



# CASE STUDIES

# PRIVATE LENDING

*Midland IRA's role as the administrator of self-directed retirement accounts is non-discretionary and/or administrative in nature. The account holder or his/her authorized representative must direct all investment transactions and choose the account's investment(s). Midland IRA has no responsibility or involvement in selecting or evaluating any investment. Nothing contained herein shall be construed as investment, legal, tax, or financial advice or as a guarantee, endorsement, or certification of any investments.*



## SECURED NOTE LENDING ALLOWS THE COVID PANDEMIC ROLLER COASTER RIDE TO BE A LITTLE SMOOTHER

Syed from Illinois invests in real estate loans to property flippers.

***“Short-term loan investments are an excellent source of passive income. Through private lending from my Midland Self-Directed IRA, I am able to get a passive income of 12% to 16% ROI and use this as a major component of a diversified portfolio.”***

*-Syed*

### How It Works

Once he finds a borrower to work with, Syed works with his attorney to prepare the note and mortgage documents where his IRA is listed as the lender. Having the IRA listed as the lender on the mortgage adds additional security to the investment as he may be able to foreclose on the property in the event the borrower defaults. Additionally, he can secure a lender's title policy as well as have the IRA added as an additional insured on a hazard insurance policy.

However, it is important not to let the insurances and mortgage add a false sense of security. Syed says, “It is extremely important for one to fully understand and learn investment strategies, do the due diligence, and have a clear idea of the risks involved.”

Once all of the documents are prepared, Syed and the borrower have a formal closing with a title company. Funds are then sent from the IRA to the borrower for use on the

renovations of the property being flipped. Payments on the loan are made per the terms outlined in the note agreement. Once the improvements are complete, the property is put up for sale. Funds are then returned to the IRA once the property is sold.

### Private Lending Through the Pandemic

While Syed has always seen private lending as a great way to diversify his portfolio, he is particularly grateful for the diversification during the recent COVID-19 pandemic. “In today's COVID-19 financial crisis, I have been able to avoid selling my securities and, in fact, take more than my RMD as a form of income,” explains Syed. “[Private Lending] has enabled me to get a higher ROI while avoiding fluctuations and uncertainty in the stock, ETF, and bond markets. In this regard, I have been able to enjoy a well-deserved retirement while not having to worry when the rest of the financial world will begin to recuperate from the COVID-19 crisis.”

### THE INVESTMENT

#### \$155,000 Mortgage (12% Interest)

<b>Amount:</b>	\$151,870 <i>(2 Points Withheld)</i>
<b>Income Received:</b>	\$6,200
<b>Total Costs:</b>	\$1,038
<b>Payoff Amount:</b>	\$159,650
<b>Total Income Received:</b>	\$13,980
<b>Length of Note:</b>	7 Months
<b>Calculated Return:</b>	<b>14.6%*</b>

*\*This figure was calculated by the IRA owner.*

## FROM LANDLORD TO LENDER - UTILIZING OWNER-FINANCING IN A SELF-DIRECTED IRA

Renate, a real estate investor from North Carolina, was able to use owner-financing to turn her IRA held active real estate investment into a passive real estate investment.

### Becoming the Bank

In 2015, Renate had rolled over an old 401(k) into a self-directed traditional IRA with Midland. She used her retirement funds to invest in a single-family property, where her IRA was the deeded owner of the property. Renate promptly rented out the home after closing, receiving \$1,000 a month in rent to her Midland IRA.

When Renate found out her tenants were having trouble trying to buy a house, it was an opportunity for Renate to transact from landlord to lender. Renate was able to achieve this by selling the property with owner-financing. "They had always been great renters," says Renate. "When I heard they were having trouble getting a loan from the bank, I thought, this could be a good opportunity for my retirement and them."

At closing, Renate's IRA deeded the property over to the tenants and simultaneously recorded a deed of trust on the same property where the IRA was listed as the lender. Renate's IRA could foreclose on the borrowers and regain title to the property in the event of default.

## Transitioning From Active to Passive Real Estate Investing

When Renate initially purchased the property, her IRA would receive the monthly rental payments as income. If any expenses came up, such as property taxes or items requiring repair, Renate could request those expenses be paid through the IRA.

Instead of rental income, Renate now receives mortgage payments to her IRA. "It is also nice to no longer have the responsibilities of a landlord!" commented Renate. "I really like the new online option that my borrowers can use to make electronic payments."

