Unlock Your Earnings: Learn How to Borrow and Lend From a SDIRA

THE LeeArnold SYSTEM OF REAL ESTATE INVESTING

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Unlock Your Earnings

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OPPORTUNITY

> Introduction: The Problem and Solution to Today's Earning Challenges

Today we're going to talk about unlocking your earnings so that rather than chain up your money, you can start making more money with your money.

The Problem

Let's begin with the problems: The Stock Market. If you look at your performance on a five year aggregate or a ten year aggregate its going to be much different than if you look at it just over the last eight to twelve months. Because we have been in a very bullish market, we have seen the S&P well over 15,000. Whereas before in 2009 and 2010 it was hovering around 8,000 and 9,000. So we have seen significant gains in just the last 8 to ten months. But we can't rely on those numbers because they are not the average, they are not the norm. You have to take your highs with your lows, and when we blend that out, the S&P averages a 5.08% annualized return, if you keep your money in there for a minimum of 5 years.

MONEY

> Introduction: The Problem and Solution to Today's Earning Challenges

If you keep your money in there for a minimum of ten years, you're going to average 5.6%, less fees. Typically you will pay money manager fees, of at least 1.5%. Whether you're with a Schwab, an Edward Jones, or a Merrill Lynch, there's always going to be money manager fees. The other thing that this does not take into account is that if you're day trading, a lot of your profits are going to be eaten up in your trading fees. Even if you are dealing with an ETrade or something like that, you're still going to have a trade fee. Now, if you're a follower of Warren Buffet, you know that buying and holding stock for 20, 30, 40, or 50 years is a formula that works, but for a lot of people, they can't wait that long.

The problem with the stock market is as you're waiting for it to go up, there's often not a lot of money to live on. Let me break it down for you here. So $5000 for 30 years gives you $313,000. At a 4.1% annual income you would be earning about $12,855. The 4.1% here is based off of 5.6%, less 1.5%, which gives you 4.1%. That's not great.

Now here is the other problem. You have taxes. If you take $313,000, you really only have $251,430 net after taxes, so your 4.1% annual income over that period is actually $10,308. The thing you have to ask yourself is, "Can I live and retire on $10,308 a year?

Now we could talk about Social Security and a lot of other things, but my opinion is if you are under the age of forty or even fifty and you anticipate Social Security being there to prop you up, I believe that you would be better off going down to Vegas and choosing black or red. Is our government going to be able to figure it out so that we can continue to bankroll Social Security? Who knows? And I don't have a crystal ball, I'm not a fortune teller but based on the nature of the way that things have been going, the fact that we can't even get along and that we continue to have to raise the debt ceiling just to pay our bills? We have some problems and we are headed for some real challenges.

Now you can certainly focus on it from a global standpoint, you can take a very macro economic outlook on it, but my recommendation is that you need to be more focused on the micro and how it relates to you and you alone. So let's focus on your return. And that's what I really like about SDIRA's. It gives you the ability to sit in the driver's seat, and the economy and the global scale overall doesn't really effect the highs and the lows. Certainly it is going to alter your risk, but if you invest properly and if you invest in the right things at the right time, in the right places, you really can, in my opinion, mitigate the bulk or the greatest percentage of your risk, by investing smarter.

The Solution: I.R.A.

So… what is the solution to this investing and tax challenge? It's just a three letter answer: I.R.A., an Individual Retirement Account. IRA's are the oldest type of retirement plans. They allow you to save for your future on a tax-deferred or tax-free basis in promoting a limited range of products. Now please write these two terminologies down on the top of your page. Tax-deferred or tax-free.

Now tax-deferred is a contribution into your IRA on pre-tax dollars. So if you are earning $48,000 annually as an employee, you get $4,000 a month gross pay, after you pay your Social Security, your State taxes, your health care benefits. Now let's say we are going to take $400 out of your gross pay and go into your IRA or your 401k. This is a pre tax contribution because you are not being taxed on the $400 as it goes into the investment vehicle. That's a pre-tax contribution which means you will pay taxes when you withdraw the money. Most IRA's require you to take until you are 59 ½ before you can withdraw any funds and in a pre-tax contribution environment you are going to pay taxes when you withdraw it. Here's the frailty in that thinking, in my opinion, if you invest $100,000 dollars pre-tax and over the next 10, 20, 30 years, you grow that $100,000 to let's say a million dollars, Do you guys think that in 30 years taxes are going to be higher or lower than they are right now? And of course the answer is that they are going to be significantly higher. Whether you tax the wealthy or you tax the middle class, it doesn't matter, because the bottom line is that somebody has to pay our deficit tab. So taxes are inevitably going up.

OPPORTUNITY

> Introduction: The Problem and Solution to Today's Earning Challenges

California right now is the most expensive place to live, to work, and to run a company. Why? Because you will pay 55 cents of every dollar you generate in the form of taxes. It's a very very expensive place to live which is why a lot of people are migrating themselves into tax free states like Nevada, Florida, Wyoming. In those types of environments you can survive on a lot less money because you are paying out a lot less in tax.

In a post tax contribution environment, when you take your same $4000 pay check, and pay your state tax, social security tax, and health insurance benefits, let's say you have $3,200 remaining after taxes, you contribute $400 into your self-directed IRA. This is a post tax contribution, meaning you have already paid taxes on the income. Now you can grow wealth that is tax free and when you pull the money out, as long as you are 59 ½ and the account has been open a minimum of 5 years, you can now withdraw tax free. So to me, I think you are crazy to make contributions into any kind of retirement plan in a pre-tax environment. The only time this is necessary is if you are employed and your employer is making a shared or matching contributions to your 401k. Your employer gets a tax right-off for the contribution and you pay into the 401k pretax. When you leave that job, you can't do anything else with those 401k dollars, so you will have to withdraw them and pay taxes because it was a pre-tax contribution.

