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IRA Loan for Construction Real Estate by Corwin Smith

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When purchasing property in a self directed IRA, getting the right loan is key to making your IRA more profitable. If you have a self directed IRA, you can use it to purchase real estate in any form: residential, commercial, and even raw land. Another option is purchasing raw land and building new construction through the self-directed IRA.

If you are serious about retirement planning, it is worthwhile to consider where there is maximum profit potential. While most custodians traditionally preferred that their investors put their money in stocks, mutual funds, and bonds, many custodians today allow investments in real estate and other non-conventional alternative investments.

The real estate market is currently in a prime position to offer great returns on your investment. Low property prices are the main reason for investors making a beeline for real estate deals. You can purchase land, buildings, and other real estate very inexpensively and rent it out, with the rent adding significantly to the IRA balance.

You can purchase raw land or distressed properties through the use of an IRA loan. The IRA loan enables people to leverage their self directed IRA to buy real estate, even if the IRA is not cash rich. An IRA loan also satisfies IRS rules regarding liability. According to the IRS, you cannot offer any IRA assets as collateral to obtain a loan except the real estate that is purchased. However, there is no rule preventing you from taking out a loan against the property when you buy through a self-directed IRA. This type of loan, also commonly referred as non recourse financing, helps individuals finance their real estate projects without assuming personal liability for repayment of the debt.

Getting a Loan for Construction Real Estate

Before you set about applying for an IRA loan, you need to have an IRA with at least 20-40% of the total land and construction costs of the real estate. Some lenders may insist that the amount be higher, in order to ensure that you are able to repay the loan.

Before approaching the lender, you have to know exactly how much the construction will cost. If you are planning to build from scratch, you need to purchase raw land. Next, you will need to consider the cost of actual construction. You will also need to factor in additional costs, such as interest payments for the non recourse financing, commissioning an architect to design the house, and so on.

While IRA investments do not mandate ordinary income tax on the profits, you may want to discuss UBIT with an accountant or tax adviser.

Loans for All Types of Construction

An IRA loan for construction is available for residential as well as commercial property. While IRS rules dictate that you cannot buy residential property for personal use, you can rent it out and add the proceeds to the IRA. The same holds true for commercial property.

You should choose the right lender if you want the best IRA loan terms and rates. Most lenders are willing to offer up to 60% cost basis on a new construction property once it is completed. The borrower finances the rest through their IRA savings. If careful planning is put in place prior to the purchase, a properly executed real estate deal can greatly increase the balance of a self-directed

IRA.

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