Article Side

Is a Non Recourse Loan Right for You? by Corwin Smith

Article published on January 21st 2012 | Loans

So you have taken the steps and transferred some of your retirement accounts into a Self-Directed IRA and you are looking to purchase real estate. Now what? First, you need to assess the overall objectives and goals that you have for your retirement account. What level of risk are you willing to take and what returns are you expecting to earn on your money? There are two main options when looking to purchase real estate in your IRA; cash only or a combination of cash and a non recourse loan.

Letâ€™s look at the first option, cash. If you have enough money set aside in your self-directed IRA you can simply purchase a property with those funds plus any fees that are associated with that transaction. When purchasing a property for cash, you should be mindful of future expenses that might arise such as: maintenance, repairs, management fees, property taxes, and insurance premiums. Your self-directed IRA should have enough additional funds to cover any unforeseen expenses. It is also a good idea to look at your retirement objectives. Are you planning on purchasing more than one property? What returns are you making on each property? What is your investment timeline? If you have a large sum of money in your self-directed IRA and are planning on a longer growth term, than an all cash purchase might be right for you. If not, you should consider a non recourse loan.

A non recourse loan is simply a loan that is tied to the collateral and not to the person procuring the loan. According to the I.R.S. laws, the only way get financing in your self-directed IRA is with a non recourse loan. This insures that if, for whatever reason, the loan is in default the lender can only go after the collateral that was leveraged and not the person. Because the lender is limited to the collateral as repayment in the event of a default, non recourse loans typically have a lower loan to value ratio and have a higher interest rate. If that is the case, why would I want a non recourse loan? Again, it is important to look at your overall retirement objectives. If you are looking at growing your account quickly with multiple properties or if you only have a smaller sum of money in your self-directed IRA but wish to purchase real estate, this might be a good option for you. For example if you had $250,000 in your self-directed IRA you could purchase a home for $180,000 and have $70,000 in reserves. Or with a loan, you could purchase two homes for $180,000 each with a 50% loan to value and still have $70,000 in reserves. Letâ€™s say that the houses rented for $1,800 a month each. In the first scenario that would be a return of 12% per year. In the non recourse loan scenario we will assume a 7% interest rate on the $90,000 loan which would result in a 17% return per year, per property.

One of the greatest benefits of having a self-directed IRA is that you are in control of your retirement funds. While this was just a brief description of what a non recourse loan is and how it can help you reach your retirement goals, we strongly suggest to discuss your retirement plans with your CPA and attorney.

Article Source:
http://www.articleside.com/loans-articles/is-a-non-recourse-loan-right-for-you.htm - Article Side

Corwin Smith - About Author:
For more information regarding a Non Recourse Loan, please visit a Islandviewmortgage.com

Article Keywords:
Non Recourse Loan, Non Recourse Loans

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!