MONEY

> Introduction: The Problem and Solution to Today's Earning Challenges

I have clients who have million dollar plus 401k's from working at big companies, whether it's Delta, Ford, or GM. I spoke with a retired physician the other day that had a 1.2 million dollar 401k. I asked him what he planned to do with it and he said, "I am just going to let it ride, because I will pay taxes when I withdraw it." I said, "Why don't you roll it into a SDIRA?" He didn't want to pay taxes at 40 to 50 percent. Which means his $1.2 would suddenly be $600,000. My next questions was, "Wouldn't you rather have $600,000 that can continue to grow and gain in a tax free environment than 1.2 that continues to grow and gain so by the time you do decide to withdraw money you are going to be paying out 55, 60, 65 cents on every dollar that you withdraw?"

My opinion, cause I can't advise, or give financial advice to my clients, is that if you have a significant or substantial 401k and you are no longer employed where you earned the 401k, you need to roll it into a self-direct IRA as quickly as possible.

If you are with an employer, have you considered going to work for your competition? I have a client that has a pretty sizeable 401k of about $800,000, and he loves his job and doesn't want to leave it, but if you were to leave, you would be able to at least tap into the 401k and roll it. Although your $800,000 becomes $400,000, you can do something with it. Where your current 401k advisors are probably getting you a 3.2 or a 4.5 percent yield, through a SDIRA you can average a 12 to 15 in a tax free environment. You have to recognize, as I'm talking here, that every person's situation is different and unique, but there is a strategy behind what I'm showing you here.

I have had other clients that have called me and said, "Hey Lee, I have been offered an early retirement by my employer and they want to know if I would prefer a monthly check for the next 30 years or if I would rather have a lump sum payout right now." I ask them this question, "If your employer were to write you a check for $300,000 right now versus $800 every month for the rest of your life, which transfers to your spouse in the event of your death, what would you do with the $300,000? If you don't know, then take the monthly payment." I can't tell you the number of people that I have met as I have been traveling around putting on seminars, and speaking at other peoples seminars, who have come up to me and said:

"You know what Lee, I wish that I had been introduced to your platform and Secured Investment Corp and what you guys do for Investors through Self-directed IRA's, because I would have never done what I did with my lump-sum payout."

I said "What did you do with your lump-sum payout? And how much did you get?"

MONEY

> Introduction: The Problem and Solution to Today's Earning Challenges

"Well I worked for GM and I was there 30 years they offered me a $1,200 a month for the rest of my life which transfers to my spouse or I could take $400,000 right now."

I said, " What did you do with it?"

"Well I took the $400,000 right now and then spent $25,000 for this seminar, I spent $35,000 for this seminar, then I saw this guy on TV and he had an interesting concept, then I went to another seminar and they sold a bunch of houses that were paying out 12% return but when I did the math I paid $80,000 for house that only apprised for $50,000, and I can't sell it so I am stuck with it dealing with tenants."

"Ok so of the $400,000 lump sum that you received are you making more or less than the $1200 a month that your employer offered to pay you?"

"Well, sadly Lee I am making less from the $400,000."

"OK then you shouldn't have taken the early payoff."

If you don't have a plan as to how you are going to invest that $400,000, safely and wisely to give you a 2- or 3-to-1 return then what you would have been receiving on a monthly return from your employer, and I am talking post-tax, you are better off getting the $1200 a month. The sad reality is most people have never been tasked or trusted to manage that much money at one time. So, if you've been employed for 30 years you are used to getting a paycheck every 2 weeks. A windfall of $400,000 can be like the kiss of death in my opinion.

Some of you would say, "I would go out and I got a financial advisor and we did a blended portfolio so I had 33% in stocks, 33% in bonds, 33% in mutual funds," but ask yourself what percentage of your portfolio would you set aside for unique asset acquisitions? That is what you all need to be focused on because that is where you are going to make the bulk of your income--in a Self-Directed IRA.

MONEY

> What is a Self-Directed IRA?

With a Self-Directed IRA, the investment options can go beyond common Wall Street offerings while still retaining all the benefits of a traditional IRA. When I talk to people about their self directed retirement account and ask them what kind of asset classes do they have their money in, often I hear something like this: "I get to choose from 20 through my employer, who set up our self directed IRA accounts through Schwab. Every quarter Schwab gives us a statement of our performance and if I don't like my performance, I can choose from a mix of 20 other stock, bonds, and mutual fund mixes." Now, that is technically a self directed IRA because you're self directing it, but somebody else is dictating what you can direct it into. And the problem with those asset classes are that they track on the same S&P as the others. So you would be lucky if you are averaging a 5% annualized return and then after fees, you really don't have much left.

What is the difference between an IRA and a SDIRA?

As I mentioned, most IRA custodians only allow you to invest in approved stocks, bond, mutual funds and CDs. If you never heard this before, please write this down: A CD is an acronym for a certificate of debt because if you look in the current 3 year yield on a CD its tracking right now at a 65 basis points or 65/100th. So on a million dollars in that CD you are going to get $6,500 annually. Now when you consider that inflation is tracking at 2.3%, and you are getting 65 basis points, you're losing about 1.75 percent of your money annual-

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> What is a Self-Directed IRA?

ly. You're going backwards. You have to be out performing inflation if you are going to come out ahead, which means you have to be tracking better than 2 ½. If you have ever considered putting your money into an investment that doesn't yield at a minimum, a guaranteed 2 ½ %, you're crazy. There are investment classes that you can go into, and I don't mean classes like you take a class, I mean different types of investment opportunities that you can go into that will give you as close to a guarantee as you can get. And I will talk to you about those in a minute.