"Midland has made the process really simple for me, and their service is fantastic." says Renate. "They are the best in the business!"

### THE INVESTMENT

<b>Property Purchase Amount:</b>	\$130,000
<b>Total Rental Income:</b>	\$30,000
<b>Total Expenses:</b>	\$12,482
<b>Sale Proceeds:</b>	\$7,860
<b>Owner-Financed Amount:</b>	\$161,000
<b>Mortgage Income:</b>	\$10,678
<b>Calculated Return:</b>	<b>35%*</b>

## INVESTING IN A PRIVATE LLC AS A PARTNER IN A HOTEL

Neville, from Fort Myers, Florida, used his self-directed IRA to purchase an interest in an LLC that built a national franchise hotel and operated it for nine years. The underlying asset was sold, netting Neville an excellent return.

### Purchasing an LLC Interest

Using a self-directed IRA can make investing in a private LLC easy. A private LLC can make many different investments. In our scenario, Neville purchased a 3% interest in this LLC for his \$158,000. His ownership interest guaranteed an 8% return annual from hotel operations (assuming they hit certain targets). He did get this return for nine years.

The second half of the deal was getting 75% of any gain on the hotel's sale. In 2019, the hotel sold for \$8 million after closing costs. Neville's 3% share was \$252,800. His gain portion was \$94,800 (\$252,800 less his cost of \$158,000). He was required to give 25% to the operator of the LLC.

After nine years, Neville's total return was over 13%. This return includes an annual income of \$12,640 from the hotel and a gain of \$71,100 from the hotel's sale.

As you can see, this was an excellent investment. The caveat here is that this was a self-directed investment that Neville chose and did due diligence on with his tax advisor.

LLC or private placements are among the most popular vehicles to invest large assets that require multiple investors. This deal was set up as an LLC, but it would not

be uncommon to see this type of investment as a private placement. If it was a private placement setup, it would be common for all investors to be considered accredited investors.

### THE INVESTMENT

<b>Investment Amount:</b>	\$158,000
<b>Total Costs:</b>	\$2,855
<b>Total Income Received:</b>	\$113,760
<b>Length of Investment:</b>	9 Years
<b>Net Gain of the Asset:</b>	\$71,100
<b>Annual Income Return:</b>	8%
<b>Calculated Total Annual Return:</b>	<b>13%</b>
<b>Total Asset Return:</b>	<b>45%</b>

## INSTITUTIONAL INVESTING WITH A SELF-DIRECTED IRA

Chicago, Illinois (2015), Dr. Chris decided to use his self-directed IRA to invest \$300,000 in an institutional fund specializing in purchasing dental offices throughout the United States. The underlying assets were aggregated and sold after four and a half years, producing a positive return for the IRA.

### Purchasing an LLC Interest

Dr. Chris is a vascular surgeon from River Forest, Illinois, a suburb of Chicago. Chris had been very successful in his IRA investing and was looking for an opportunity to diversify. He was introduced to this investment by his financial advisor. The institutional Fund, Ontario Dental Fund, raised approximately \$25 million dollars to purchase small to medium-sized dental practices. The Fund organizers have specialized in buying and selling these types of businesses. This Fund was registered with the SEC.

One of the differences with an institutional investment is that you must be an accredited investor. Typically, that means you have a net worth above \$1 Million dollars.\*

Another unique aspect of institutional investments is that they can require additional capital calls after purchasing the Fund. In this case, the capital calls would be in increments of 3% of the original investment.

Dr. Chris's investment in the Ontario Dental Fund had a life of 4 years. During this time, he had two capital calls of \$9,000, making his total investment \$318,000. Typically, capital calls are used to purchase more assets in the Fund.

The purpose of this Fund was to purchase small dental practices at a multiple of 5X EBITDA. Once the dental practice was acquired, it was re-branded in the Ontario name. The fund organizers believed that the sum would be worth more as a group once they acquired enough practices. In this case, it was. The life of this Fund was advertised to be five to seven years. At year four, the Fund realized that their investment was now worth 8X EBITDA.

The Fund sold the underlying group at the end of year four for \$40,000,000 (after closing expenses). Dr. Chris owned approximately 1.2% of the Fund, and his net proceeds were \$480,000.

