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Notes for an IRA account owner before making a loan from your IRA Account

Making a loan from your IRA account can be an excellent way to earn returns with little effort on your part. The vast majority of loans are repaid in a timely fashion and the majority of lenders are pleased with the result.

Things you should know:

The Loan

Only make a loan if you are satisfied that the borrower is both *capable and willing* to repay the loan on the agreed upon terms.

(The IRA Company does not investigate the history or credit information of the borrower.)

Payments

Payments are made directly to your IRA account (not to you personally).

Many loans are written with a “balloon payment”; i.e. all the payments (both principle and interest) come due at the end of the term of the loan. This may make sense as it gives the borrower full use of the funds for the longest period of time. However, you may wish to require periodic payments (monthly or quarterly etc). Establishing a pattern that starts the borrower on the path of making payments early can be a good idea (and is the method we suggest you use).

Collateral or Debenture

If this will be a debenture loan (no stated collateral) please be extra sure to carefully investigate the borrower (see step 1 above).

Questions:

Ask all the questions you can think of. Don't be embarrassed to ask for proof of the statements made by the borrower.

Remember the last time you borrowed money from a bank? They asked a million questions and required proof of many of your statements. Now you are the Bank; take your time and to get your questions answered.

Lawyers:

Although not a requirement we suggest you consider hiring a local qualified attorney to review the loan document.

An ounce of prevention now is better than a pound of cure later.