A self directed IRA custodian allows you to invest in those types of investment vehicles, such as: Real Estate, Notes, Private Placements, Tax Lien Certificates and much, much more.

What are the Benefits?

1- Compound Interest, which is interest calculated on both the principal and the accrued interest.

2- Large Tax Deductions (possibly more than $50,000!). Certain IRAs allow you to reduce you taxable income today while

> What is a Self-Directed IRA?

saving for your future. For example, if you contributed $5,000 to a traditional IRA this year, and if you meet qualified income levels, you are eligible for a $5,000 tax deduction when filing your return. Depending on the plan type, you could be eligible for a tax deduction of more than $50,000.

Now I don't have time tonight to go into all of the details and I'm not a CPA or a tax advisor, but know that those possibilities are out there for you. You need to ask your CPA about them. You also need to ask this question of your CPA, "Mr. or Mrs. CPA, what percentage of your book of business is built with self-made millionaires or entrepreneurs?" and if the answer to that question is less than 20%, go find a new CPA. They clearly do not know how to advise you as an entrepreneur. Some CPAs are aggressive, other CPAs are very conservative, and you need to find one that is smack dab in the middle. Now for the conservative CPAs they will file your tax returns and advise you in the hopes of you never being audited. A good CPA in my opinion will advise you and construct your tax filing to limit the odds of being audited. Is your CPA taking full advantage of all the available loop holes that exist for entrepreneurs?

3- Hard-Earned assets are protected from Creditors. IRAs are afforded protection under federal bankruptcy law and thus are generally shielded from creditors in bankruptcy proceedings. I am also a big fan of whole life insurance policies, because they are also protected from bankruptcy filings.

4- It allows you to create wealth for future generations. Certain IRAs allow the passing of assets to the beneficiaries after death while avoiding taxes without the need for a family or living trust. Again you need to ask different custodial firms if they allow you to do that.

A Word About Compound Interest

Compound interest occurs, not only when you earn interest on your original investment sum but also on the interest earned on the original sum.

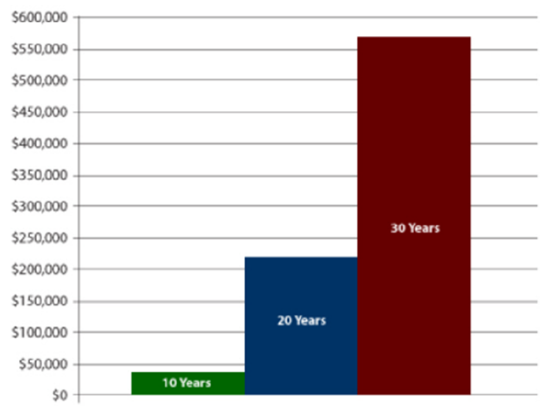
Compound interest is the most powerful force on earth.

- Albert Einstein

So here's an example beginning at the age of 25 if you take the $4 that you spend each day for coffee, and put it towards retirement at that rate you would save $121 per month. And if you earned a 9% return on your $121 per month, each and every month in compounded interest, meaning you are going to get 9% on you $121 which over an entire year is going to be about $11. At the end of that year you are going to have $121 plus $11, so you are now seeing $132. In year two you are going to raise another $121 dollars. So, now you have $242, plus eleven so you are tracking $253. You continue to earn 9%. If you continue this for a period of ten years after 10 years you would have $23, 415, simply from a $4 cup of coffee going into your retirement

> What is a Self-Directed IRA?

instead of going into your belly. After 20 years you would have earned $221,520 and after 30 years when you are 65 you would have an amazing $566,440 and the chart looks like this.



Now as you can see you growth in the first 10 years is not really all that exciting, but here's what I love about the first 10 years. This is the period of time when you are obtaining discipline. Most of my clients who are neither maximizing the available loop holes, nor maximizing the amount of compounding interest they could be earning annually, are doing so because they aren't staying on top of their investment portfolio. They invest in a trust deed that is 12 months and at the end of the 12 months they get all their money back and it takes them 6 months to deploy their money again. If your money is sitting in your checking account, savings account, or retirement account and it's not actively deployed and out working somewhere, it's the equivalent to having a bunch of vending machines filled with candy sitting

> What is a Self-Directed IRA?

in your store room. No traffic, no customers, nobody dropping quarters in the slot because they aren't out working for you.

If your money is sitting in your checking account, savings account, or retirement account and it's not actively deployed and out working somewhere, it's the equivalent to having a bunch of vending machines filled with candy sitting in your store room.

Now, let me ask you, how do you view a dollar? A dollar can be viewed as something that allows you to purchase or engage in commerce or a dollar can be viewed like a vending machine, a dollar can be viewed as an employee, a dollar can be viewed as a rental property. That dollar should represent a yield. If I have a hundred dollars in my pocket and seriously think of it in these terms: In the next 12 months at an average return of 15% this hundred dollars is going to make me $15. So really I don't have $100, I have $15. If you can get disciplined to think in terms of money like that, that is what this ten years represents. If you can get disciplined to do it right in this first ten years, then your next 20 years and 30 years are going to be extremely lucrative from a compounding interest perspective.