Institutional investments can be extremely complex. Please consult your tax or financial advisor before investing in a complex strategy like this example above. Midland IRA is an administrator and does not give investment advice.

\*Click [here](#) for the definition of an accredited investor.

### THE INVESTMENT

<b>Investment Amount:</b>	\$318,000
<b>Capital Calls:</b>	\$18,000 (2 x \$9,000)
<b>Total Costs:</b>	\$1,085
<b>Length of Investment:</b>	4.5 Years
Net Gain of the Asset:	\$71,100
<b>Net Proceeds:</b>	\$160,915
<b>Annual Income Return:</b>	<b>11.24%</b>
<b>Total Return:</b>	<b>50.6%</b>

## ANGEL INVESTING WITH A SELF-DIRECTED IRA

Rob H. from Chicago belongs to an angel investment club. He has the option to invest in club deals as an individual investor or by using his Midland self-directed account. Using his IRA allows him to pick and choose which investments are best suited for his current situation.

### Unique Opportunities With Angel Investing

Angel clubs allow members once-in-a-lifetime opportunities to invest in start-up companies. Everyone wants to find the next Shark Tank type company and make it big. Rob's club has quarterly meetings and offers its investors two opportunities to get into a deal. Option one: the club will form a special purpose LLC that will allow investors to pool their money into a new company. These funds invested into the "Club" LLC are usually between \$15,000 to \$50,000. Alternatively, you can invest in a new company directly with a much more considerable investment amount (\$100,000 or more).

Here are the two start-up investment opportunities in which Rob chose to invest using his self-directed account.

#### Start-Up #1

Rob Invested \$35,000 in a Tech business that specialized in API technology. Rob held this investment for three years. Another Tech company acquired the API company. The LLC received its share and was liquidated. Rob was returned \$50,000 in three years.

#### Start-Up #2

Rob invested in a sustainable clothing company that allowed its current clients to return clothing for a 20% credit on their

next purchase. The returned clothing was recycled. 2020 was the second year in this investment; the company was on track to break even that year. Rob invested \$40,000 in a club LLC. The exit strategy is planned for 2023.

Angel Investing can be complicated, but one of the benefits is that you have the opportunity to discuss and evaluate these investments with other like-minded investors. You also benefit from investing smaller amounts via club-established LLCs, where investments are pooled. Typically, when you invest in this pooled arrangement, you are required to be an accredited investor.\*

Rob is an experienced investor, and angel investing is just one of the vehicles he uses to build wealth. A Midland self-directed IRA is easy to set up, and our advanced technology translates to investments that are just a few clicks away.

\*Click [here](#) for the definition of an accredited investor.

### THE INVESTMENT

<b>Investment Amount:</b>	\$35,000
<b>Total Costs:</b>	\$1,075
<b>Total Income Received:</b>	\$50,000
<b>Length of Investment:</b>	3 Years
<b>Net Gain of the Asset:</b>	\$13,925
<b>Calculated Annual Return:</b>	<b>13.26%</b>
<b>Total Return:</b>	<b>39.78%</b>



# ABOUT MIDLAND

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Midland specializes in administering Self-Directed IRAs that help clients purchase alternative assets. Get started today.

**Please feel free to call Midland at (239) 333-1032, or visit our website to open an account today.**

## AVAILABLE SELF-DIRECTED IRA ASSETS

- Real Estate
- Single-Member LLCs
- Private Lending (Secured & Unsecured Notes)
- Private Placements (Private Equity/Stock)
- Closely-Held LLCs
- Hedge Funds
- Futures
- Forex
- Equities (Stocks, Bonds, & Mutual Funds)
- Precious Metals (Gold & Silver)

## MIDLAND IS NOT A FIDUCIARY

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*Midland 1031's role as Qualified Intermediary is limited to acting as qualified intermediary within the meaning of Regulations section 1.1031(k)-1(g)(4) for Federal and state income tax purposes. In this regard, Midland 1031 is not providing other legal, investment, or due diligence services. The taxpayer/Exchanger must direct all investment transactions and choose the investment(s) for the exchange. Nothing contained herein shall be construed as investment, legal, tax or financial advice or as a guarantee, endorsement, or certification of any investments, legal effect or tax consequences of the transfer, conveyance and exchange of the Relinquished Property and/or the Replacement Property.*