands-off transactions (we will call him/her the “silent lender”). The funds seeker has an opportunity to make a high percentage rate of return on a real estate deal, but either doesn’t have enough money to pay for the whole property, or doesn’t have all the funds for the repair or rehabilitation. The silent lender just wants to make money and not have an actual hand in the deal making or execution.

How do you use someone else’s retirement accounts to fund your deals?

The first step in creating your own private funding sources, independent of banks and other institutional lenders, is to cultivate your friends, relatives and business acquaintances, especially those with substantial retirement plans.

It’s important that you show how they can earn excellent rates of return by lending you *their* IRA money, secured by your real estate transactions. Demonstrate that the returns in your deal(s) will be much higher than their retirement plan assets can earn if deposited in banks. Plus, you can offer a more stable and predictable return than they might achieve by investing in common stocks or mutual funds.

What do your private bank partners get? What’s in it for them?

By using their existing IRAs and pension funds, investors in your private bank can earn aggressive rates of return, secured by real estate, **with no taxes on the income gain or sales profits**. This can result in a phenomenal internal rate of return that, in turn, compounds tax-free within their retirement fund. Meanwhile, this has produced no negative effect on their current lifestyle or cash flow.

What do you get?

With an established private bank, you have the opportunity to build your assets rapidly, by multiplying

the potential number and value of deals you can complete. It will also have the effect of attracting more investors to your deals. Plus, if you want to grow your own retirement account, you can reciprocate with your investors to assist them with their own real estate investing.

To enable the operation of your private bank, all that your financial friends need to do is transfer or deposit their funds with a self-directed IRA custodian, such as Equity Trust, that knows how to handle the paperwork for investments such as real estate, notes, options, etc.

Two examples of The Private Bank Concept at work:

Example 1: A case study from our files illustrates how one of our clients (we'll call him Bill), an investor/rehabber, put The Private Bank Concept to work.

A few years ago, Bill ran out of money to do his deals. He was in a hot market and he didn't want to miss out. What he did next changed his life. He found a great house that he could buy for \$25,000, all cash. It needed about \$5,000 in repairs.

Bill went to some friends and relatives and borrowed money from their IRAs to purchase the house. He paid them 15% interest (\$2,250) for the six months it took to finish the rehab and then resell the house. He sold the house for \$52,000. After paying back his investors, he had a net profit of \$19,750! Let's look at the ledger...

Bill started with	\$0	House sold	\$52,000
House cost	\$25,000	Loan	(\$30,000)
Repair	\$5,000	Interest owed	(\$2,250)
Total amount borrowed	\$30,000	Bill finished with	\$19,750

Bill's friends were so pleased with their returns that he had no trouble getting more money. Now he has access to more than \$600,000 in his own "private bank."

Example 2: Bob is a real estate investor and had the opportunity to acquire a property for \$100,000. He knew that this property was easily worth \$150,000. Mary was unhappy with the low fixed-income investments that the IRA custodian she had been using restricted her to. Bob knows that if Mary transferred her IRA to Equity Trust Company, the funds would be available for him to borrow in his private bank.

Bob told Mary about the property he wanted to buy and Mary agreed to loan Bob \$105,000 from her IRA (\$100,000 for the house and \$5,000 for the repairs). Bob and Mary agreed that he would pay her IRA back in one year with 10% interest, all due at the time of payment. After receiving Mary's IRA investment from Equity Trust, Bob purchased the house for \$100,000, put new carpet in the living room and planted flowers in the front yard.

A year later, Bob put the house up for sale and sold it for \$150,000, just as he thought he would. He paid Mary back the \$105,000 plus the \$10,500 in interest he owed her. Mary made 10% on her money, tax-free in her IRA, just for letting Bob borrow from it for a year. What's even better is that Bob made \$34,500 on the deal and didn't use any of his own funds.

That's why private banking is so popular; both parties involved in the investment can make huge profits.