As you may know, we do a lot of trust deed investing (I'll talk to you more about how that works), and we have investors who will deploy capital into private money notes that we have identified. The borrow-

> What is a Self-Directed IRA?

er agrees to pay a certain note rate, the investor agrees to lend based on a certain yield rate, we structure the closing, we draft the notes of each trust, and then we service the loan on behalf of our lender. People love it. We have a significant book of business with people who have lent with us. So I went to my funding department the other day and asked them, “When was the last time you called through all of the people that have funded trust deeds in the past but haven’t redeployed their money?” They said, “Well, Lee, we are pretty confident that our clients are smart and disciplined I am pretty confident that it’s pretty much all of them.” I encouraged them to pull a list of investors that had received full payment. I’m just curious what you think the percentage of the investors who had received their money back in the last 6 months or more had re-deployed? 5-12% had, within 6 months of receiving their money had re-deployed it.

So we pulled this list and called through it, and you would be shocked that of all the people that we called, they were thrilled that we called. It’s not that we don’t know, and in some cases, it is because we don’t know but for the most part we just get busy, right? The lenders get busy to. You may have $30,000 or $40,000 sitting in an self directed IRA and maybe you think about it every week or once a month. Where are you going to deploy it? Do you have an existing book of business? Do you have your shingle out with perspective borrowers? Are you out actively buying Real Estate? And if you’re not, are you sitting on funds that need to be deployed but currently don’t have

> What is a Self-Directed IRA?

anything to deploy them into. So to maximize yield on compounding interest it is imperative that you deploy your capital as quickly as you get it back.

So to maximize yield on compounding interest it is imperative that you deploy your capital as quickly as you get it back.

Now I will admit to you, I have a guilty confession to make, I am guilty as charged, because I could tell you right now that I have money sitting in a self directed. I manage my wife and my accounts, as well as my kids CEPA accounts, and I have money sitting in there that I haven't deployed in the last 45 days. Shocking revelation, right? Hey, I'm human and just as busy as you guys are. So I can appreciate more than anybody the importance of getting these funds deployed as quickly as you possibly can. Here's why I shared with you the fact that I haven't deployed, I am CEO of a company that funds millions of dollars in deals each and every month. I inevitably have hundreds or more deals come across my desk in any given day, and I still have un-deployed funds! Think about how difficult it is for people that work a full time job, they are an executive or they are a sales rep and they are constantly out traveling. Imagine how difficult it is for them to actively achieve 100% deployment on-time, every time. Do you see the dilemma here? So if you can't do it, it's really important that you get somebody who can.

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> Purchasing Real Estate with your SDIRA

Why buy Real Estate using a SDIRA? Well the income or gains generated by an IRA, generate tax-deferred/tax-free profits. Also using a self-directed IRA to purchase Real Estate allows the IRA to earn tax-free income/gains and pay taxes at a future date, rather than in the year the investment produces income. You can invest tax-free and not have to pay taxes right away. All the income or gains from your real estate deals flow through to your IRA tax-free!

The kinds of Real Estate you can invest in are:

- raw land
- single-family homes
- commercial property
- apartments
- duplexes
- condos
- townhomes
- mobile homes if they are purchased for investment purposes,
- real estate notes
- second mortgages
- partial notes
- real estate purchase options
- tax lien certificates

Seller financing is a big piece of the pie, and it makes the deal much more exciting and profitable for you.

> Purchasing Real Estate with your SDIRA

What you cannot use IRA monies for is the acquisition of a primary residence or lending it to friends or family. You can't even lend money to yourself even if you do it through a LLC environment, where you set up an LLC, and the LLC borrows money from IRA. That doesn't work and is considered self dealing. You may be thinking of all the different loop holes and ways that you can do it, successfully. I will tell you this, don't push it. Run it clean, run it legit, because I will tell you this, we all can agree that the government is broke and they are going to find the money somewhere. Most likely where they are going to find it is not only in increasing taxes on earned income, but also on passive income. One of the biggest area that they are taxing right now is on estate tax, the transfer of assets from one person to another. The reason they are targeting it specifically is because the bulk of seniors have not properly structured their retirement into a trust for their kids and their heirs. Ten trillion dollars will be transferred from parents to kids over the next 5 years. That is 5.5 trillion dollars at 55%. Hopefully that's a big flashing light, a big siren sounding, if you are over the age of 50, 60, 75 and you have not properly structured your estate into some type of a trust, where the trust transfers to the heir therefore you limit or eliminate estate sale or estate transfer taxes. The benefits are tremendous.

Again, there is no reason for you to push the envelope. If they see even the smallest appearance of you attempting to buck the system, they are going to unravel whatever you did and you are going to pay taxes on whatever gained and hid. My advice to you is just do it clean.

How do you buy Real Estate from a SDIRA? Just to be clear, I am not a custodial firm, and no, we don't manage or over see a custodial firm, therefore I am not soliciting you in anyway to set up a self-directed IRA from me. I encourage you to set one up if you haven't already and if you would like me to refer some groups to you I'll give you three.

I would first recommend Equity Trust. Now, understand that they are the albatross of the marketplace with currently 14 Billion under management. We have had a great relationship with them for the last seven years and I have spoken at their national convention. I think they are a great company. Because of their size, though, they don't do things as quickly as we would like. We have also had a lot of success with Mountain West IRA out out of Boise, ID. And the last two you can go with are Conseco or Pensco. Now again I am giving you these because I can't recommend just one over the other.

The point of this is you need to set up your self-directed IRA. You can deposit up to $5,000 per year post-tax contribution into it. And if you are over the age of 59 ½ you can actually do a catch up contribution where you can do a $6,000 first time deposit and an additional

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> Purchasing Real Estate with your SDIRA

$5,000 in that year. I had some clients come in the other day, who were 63 and 65, and neither one of them had ever set up a self-directed IRA. They had a couple hundred thousand dollars in a saving account. I recommended that each one to set up a self-directed IRA, with a back contribution of $6,000, so each could deposit $11,000. That will be a post tax contribution, since it is coming out of savings. Between the two IRAs, they had $22,000 in seed capital that either could use as a down payment on Real Estate, interest deposit, as well as money for fix up and repair, and that's how we began to grow the self-directed IRA.

