Your Personal Bank Quick Guide - **Real Estate Investors**

The real estate investor typically needs access to a significant amount of cash to purchase or put money down on a property. Many good real estate deals require the investor to act very quickly therefore, the funds need to be readily accessible.

Most financial tools are not particularly well suited for the specific needs of a real estate investor. Large withdrawals from most investment accounts dramatically reduce the performance of the account. Also, many accounts are subject to significant penalties and/or taxes. As a result, most real estate investors use their own money or borrow from lenders.

Fees…Traditional lenders typically require you to:

- File an Application and do a Credit Check
- Provide Financial Statements and 2 or more years of tax returns
- Provide a Business Plan and prove your ability to repay
- Put up collateral and…you still have to **personally guarantee the loan!**

And more Fees…Hard-money lenders have fewer requirements, but charge interest rates much higher than traditional lenders. This can have the effect of eating away at the profits, especially if a property takes longer to repair or sell than originally planned.

Self-Directed IRA's: Some real estate investors use Self-Directed IRA's for investing. A Self-Directed IRA is the same as any other IRA or 401k. The only difference is the wider variety of investment options, including real estate. Therefore, all the rules including age limits, income limits, contribution limits, distribution requirements, early withdrawal tax penalties, and taxes on distributions apply. Also, fees are charged to manage IRA's and 401k's to ensure compliance. What if the rules don't fit your plans?

Taxes…Which is better? Pay taxes on the seed or the harvest? Usually it is better to pay taxes on the seed because it is much smaller. Yet, we are taught to defer our taxes now (the seed) and pay taxes later (the harvest). Why? Who invented the IRA and 401k? Congress. It was a brilliant strategy for them. By deferring taxes on the seed, Congress ensured larger tax revenues in the future on the harvest.

And more taxes…Many financial experts refer to IRA's and 401k's as "ticking tax time bombs". As the account grows, the tax liability grows with it, until one day…boom! You are hit with a large tax bill when you withdraw the money. What if there is an emergency and you need the money? You pay taxes and potentially penalties. Plus, at age 70 ½ you are forced to start withdrawing from your IRA or 401k and you pay taxes.

I will be in a lower tax bracket when I retire. That is the argument in favor of deferring taxes now. I sincerely hope that is not your goal. If you are in a lower tax bracket, that means you have less money to live on when you are retired. With inflation, that could be a disaster. We are currently enjoying much lower tax rates than the historical average of the Federal income tax. Many are concerned about the Federal debt and believe taxes will have to increase to reduce it. There is no guarantee what tax rates will be in the future. Are you willing to add the tax risk that is built into an IRA or 401k to your retirement nest egg?

What about Roth IRA's? Roth IRA's allow you to pay the tax now (the seed) and withdraw later (the harvest) tax-free. This is the reason they are so popular. They are also subject to contribution and income limits. You can only contribute a limited amount. If you earn too much, you don't qualify. The funds are not available tax-free until age 59 ½ (with limited exceptions) and they have to be withdrawn over a minimum of 5 years, therefore the liquidity is very limited if you want to keep the tax-free benefits.

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1031 Exchanges refer to section 1031 of the IRS tax code. They are a tax-free exchange for real estate. There are multiple rules you must follow to defer capital gains taxes.

- Real estate must be for investment or business purpose. “Fix and flips” usually don’t qualify.
- Recommended you hold the real estate for at least one year.
- You must identify the replacement property within 45 days of closing on your old property.
- You must purchase the replacement property with 180 days of closing on your old property.
- You have to use a Qualified Intermediary. Of course, there are substantial fees involved.
- For tax deferral you must reinvest all of the sales proceeds. Any excess funds will be taxed.

If you manage to qualify for all the above rules, the capital gains tax is only deferred. If the replacement property is later sold, not exchanged, all the taxes would become due. You could pay taxes on a larger amount.

The **Your Personal Bank** concept is virtually unknown by most people. The financial industry has focused almost exclusively on the ultra-wealthy for this powerful financial concept. Only a tiny percentage of advisors have ever been introduced to it. Yet, many wealthy families, professionals, and business owners routinely use it regularly. The Rothschild family is one of the first families to employ this concept and have consistently used it to grow and preserve their family wealth for over 200 years.

Ben Bernanke, former Federal Reserve Chairman, has nearly 100% of his liquid net worth invested in this concept. John McCain borrowed against his Personal Bank to start his initial campaign financing for his presidential campaign. JC Penny did the same thing to keep Penny’s open thru the Great Depression. FDIC reports that 15-40% of the average bank’s assets are invested in the Personal Bank concept. If it is good enough for banks, JC Penny, John McCain, Ben Bernanke, the Rothschild’s, and many others, why not you?

The banking concept is known by many names. The key is that the owner can borrow against the account to use the funds for any purpose. Because the funds remain in the account and are borrowed against it as collateral, they continue to grow while your money is working for you elsewhere.

Instead of borrowing from a lender, you become the bank. You earn interest on the funds in your account and profits from your real estate project. There are no fees or points to pay to a lender. There are no required monthly payments to make. If your real estate project is delayed, there are no interest charges from a lender to worry about. If you used your own money, there would be no lost opportunity cost.

The funds are guaranteed and not subject to any market risk. Current rates of return are guaranteed up to 4% annually. Average rates currently are 5-7% annually, with historical rates averaging 6-9% annually.

There are no age limits, contribution limits, or distribution requirements. The funds are available tax-free. Up to 60% of the funds are available day one. (Up to 90% of the funds can be available with limited tax benefits). You can easily access your funds in 2-3 days.

Your Personal Bank is extremely effective for real estate investors. It provides liquidity, use of the money for any reason, and tax-free benefits without government restrictions or tax or market risk.

To obtain additional information and to properly establish and maintain a Personal Bank you need an experienced advisor. Most individuals and over 99% of financial advisors have little or no knowledge of this concept. Only 5-6 financial institutions in the US offer the products that generate the best results. This is a very specialized and advanced area of the financial industry. Therefore, an experienced advisor with the correct product structured the right way is the key to obtaining the best results with **Your Personal Bank**.

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