

## INVESTMENTS IN REAL ESTATE

Please read this entire document prior to completing an investment directive. Real estate may be purchased at the direction of the Account Holder, transferred from an existing IRA or rolled over from a qualified plan, and may be added to the account as a result of foreclosure on a mortgage or other promissory note secured by real estate which is currently held within the M2 Trust Services LLC ("M2 Trust") account. Supporting documents and information must be provided to M2 Trust. Please make sure that all paperwork is correctly filled out as investment packages which are submitted with improperly executed documents or missing items will be considered incomplete and may experience processing delays and a reprocessing fee, refer to fee schedule.

All documents should reflect the owner to be M2 Trust, cust fbo [Account Holder's Name] [IRA Account#] and use M2 Trust's tax identification number: 83-2254374

### Debt Financing

If an Account Holder has insufficient funds to make a purchase, Account Holder can have their IRA borrow funds (debt finance) to complete the investment transaction. Transactions involving debt financed property will result in two assets being created in the account, i.e., the real estate asset and a note payable (a negative asset reflecting the amount due and owing on the note payable).

### Required Documents

Supporting documents and information must be provided to M2 Trust along with the Real Estate Investment Directive in order to process a purchase, sale, rollover, or transfer in-kind. Please make sure that all paperwork is correctly filled out as investment packages which are submitted with improperly executed documents or missing items will be considered incomplete and may experience processing delays and a reprocessing fee, refer to fee schedule. Supporting documents include:

- a) Purchase Contract or Preliminary Settlement Statement in the name of M2 Trust, cust fbo [Account Holder's Name] [IRA Account#] signed by the Account Holder as "Read and Approved" and received prior to wiring the funds for closing.
- b) Property appraisal that is not older than one year, unless a cash purchase in which case the purchase price will be used.
- c) Wiring instructions for closing.
- d) Settlement statement and closing documents signed as "Read and Approved" by the Account Holder received prior to wiring the funds.
- e) Proposed Deed with "When Recorded Return to" "M2 Trust 700 17<sup>th</sup> St., Suite 1100, Denver, CO 80202.
- f) If the property is being financed, all loan documents must be provided before closing.

**IMPORTANT: DO NOT** set a closing date until all the items listed above have been provided in good order to M2 Trust. Upon closing, the Account Holder must arrange for the following items to be submitted directly to M2 Trust:

- Original recorded deed with all original assignments.
- Title Insurance Policy - The insured must be M2 Trust, cust fbo [Account Holder's Name] [IRA Account#].
- Copy of liability insurance policy.
- All executed loan documents.
- Copy of liability insurance policy reflecting the insured as M2 Trust, cust fbo [Account Holder's Name] [IRA Account#].
- Copy of executed property management agreement (required only if the property is income producing).

NOTE: All earnest money deposits, insurance premiums, taxes, debt payments, or other expenses of the property (including any improvements) must be paid from the IRA. A copy of the invoice or tax notice must be sent to M2 Trust along with the Account Holder's written authorization to pay the expense from the IRA. As an alternative the Account Holder can authorize the Property Manager to pay all such expenses from the rents collected on the property.

## DEBT FINANCED REAL ESTATE

M2 Trust will allow Account Holders to invest in debt financed property within their accounts subject to the document requirements noted above. In addition to these requirements the following information pertains only to debt financed property.

- 1) Debt-financed property is only acceptable with the use of a **non-recourse promissory note** issued by a lending institution, third party, or by the seller of the property.
- 2) The non-recourse promissory note cannot be personally guaranteed, and the lending institution can only look to the property securing the note as collateral.
- 3) Non-Recourse Promissory Note must be in the name of M2 Trust, cust fbo [Account Holder's Name] [IRA Account#].
- 4) Account Holder must complete and sign Debt Financing Payment Directive Form or section contained in the Real Estate Investment Directive.
- 5) The Account Holder may also authorize the property manager to pay the note and other property related expenses from the income generated from the rental property or from funds provided by the account.
- 6) M2 Trust is not responsible for monitoring whether there are adequate funds in the account to make note payments.

**IMPORTANT:** Certain investments may generate Unrelated Business Taxable Income ("UBTI"), refer to sections 511 through 514 of the Internal Revenue Code for more information. M2 Trust does not monitor for UBTI and does not prepare Form 990-T. If such a tax is applicable, the Account Holder is responsible to have the proper 990-T tax form prepared and forwarded to M2 Trust along with Account Holder's authorization to pay the tax from the account.

