Non-Recourse Financing for a Self-Directed IRA Investment

Transaction Summary

Date: September 2012

Property Description: 12,720 SF retail building built in 2001 in good condition. The property is 100% occupied with six tenants.

Purchase Price: $2,200,000

Requested Loan Amount: $1,100,000 (50% LTV)

Financing Issues: There are no issues with the property or with the borrower. The issue was the borrower was purchasing the property using funds in his self-directed IRA. The IRS requires that the loan be non-recourse including no carve outs or "bad boy" clauses. Few lenders will do non-recourse financing and even fewer will do non-recourse financing with the "bad boy" clauses excluded.

Borrower's Financing Request: The borrower wanted a 50% loan with as long a loan term as possible and with a competitive interest rate.

Financing Solution: Eleven lenders were contacted. Three lenders responded with letters of interest which are shown on the following page.

NON-RECOURSE FINANCING FOR IRA CRE ACQUISITION
LOAN QUOTE COMPARISON

September 2012

Lender Type:	Lender #1	Lender #2	Lender #3
Loan Amount:	$1,100,000	$1,100,000	$1,100,000
Estimated Value:	$2,200,000	$2,200,000	$2,200,000
Loan To Value:	50.0%	50.0%	50.0%
Indicated Interest Rate	5.150%	5.020%	4.256%
Interest Rate Calculation:	30/360	30/360	30/360
Underwriting Criteria			
Maximum LTV:	50.0%	50.0%	50.0%
Minimum DSCR:	n/a	1.40	1:35
Loan Term:	5 + 5	10+5+5	5 Yr fixed + 5 Yr Var
Amortization Period:	25	20	25
Rate Lock When?	at signed app	30 days b4 closing	at signed app
Rate Lock Fee:	none	none	1.0%
How long?	till loans closes	30 days	60 days
Refundable?	n/a	n/a	yes
Monthly Loan Constant:	0.5934%	0.6611%	0.5421%
Total Loan Fees (Lender/Mtg Broker):	2.0%	1.0%	1.0%
Application Deposit	$6,700	$7,500	$7,000
Are costs capped?	No	No	No
To be used for:	appraisal, environ legal	appraisal, environ, prop inspection	appraisal, environ, proc. fee
Third Party Reports Required			
Appraisal	$3,500	$3,500	$3,500
Level I Environmental Report	$2,200	$2,200	$2,200
Property Condition	no	$250	no
ALTA Survey	no	no	no
Other Costs			
Processing Fee/Site Visit	no	no	$2,200
Lender's Legal Cost Estimate	$1,000	$750	no
Escrow Impounds			
Property Taxes	no	yes	yes
Insurance	no	no	no
Tenant Impr & Leasing Comm Res.	no	no	no
Replacement Reserves	no	no	no
Assumable loan?	no	yes	yes
Prepayment Penalty			
Lock-Out Period	none	none	no
Method of Prepayment	5-4-3-2-1	5-5-5-5-5	5-4-3-2-1
Open Period	Last 5 years	Last 15 years	Last 5 years
Recourse/Non-Recourse	non-recourse	non-recourse	non-recourse

NON-RECOURSE FINANCING FOR IRA CRE ACQUISITION
ESTIMATED SOURCES AND USES STATEMENT

	Lender #1	Lender #2	Lender #3
SOURCES			
Loan Amount	1,100,000	1,100,000	1,100,000
Cash From Borrower	1,132,715	1,122,265	1,123,415
Total Sources	**$2,232,715**	**$2,222,265**	**$2,223,415**
USES			
Cash To Borrower	0	0	0
Purchase Price	2,200,000	2,200,000	2,200,000
Prorated Property Taxes	0	0	0
Financing Charges			
Financing Fee	22,000	11,000	11,000
Appraisal & Review	3,500	3,500	3,500
Level 1 Environmental Report & Review	2,200	2,200	2,200
Property Condition Report	0	250	0
Appraisal Review Fee	0	0	0
Environmental Review Fee	0	100	0
Lender Legal	1,000	750	0
Processing/Inspection Fee	0	0	2,200
Miscellaneous Lender Costs	0	450	500
Title Policy Insurance	2,812	2,812	2,812
Escrow	703	703	703
Miscellaneous Closing Costs	500	500	500
Total Financing Charges	32,715	22,265	23,415
Total Uses	**$2,232,715**	**$2,222,265**	**$2,223,415**