Again it goes back to strategy, how much are you depositing, when are you depositing, when are you making the contribution, what is the period of time from contribution to deployment, what are you deploying into, what types of yields, less your default rate, is that producing and how reliable is it? These are just some of the things that we need to be thinking about as it relates to strategy.

Secondly we are going to identify the investment property for your IRA to purchase.

Third we are going to send custodian's a buy direction letter and contract. Now as it relates to property acquisition, let me

just caution all of you. There are groups out there and I am not saying that they are bad, you just need to be aware of their kind of business model, which is to buy really beat up and run down dilapidated investment properties at tax auction for $400 or $500 bucks and then legitimately go in and put $30,000 or $40,000 worth of repair into them. We work with several very large operators; we have done millions of dollars in loans under this strategy with these groups. They now take this house, with about $45,000 into it and they put a section 8 tenant or a lease option tenant into it at $1000 or $1200 a month and then they sell that property on a 9 or 10 yield. If you take, let's make the math easy, if you take an a thousand dollars a month, times 12, that's 12,000 a year in income. However, you have to figure there is some depreciation there. You have income, you have property management, and maintenance. So when it is all said and done, you might be netting 8.

There is nothing wrong with that strategy, they are selling an investment vehicle and they are selling it based on yield. What they are not doing is selling you a property based on fair market value or comparables of the surrounding marketplace. So, you may have just bought a house for $80,000 dollars, which you are really excited about because it is giving you a net 12% return, but then when you go to sell it, the best comp you can get for that particular neighborhood is $50,000. Now you are $30,000 upside down in this investment and you can't get out of it without incurring a loss. There is nothing

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> Purchasing Real Estate with your SDIRA

wrong with the strategy if you plan to keep it for monthly cash flow, but you the investor need to be much more savvy as to what value is before you just step into what you believe is a great rate of return.

Number 4 Read and approve your closing documents.

Number 5 upon your approval, custodian will execute closing documents and send funds to closing. So this is how you buy Real Estate from a SDIRA. As you can see step one is to set up your retirement IRA.

MONEY

> Lending Out of Your SDIRA

Now the other thing that we want to talk about here is Lending out of your self-directed IRA.

When you lend out of a self-directed, you are going to be lending what are called Non-Recourse funds. A Non-Recourse loan is simply a loan that does not require a personal guaranty from the borrower. If you are lending, you can do recourse lending. Meaning you can make whoever you are lending the money to, sign for it. You can make them guaranty it, and if you have to foreclose on it and take it back and incur a loss, you can get a deficiency judgment against the borrower and pursue a deficiency judgment through the collection of income stream from a future employer, or even the garnishment of a bank account. It is very paper intensive to do it through a self-directed IRA though, so I can tell you for me as it relates to my personal investments, I invest in high risk, high yield deeds of trust against real property, in the first position, with no recourse. Meaning if I lent you say $100,000 against a house worth $300,000, I am well positioned, I am at 33 cents on the dollar. If you default, I foreclose, take back the property, and I don't pursue you for a deficiency judgment. I don't go after you for collections because all I am interested in is the value of the property.

When I'm lending, I am going to look at the appraisal, the borrower, the neighborhood, the condition, the urban sprawl, and whether or not it is going to affect my appreciation. So I am looking at all of these things as it relates to the investment.

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> Lending Out of Your SDIRA

I am actively involved in all of the investments that I participate in, because I want to maximize my yield. So let's say I loan the $100,000 at 12% for 12 months, based on those numbers I am going to make $12,000 on my $100,000 at the end of 12 months. My IRA is now $112,000. If they payout and every is great, perfect. I made a 12% return. If they don't pay me however, I am going to take the property back, the IRA will own it, and it will be an REO of the IRA. The IRA will invest additional money to fix and clean it up, or it might just wholesale it off for $150,000, and now $100,000 became $150,000. That is a 50 percent rate of return. And if I do it in 6 months, it is a 100 percent rate of return. That is why it is advantageous for you to understand the process of foreclosure, and how to deal with a vacant, dilapidated, boarded up property across state lines. It is highly lucrative for you to do that. But I understand that that is not an investment strategy that appeals to everyone. And that is why it is so important to identify the type of investment that appeals to you.

If you are like most people, you are looking for high yield, low risk, low involvement. Do those types of investments exist? Yes, but you better be darn careful because if it too

good to be true, it probably is. So make sure you dot your Is and cross your T's.

I prefer non-recourse lending and I can tell you as a lender, all of the loans that we write are also non-recourse because we have a lot of borrowers who are using their IRA as a down payment or they are using their IRA for fix up money.

Let's say you have $20,000 in an IRA. It may seem like it's not really enough money to do much with. However, if you put $1,500 down in earnest money, and let's say you are buying a $100,000 property, you are $98,500 short. My company could now come in and lend your IRA $98,500 in a non-recourse loan. You still have $18,500 in your IRA and could use those monies for fix up and repair, and then sell the property for $150,000. You net $30,000.

You do need to take into consideration UBITs or Earnings Before Interest and Taxes is earnings based on the leveraged capital. In this scenario we borrowed 80% of the necessary funds to fix it and flip it and we profited $30,000. So out of that 20%, we will get tax free $6,000. Now you have $26,000 in your IRA tax free, and you have an additional $24,000 that you self-directed IRA will have to file a tax return on because those are income generated from monies outside the IRA. It still is one of the best strategies out there to grow your IRA rapidly, but you have to understand that not all of those proceeds will be tax free.