## PROPERTY MANAGER

M2 Trust requires a property manager for income producing property. M2 Trust will not act as the property manager. The Account Holder may act as property manager or may engage a third-party to act as property manager. NOTE: See special rules below for Account Holders acting as property manager. Whether the Account Holder or a third-party, the property manager will be responsible for:

- Preparing and executing property lease agreements.
- Collection of rents. Note: If the Account Holder is acting as property manager all rents must be made payable to Colorado National Bank and sent to us for deposit to the IRA.
- Payment of all property related expenses. Note: If the Account Holder is acting as property manager all expenses must be paid directly by Colorado National Bank. In such cases the Account Holder must send invoices, or other evidence of the property related expense, along with approval to release payment from the IRA.
- Handling evictions and debt collections.
- Ensuring adequate insurance is maintained on the property.
- Maintaining accurate records of all transactions, including rents, disbursements, etc.
- Providing a periodic report to Colorado National Bank, at least quarterly, reflecting rents, expenses, and the current balance of funds maintained by the property manager on behalf of the IRA. Note: If the Account Holder is acting as property manager, the Account Holder is not allowed to maintain any deposit balances. All funds must be sent to M2 Trust for deposit to the IRA.
- Comply with all applicable federal, state, and local laws, rules, ordinances & regulations

### Special Rules for Account Holders Acting as the Property Manager

In the event that an Account Holder acts as property manager, the following rules also apply in accordance with Internal Revenue Code Section 4975:

- Any payments accepted directly by the Account Holder that are not payable to M2 Trust as custodian will be deemed a distribution and reported on IRS form 1099-R.

### PROHIBITED TRANSACTIONS

As a self-directed IRA Account Holder, it is important for you to be familiar with "Prohibited Transactions". Internal Revenue Code Section 4975 prohibits interactions between the retirement account and certain individuals and entities "related" to you. A Prohibited Transaction is any transaction between the Plan and a "disqualified" person or entity. A "disqualified" person is yourself, any lineal descendant (i.e. parents, grandparents, etc.), lineal descendants (children, grandchildren, etc.), spouse, spouse's descendants, or any entity for which a disqualified person has 50% or more ownership. The following are examples of prohibited transactions:

- Lending money or engaging in some other extension of credit between the account and a disqualified person. For example, you cannot personally guarantee a loan for a real estate purchase by your account.
- Furnishing goods, services or facilities between the account and a disqualified person. For example, you cannot personally make an improvement to a rental property held by your account.
- Transferring or using by or for the benefit of a disqualified person, the income or assets of a retirement account. For example, you may not stay in a vacation property that is owned by your account.
- Dealing with income or assets of a plan by a disqualified person who is a fiduciary acting in his/her own interest or for his/her own account. For example, you should not act as the property manager for real estate held in your account.
- Receiving any consideration for his/her personal account by a disqualified person who is a fiduciary from any party dealing with the plan in connection with a transaction involving the income or assets of the plan. For example, you cannot pay yourself income from profits generated from the property held by your retirement account.

**For more information about prohibited transactions, refer to IRS PUBLICATION 590 and/or IRC SECTION 4975. Please contact an attorney if you require assistance interpreting this material.**

### SUBMISSION OPTIONS

**How to Submit Your Investment Instructions** - Account Holders can submit their investment instructions by mail, fax or email; however, if the supporting documents or investment entity require original ink signature(s) please **mail** the investment directive with the supporting documents.

| Mail  | Fax                 | Email                            |
|---|---------------------|----------------------------------|
| M2 Trust Services, LLC<br>700 17th Street, Suite 1100<br>Denver, CO 80202 | Fax: (720) 420-8381 | Investments@M2Trustservices .com |

### DISCLOSURES

M2 Trust has not and will not complete any due diligence with regard to investments and will not question or review the Account Holder's investment decision. Investment decisions within an account are made entirely by the Account Holder, who is responsible for the selection and management of all investments held in the account. M2 Trust typically processes this paperwork within three (3) business days, unless expedited service is requested (at an additional cost). Expedited service requests do not guarantee same-day service. If expedited service is requested, all required documents must be submitted with the investment directive form at the same time. M2 Trust charges a transaction fee to process real estate transactions and an asset holding fee each quarter, per property. If the purchase of property involves debt financing the account will be charged an additional transaction fee and an asset holding fee each quarter for each note payable. Investments may be subject to review by M2 Trust prior to funding in order to determine administrative feasibility. M2 Trust reserves the right to: 1) charge a nonrefundable special services fee for such reviews; and 2) not process any investment which it determines contains administrative, management or safekeeping requirements beyond its capabilities or expertise. M2 Trust is required to report fair market values of assets held in the account. Property valuations will be requested by M2 Trust every three years. Valuations from Realtors using comps is acceptable except when there is a taxable event, such as distribution of the asset to the Account Holder or required minimum distributions become mandatory. Whenever a taxable event occurs the Account Holder will be required to provide an actual appraisal for the property.

The investment is NOT insured by the FDIC, and is NOT a deposit or other obligation of, or guaranteed by M2 Trust. Investments are subject to investment risk, including the possible loss of the principal amount invested.