Your three-step plan to unlimited investment money:

1. Find and negotiate a good deal.

- Try to achieve, at most, a 75% loan-to-value ratio, so you'll be able to give your investors safety for their investment. Loan-to-value ratio is simply the relationship between the amount of the mortgage loan and the value of the real estate being pledged as collateral.
- Build in enough gross profit so you can pay someone 10, 12, even 15% for the use of his or her money. (Remember, it's not the cost of the money but the ability to access it at any time that's important.)
- Leave yourself enough time, through a contingency clause, to find your first money source. (If you're stuck, a good source for more information is Creative Real Estate Online, www.creonline.com.)
- Be sure to follow IRS guidelines that prohibit certain transactions. Generally, a prohibited transaction is any improper use of your IRA account by you or any other disqualified person, which includes you and family members of linear descent (i.e., grandmother/daughter, mother/father, and son/daughter). For more information, refer to Prohibited Transactions on the Equity Trust site: www.trustetc.com/links/prohibited.html.
- If an IRA owns an asset that produces unrelated business taxable income, it may be subject to taxation under Section 512 of the IRC. Investments that can generate UBTI include limited partnerships, limited liability companies, and any investment that incurs debt financing and/or is involved in an unrelated business. For more information, refer to UBTI on the Equity Trust site: www.trustetc.com/links/clarifyingubit.html.

2. Find an IRA custodian that allows IRA investments in real estate and other alternative assets.

- It's in your best interest to find a custodian that allows you to make the kind of investments you're already familiar with to build wealth inside your IRA.
- Remember, contrary to what some brokers or bankers might say, you're allowed to do these types of transactions in an IRA. If an IRA custodian tells you that you cannot invest in real estate or other alternative assets, what they really mean is, "*you can't do that here.*" In that case, keep looking for the right IRA custodian.

Not all self-directed IRA custodians are the same. When dealing with your own or other people's retirement funds, you need to make sure that those funds are properly protected. You need to be fully confident that your IRA custodian is not under-funded, under-regulated and under-insured. Why take any chances?

You should start by looking for satisfactory answers to these basic questions:

- How long have you been in business?
- What are your financial resources? Can I see your financial statements?
- Are you a trust company, fidelity bonded against theft, fraud and loss of property?
- How are you regulated?
- How is my money protected?
- What happens if a mistake is made with my account?
- How are you insured? Do you have error-and-omissions insurance?

3. Present your deal to friends, relatives and business acquaintances who have or want to have a retirement plan IRA or pension plan.

- Offer them a good rate of return for the use of their money. Explain that their loan will be secured by a mortgage on real estate, with a good loan-to-value ratio. Put yourself in their shoes; give them a rate that you'd like to have if someone was presenting this deal to you.
- Keep "selling" your deal until you find enough partners to lend you the money.
- Remind your prospective investors that their returns are either tax-deferred or tax-free, depending on the type of IRA they have. Point out to them that real rates of return outside of tax-deferred/tax-free vehicles are reduced by anywhere from 30-50% in taxes.

Once the retirement accounts for the investors in your deal are all in place, the "private bank" is available to make loans and participate in other creative real estate transactions. To initiate the activity, the IRA owner(s) must simply submit brief paperwork that documents the desired transaction.

That's it! The start of your own "private bank." The only limitation to the amount of money you want or need is your expertise in finding good deals. The funding will already be in place.

For more information on IRA investments and plans, visit Equity Trust Company's website at www.trustetc.com or call **1-888-ETC-IRAS (382-4727)**.

Is The Private Bank Concept for you?

It's a question only you can answer. Developing your private bank takes a substantial amount of time and effort, and requires good negotiation and sales skills. Additionally, as with any investment endeavor, risk is involved. Be sure to discuss these potential risks with your financial advisor before taking action.

About the author

Richard (Dick) Desich is the founder and chairman of the board of Equity Trust Company, one of the nation's leading self-directed IRA custodians, and has been involved in the securities business for over 35 years. Equity Trust Company is an NASD/SIPC member firm with hundreds of thousands of clients in all fifty states, specializing in alternative asset investing (such as real estate, options, and notes) for IRAs.

Mr. Desich is nationally recognized as a pre-eminent authority on non-traditional investing in IRAs. He's also the author of *Proven Wealth Building Secrets for You and Your Children*, the how-to book on using real estate in IRAs.

For information on publications, audio programs and seminars specifically designed for the real estate, tax lien, note, and mortgage entrepreneur, please visit Equity-University.com.