> Lending Out of Your SDIRA

Only the percentage of proceeds that contributed to the completion of the project are tax free.

When you lend out of a SDIRA, you receive principal and interest just like a bank. You have strategic control over the loan. You choose the borrower, principal amount, interest rate, length of the term, payment frequency, amount, and whether the note is secured by collateral or not.

One of the investments that I personally invest in, if it's to your liking then you might want to look at it, is in non-secured loans. There are two platforms, Prosper and Lending Club. I don't personally have any experience with Prosper, but I can tell you that I have some money invested with Lending Club. I can literally deploy money in just a matter of seconds. I can move hundreds or thousands of dollars in a very short period of time. Typically the loans are 24, 36 to 60 months. They are consolidation loans, they are the "I want to finish my basement loans," it will give you the borrower's FICO score, credit history, and anything that you want to know about the borrower and then you can contribute up to $35,000, which is the max loan you can get. But you can lend to this individual in increments of $25 bucks. What I did not do, just because I was testing the platform, is I did not lend money through my Self-directed IRA. Certainly I could do that, but I wanted to see if I even liked the platform. I do like the platform, but here's the things I don't like. First thing I don't like is that all of these loans are unsecure, which means if the borrower defaults, I really have no remedy to pursue collections, there's no asset, there's nothing that I can go after. If

> Lending Out of Your SDIRA

you have $25 in a $35,000 loan you are 1/140 or 1/280th of the whole loan amount, which doesn't give you a whole lot of power to do much of anything. If you invest in this particular asset class, it pays out a 12 percent return, less the 4% fall away so you are going to net 8%. Again, it's just another platform where you can get your money deployed quickly, but it's unsecured and the terms are typically 36 to 60 months.

I prefer shorter term investments simply because the quicker I get them in, the quicker I can roll them out. For those of you who are just looking for pretty consistent income stream, you have a couple hundred thousand bucks, then you would probably want to invest it into 24, 36, 48 month trust deed loans especially to a borrower that has a pretty good pay history, a good property, with assets they will collateralize, and the property is in a market you like, and you wouldn't mind owning the property if you had to. Those types of investment opportunities are everywhere. You just have to know where to find them. Also the return on your money is pre-established. Loans usually yield a nice passive cash flow.

How do you lend out of you SDIRA?

Step 1 – is you open a self-directed retirement account. There are numerous companies that specialize in enabling you to self-direct your investment into an area often referred to as alternative investments. (Equity Trust, Mountain West IRA, Horizon Trust, Entrust to name a few)

> Lending Out of Your SDIRA

Step 2 – we are going to vest the note properly. In a traditional transaction, your note may be vested in your name, or your company's name. But in a self-directed IRA environment, the vested note will reference the custodial firm or custodian and the account number as well as the IRA holder: Custodian Company, FBO "Joe Investor IRA Account # 123456". Be very careful about drafting your note, your documents, your deeds of trust, so that you don't violate the custodial language that makes it a tax free environment.

We actually draft these on behalf of our clients and submit the directional investment forms directly to your custodial firm, and literally take it soup to nuts. If you were to invest in a promissory note that our company has vetted and was making available to you, your total investment of time is going to be less than an hour or two. If you want to go out and do it yourself, then you are certainly welcome to do so, but your investment of time is going to be anywhere from 40 to 100 hours. So, not only should you be concerned your yield or your return on investment capital but you also need to be concerned with your yield on return in invested time. Just be thinking of it in those terms.

Step 3 – We are going to sign agreements that authorize the custodian to fund the note. This is you directing the custodial firm to place money into that investment. We help you with this process. This agreement authorizes the custodian to release the funds. Most custodians will have a checklist you can use to make sure you cover each step as the loan is originated.

> Lending Out of Your SDIRA

Step 4 – You are going to close the transaction. Many investors use an escrow, title company, or attorney to close the transaction. We help you select a party that has worked with your particular self-directed custodian.

Step 5 – We send copies of the security agreements to custodian. Once the note is funded, the IRA custodian will need to hold the actual promissory note and recorded security instrument (deed of trust, mortgage, etc.) this is similar to a conventional IRA brokerage house holding your stock certificate.

Step 6 – You will coordinate with the servicer to send payments to the custodian. The savviest investors use a 3rd party loan servicer (like Lake City Servicing) to collect payments from the borrower. The servicer will have an authorized agreement which specifies to whom the payments are sent.

Who is Secured Investment Corp and its Companies?

Secured Investment Corp is the parent company and is responsible for the identification of funds in need of deployment. COGO Capital is the brand that has been tasked with identifying the opportunities for funding by working with borrowers nationwide. It vets and underwrites

> Lending Out of Your SDIRA

loans, and it makes those loans available to clients of Secured Investment Corp. The Lee Arnold System of Real Estate Investing trains and instructs borrowers how to go out and find better deals so that the loans that they are presenting to COGO Capital are better and safer loans, that present a safer investment to our clients of Secured Investment Corp. Lake City Servicing services the loans by sending a billing statement to the borrower each and every month, receiving a check from that borrower, processing the check and then distributing the investors portion to either their bank account, if that is where they want it to go or to custodial firms across the nation on behalf of our clients.