Disclaimer: This Sources and Uses Statement is only a preliminary estimate. The financing fee is a function of the loan amount which has yet to be determined. Other financing charges shown above, the appraisal, the engineering report, etc. are based on usual and customary charges and should not be considered actual quotes.

NON-RECOURSE FINANCING FOR IRA CRE ACQUISITION
MONTHLY CASH FLOW AFTER DEBT SERVICE

Square Feet: 12,720

		Lender #1	Lender #2	Lender #3
INCOME				
1.	Rental Income	$201,156	$201,156	$201,156
2.	CAM Reimbursements	$33,487	$33,487	$33,487
3.	Miscellaneous Income	1,000	1,000	1,000
4.	GROSS INCOME	235,643	235,643	235,643
5.	Vacancy & Credit Loss	(18,851)	(18,851)	(18,851)
6.	**EFFECTIVE GROSS INCOME**	**$216,792**	**$216,792**	**$216,792**
CAM Expenses				
7.	Property Management	4,200	4,200	4,200
8.	Landscaping	5,881	5,881	5,881
9.	Property Taxes	16,969	16,969	16,969
10.	Utilities	12,000	12,000	12,000
11.	Maintenance & Repair	1,200	1,200	1,200
12.	Replacement Reserves	6,360	6,360	6,360
Landlord Expenses				
13.	Administrative	300	300	300
14.	Insurance	1,411	1,411	1,411
15.	Maintenance	1,500	1,500	1,500
16.	Utilities	100	100	100
17.	LC & TI Reserves	6,360	6,360	6,360
18.	**TOTAL OPERATING EXPENSES**	**$56,281**	**$56,281**	**$56,281**
19.	% Expense/Effective Gross Income	26.0%	26.0%	26.0%
20.	Expense Per Unit or Square Feet	$4.42	$4.42	$4.42
21.	**CASH FLOW BEFORE DEBT SERVICE**	**$160,511**	**$160,511**	**$160,511**
22.	Monthly Net Income	$13,376	$13,376	$13,376
23.	Loan Amount	$1,100,000	$1,100,000	$1,100,000
27.	Interest Rate	5.15%	5.02%	4.256%
28.	Amortization	25	20	25
29.	Less: Mortgage Payment	$6,527	$7,272	$5,963
30.	**CASH FLOW AFTER DEBT SERVICE**	**$6,849**	**$6,104**	**$7,413**

NON-RECOURSE FINANCING FOR IRA CRE ACQUISITION
BEFORE & AFTER TAX RETURN ON EQUITY

	Lender #1	Lender #2	Lender #3
PROJECTED TAXABLE INCOME			
NET CASH FLOW BEFORE DEBT SERVICE	$160,511	$160,511	$160,511
Annual Interest Expense	56,461	54,990	46,660
Cost Recovery (Depreciation)	45,126	45,126	45,126
TAXABLE INCOME	$58,923	$60,395	$68,725
CASH FLOW BEFORE & AFTER TAXES			
Net Operating Income	$160,511	$160,511	$160,511
Annual Debt Debt Service	78,324	87,260	71,554
CASH FLOW BEFORE TAXES	$82,187	$73,251	$88,957
Tax Liability @ 25%	14,731	15,099	17,181
CASH FLOW AFTER TAXES	$67,456	$58,152	$71,776
RETURN ON EQUITY			
BEFORE TAX	7.5%	6.7%	8.1%
AFTER TAX	6.1%	5.3%	6.5%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$2,200,000
Building Value as % of Total Value	80%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	25%