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REAL ESTATE INVESTMENTS

FREQUENTLY ASKED QUESTIONS

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How do I acquire real estate within my Sterling account?

Real Estate can be purchased directly by your account, transferred from an existing IRA or rolled over from a qualified plan, or it may be acquired by your account as a result of a foreclosure on a mortgage or deed of trust which is currently held within your Sterling account.

What types of property can I purchase with my Sterling account?

Vacant lots, raw land and income-producing property such as rental houses, condominiums or commercial real estate.

Can my Sterling account invest in real estate through a Limited Partnership or Limited Liability Company?

Yes. If real estate is being acquired through an entity such as an LP or LLC and the Sterling account will hold an equity interest in the entity, please refer to and provide the items shown on Sterling's *Private Equity Direction of Investment*, available on our online forms menu on www.SterlingTrustCompany.com. If the Sterling account will be originating a loan that will be secured by a mortgage or deed of trust, please refer to and provide the items on Sterling's *Private Debt Direction of Investment*, available on our online forms menu on www.SterlingTrustCompany.com.

How is title held on property in an IRA or Qualified Plan?

Since your IRA or Qualified Plan is buying the property rather than you as an individual, the title must be held in the name of Equity Trust Company, d.b.a Sterling Trust, Custodian FBO ("Account Holder's Name", Account # _____). Therefore, the contract/purchase agreement, title commitment/insurance, deed, liability insurance, etc. must be titled accordingly.

May I sell property that I currently own to my Sterling account?

No. Property that you or a disqualified person has ever owned is not eligible to be purchased by your Sterling account since this would be a prohibited transaction.

What is a prohibited transaction?

In general, **Internal Revenue Code Section 4975** defines a prohibited transaction as a transaction between a plan (your account) and a disqualified person. Generally, "disqualified persons" are defined to be the Account Holder, other fiduciaries, certain family members (lineal descendants and spouses of lineal descendants) and businesses under the Account Holder's (or disqualified person's) control. In essence, the prohibited transaction rules prohibit an IRA or Qualified Plan from acquiring a piece of property which will be purchased from or used personally by the Account Holder or other disqualified persons.

Can I use the property held within my Sterling account?

Neither you nor any other disqualified person can have any personal use or benefit of the property while it is held in your retirement account. The property must be purchased for investment purposes only.

If I decide I want to use the property in my account, how do I take possession of the property?

You may withdraw the property from your account as an in-kind distribution (at the current market value) and pay taxes and/or possible penalties if you are under age 59 1/2. You will need to provide Sterling with a completed and signed *Distribution Request Form*, available on our online forms menu on www.SterlingTrustCompany.com, and a deed prepared for Sterling's signature that conveys the title of the property from your account to you individually. An updated appraisal or broker's price opinion must also be provided at the time of distribution.

How is earnest money handled?

The earnest money deposit must be funded by your Sterling account. You cannot use personal money for the deposit and then be reimbursed later. You will need to send a copy of the contract or purchase agreement to Sterling along with an *Expense Payment Authorization* form, available on our online forms menu on www.SterlingTrustCompany.com or written authorization for Sterling to send the specified amount of earnest money from your account to the title company or closing attorney. The contract or purchase agreement **must** list Equity Trust Company, d.b.a. Sterling Trust, Custodian FBO ("Account Holder's Name", Account # _____) as the buyer. You (or other disqualified persons) cannot be listed as the buyer and then later assign the contract to your Sterling account.



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Can my Sterling account borrow funds to finance a real estate purchase?

Yes, but only within an IRA. Sterling will hold debt-financed property in an IRA only with the use of a **non-recourse promissory note** issued by a lending institution or by the seller of the property. The non-recourse promissory note cannot be personally guaranteed, and the lending institution can only look to the property securing the note as collateral. **Important: Debt-financed property may generate Unrelated Business Taxable Income ("UBTI"), and any taxes due must be paid by the account. For more information regarding UBTI, please consult your tax advisor.**

Can my Sterling account purchase a portion of a property along with other investors?

Yes, as long as the other owners are not disqualified persons. The deed must be registered to "Equity Trust Company, d.b.a. Sterling Trust, Custodian FBO ("Account Holder's Name", Account # _____) as to an undivided ____% interest." The exact undivided interest must be provided.

Are there any types of property that Sterling will not hold?

Yes. Sterling will not process investments of mobile homes, time-shares, foreign real estate or property purchased through an auction or tax sale. Permanently attached manufactured homes may be purchased only if the certificate of title has been surrendered. Please contact the tax authority with regards to the process of surrendering the title.

How are expenses and/or improvements handled for real estate held in my Sterling account?

All earnest money deposits, insurance premiums, taxes, debt payments or other expenses of the property (including any improvements) **must be paid by the account to an unrelated third party**. Since Sterling requires your written authorization to pay invoices, it is important that you use your mailing address when setting up utilities, etc., so that bills are sent directly to you (or property manager) for your approval. A copy of the invoice or tax notice must then be sent to Sterling along with the **Expense Payment Authorization** form, available on our online forms menu on www.SterlingTrustCompany.com or your written authorization to pay the expense from your account. You may not pay for an expense on a credit card and remit the statement for payment. Sterling will not process payments to a credit card issuer.

Does rental income have to be deposited in my Sterling account?

Yes. All rental income must return to your Sterling account along with a **Deposit Coupon** available on our online forms menu on www.SterlingTrustCompany.com.

Do I need to provide Sterling with a property appraisal?

Sterling requires you to provide a property appraisal or broker's price opinion every 3 years in order to update the value of the account. Price ranges or approximations will not be accepted. In addition, an updated property appraisal or broker's price opinion must be provided if you take a distribution of the property or convert the property from a Traditional IRA to a Roth IRA.

What should I know about selling property within my Sterling account?

Once you have the property under contract and are ready to close, you will sign the closing documents as "Read and Approved" and forward them to Sterling for signature. Sterling will then execute the closing documents and return them to the title company or closing attorney to complete the transaction. The title company or closing attorney will then remit the proceeds of the sale to your Sterling account.

When I sell the property within my account, can the account seller finance the transaction?

Yes. Once the property is sold, you may carry the note and deed of trust/mortgage within your account. The principal and interest payments will be deposited into your Sterling account, and you can reinvest the cash however you choose. Please see Sterling's **Private Debt Direction of Investment**, available on our online forms menu on www.SterlingTrustCompany.com, for specific details on the document requirements.