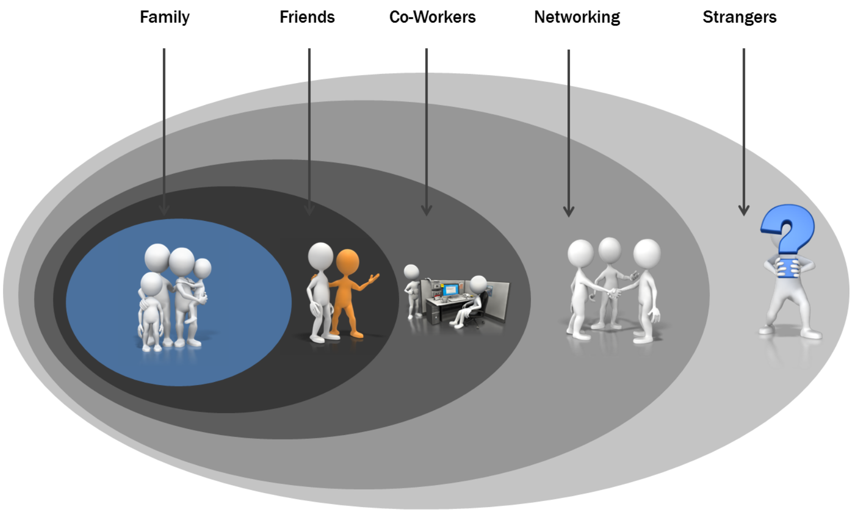
Again you can do all of this yourself, but when you consider our investors on average are yielding about 11.68% without having to do any of that stuff, it’s pretty powerful. Yes you could earn 15% or 16%, but you will be responsible for all of those functions. You really have to look at your investment of time and your return on investment of time to see if it really makes sense for you to go out and replicate all of these services that we are already providing for you.

MONEY

> Finding Lenders with SDIRAs

You may be in a situation where you not looking so much to lend out of your IRA but are, in fact, wanting to identify other private parties that have an IRA and can maybe lend directly to you. This is of course OPM, Other Peoples Money, but in doing so it would allow you to participate in more deals. And more deals, done correctly, means more profits. If you have access to OPM, you are able to offer cash for investments, which allows you to request deep discounts and beat out your competition. It will also free up personal money for personal needs.

How do you find Lenders with Self-directed IRA's?



OPPORTUNITY

> Finding Lenders with SDIRAs

Well you start with family. You can partner, if you have family members with self-directed IRA's, into a property investment. This is not considered self dealing. Let's say you and your sister each have $50,000 in an IRA, and both IRA's are going to buy a $100,000 investment property, each IRA would own 50%. You can do that with friends, family, co-workers, and you can do it by networking with strangers. Some of you I may have met me at the equity trust conference about three weeks ago, in Orlando, Florida. It was a tremendous networking opportunity because anybody there either has an IRA with Equity Trust or they are looking to get more education and information about an IRA. They are great leads for partnering. But if you have a full time job it is very hard to travel all over the country to all these different conferences and events. We have given you a different solution. You can just partner with COGO Capital.

Sixty percent of the loans that we do here are through private investors and their self-directed IRA's. We do have some relationships with some Equity Funds, some private firms, some hedge funds, but the bulk of the loans that we write are to private individuals through their self-directed IRA. Which means you don't necessarily need to go out and find these people yourself, you can simply submit a loan application or tell us what your needs are as an investor, we will underwrite and vet the loan, and tell you if we think it is good or not. If we don't like it, we will tell the borrower what they need to change to make it attractive for us. Once it is attractive we now present it to our

> Finding Lenders with SDIRAs

database of literally thousands of private lenders spread out through out the nation and Canada. We have some private investors funding deals in states through their own IRA's in Canada and loving the process. It is a great opportunity if you don't want to own real estate but you would like your investments to be backed by real collateral or property.

Once you have identified a partner for the deal, combine your self-directed IRA funds with the other investor's funds to purchase the property. Your self-directed IRA then owns a percentage of the property that is proportionate to the percentage of funds you contributed and is responsible for a portion of all property expenses equal to the percentage of ownership. Once the property is sold, your self-directed IRA receives a portion of the proceeds matching the proportion of your original investment.

SDIRA Lenders Vs Banks

	Banks	Private lenders
Regulation	High	Low
Time to close	Long close time	Short close time
Borrower	Need strong credit	Weak/no credit okay with strong asset
Property	Need strong current condition and income	Can accept weak income or poor condition with viable exit plan
Agency funding	Needs to meet agency (Fannie, Freddie, FHA) requirements	No need to meet agency requirements

OPPORTUNITY

> How Cogo Capital and Secured Investment Corp Can Help

How does COGO Capital help with SDIRA investors?

We provide asset-based lending to investors looking for funding on no-owner occupied properties, residential and commercial. We provide funding for both large and small loan amounts, longer term loans for rehab and cashflow deals, no upfront fees to submit deals, cross-collateral or partnerships on higher LTV loans, and/or financing on seller-carry hybrid deals. For example, if the seller is selling a property for $100,000, you know that we can loan up to 80% of the purchase price which is $80,000. However, if the seller is willing to carry back a subordinate second for say $50,000, we're at 130% financing which allows you to get cash at closing. You are not ever going to be able to do that type of a loan if a bank is involved. Private Money really does give you flexibility and it gives you significant leverage.

How does Secured Investment Corp help?

We provide healthy returns with shorter terms. When you invest in private money mortgages you are investing in tangible assets. And most importantly, we offer hands-off Investing. We do all the heavy lifting for you. We research, review, assemble and provide you, the lender, multiple private money mortgage opportunities until you identify the one that is within you level of comfort.

On the next page, we'll show you what this looks like exactly.

MONEY

> How Cogo Capital and Secured Investment Corp Can Help

A real estate investor identifies a great real estate deal in a good equity position. The real estate investor puts the deal under contract and fills out the easy one page private money application at www.CogoCapital.com. Or for those of you who are Private Money Exchange Affiliates and you are running your ads, they will fill out the loan application at www.PrivateMoneyExchange.com. Cogo Capital reviews the application and contacts the real estate investor for additional information. Cogo Capital researches, reviews, and assem-

> Step 7: Implement Your Exit Strategy

bles all the due diligence items, which includes title insurance and a 3rd party appraisal. Secured Investment Corp provides the loan packet to its select Lender Network. When one of the lenders likes the parameters and agrees to lend on the deal, Secured Investment Corp helps the lender wire funds to an outside escrow agent and prepares closing documents, which are then sent to the closing agent. The loan is closed and Secured Investment Corp sets up servicing payments. The borrower makes monthly interest payments to the servicing company who then pays the lender. The borrower pays off the loan and the lender and borrower do it all over again.

As you can see it is cyclical. One of the great parts of being in the private money space is that we lend to volume operators. Whereas a bank might lend you money to buy your new home, many of our clients will do a minimum of 7 transactions per year. So a relationship with a volume operator could potentially be seven new funding opportunities each and every year or more. We have several clients that we have done over a hundred transactions with. They are a volume operator. And that’s the kind of thing we like. Our lenders like it because we have a borrower with credibility and reputational capital. They have paid off millions of dollars of loans over the years and that is just what our investors like to see.

MONEY

> SDIRA Case Studies

SDIRA Case Study #1

- Lender name – K. Schwing
- Loan Amount – $38,500
- Points Paid to Lender – 2%
- Interest rate to Lender – 11%
- Duration of loan – 6 months
- Annualized return on investment – 15%

SDIRA Case Study #2

- Lender name – L. Lapinid
- Loan Amount – $88,000
- Points Paid to Lender – 2 points
- Interest rate to Lender – 10%
- Duration of loan – 9 months
- Annualized return on investment – 14%

OPPORTUNITY

> SDIRA Case Studies

SDIRA Case Study #3

- Lender name – F. Hatch
- Loan Amount – $20,000
- Points Paid to Lender –2%
- Interest rate to Lender – 10%
- Duration of loan – 18 months
- Annualized return on investment – 12%

SDIRA Case Study #4

- Lender name – S. Goldberg
- Loan Amount – $541,750
- Points Paid to Lender –1.75%
- Interest rate to Lender – 10%
- Duration of loan – 72 months
- Annualized return on investment – 10.3%

MONEY

> Your Next Step

As you can see in these case studies that if you want to earn pretty consistent terms north of 10 or 11 or 12%, you need to lock in the note rate of 10.3% or more at a short or longer term. It's entirely up to you. Again it just goes back to what is your investment strategy and what are you looking to accomplish?

If there are questions and you would like to have a conversation with my funding department people you have some funds that you would like to start putting them to work, call my office, 800-341-9918 and ask to speak with the Funding Department. We can help you get your money deployed in healthier yielding investments!.

OPPORTUNITY

> Get Involved in the Circle of Wealth

After years of teaching and mentoring around the nation, I found that education doesn't mean a lick, if the person being taught doesn't have the capital to put their knowledge into genuine action.

So, I took the challenge and created a place, Private Money Exchange, where real estate investors could go for unlimited funds for their non-owner occupied investments.

While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds, who aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

In light of this opportunity, we created Secured Investment Corp, which gave people a medium to lend on first trust deeds (real estate), and make higher returns than they were currently seeing in their stock market, bank CDs, or bond investments.

As we combined all these facets—training, funding, and the means to lend on real property—we began to notice a progressing trend of growth and success with the clients involved.

Through this model, what we call *"The Circle of Wealth,"* we also noticed that people who entered in at the training level and borrowed funds for their real estate investments, eventually became lenders in their own right. They then helped others obtain the capital needed to grow their real estate portfolios.

This allowed everyone, on every side, to win!

It is our goal that **everyone** can enjoy some level of success in ***The Circle of Wealth***, and inevitably lap it several times over! We hope you're one of them!

Circle of Wealth Member

"I chose to invest with Private Money Exchange because I have watched Lee over the past few years. I have been impressed by his attitude, ethics, and humility. My experience has shown that the company performs excellent due diligence before agreeing to an investment.

Becoming a lender was an easy business decision for me. But a thank you gift was icing on the cake. Where do I send my thank you note.

I have to believe this is a terrific place to work! Thanks for all your help."

- Susan C.

> Who is Lee Arnold?

Like most self-made millionaires, I began at the bottom of the financial food-chain. My humble beginnings started as a bag boy at a local grocery chain in Spokane, Washington working for $3.90 per hour. My first "aha moment" happened while I was aspiring to a management role at the store and was reading the life-changing book, "Rich Dad, Poor Dad" by Robert Kiyosaki. Suddenly my management aspirations looked very small, but my future possibilities became extremely big.

My second "aha moment" happened while I was sitting in a philosophy 101 course in college. My attention span was divided between the slow ticking of the clock and my professor's long winded discussion on the economy. While the minutes ticked by, he let it slip that he was making only $45k a year. That information and the knowledge I gained from Kiyosaki's book, made me realize I was on the wrong path to success and needed to make some very important changes fast. So, from those experiences and an influential nudge from an incredibly persuasive late-night infomercial, I went into real estate.

I began the way many people do—in the educational and training space. Like many, I went to real estate seminar after seminar and bought course after course. Through long years of trial and error, I built up a very profitable, million-dollar real estate business from the ground up. I'm proof-positive that the training system can and does work! Because of this, I decided to help others by teaching them how to translate workbook education and real estate theory into the real world of real estate investment.

THE Lee Arnold SYSTEM OF REAL ESTATE INVESTING

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