

HOLDING PRIVATE DEBT INVESTMENTS HOW-TO GUIDE

PROCESSING CHECKLIST FOR PRIVATE DEBT INVESTMENTS

The following information must be sent to Equity Trust Company, d.b.a. Sterling Trust Company ("Sterling Trust" or "Sterling") in order to process the purchase, rollover or in-kind transfer of a private debt investment. Incomplete or incorrect paperwork may result in the delay of funding the purchase, rollover or in-kind transfer of your investment.

Notes Secured by Deeds of Trust/Mortgage or Contracts for Deed

1. Completed and signed **Investor Direction & Certification Form** (attached). Please complete Sections 1, 3, 5, 6, 7, 8 and 9 only. Sections 2 and 4 of the form do not apply.
2. **Investment Servicing Agent Agreement** (attached). The Investment Servicing Agent should be a third party or the accountholder may choose to act as his or her own unpaid agent. Neither Sterling nor the borrower (or affiliate of the borrower) may act as the agent. If you choose a third-party agent that utilizes its own servicing agreement, you may provide Sterling with a signed copy of the third-party agent's agreement in place of Sterling's form.
3. Copy of the note payable to: Equity Trust Company, d.b.a Sterling Trust, Custodian FBO: Accountholder Name, Account # _____.
4. Copy of the **Deed of Trust, Mortgage or Contract for Deed/Real Estate Contract**. The lender's information must be: "Equity Trust Company, d.b.a Sterling Trust, Custodian FBO: Accountholder Name, Account # _____ and Tax ID #05-0552743."
5. If you are purchasing an existing deed of trust/mortgage, include a copy of the note endorsement and assignment of deed of trust/mortgage or transfer of lien. The assignee must be: "Equity Trust Company, d.b.a Sterling Trust, Custodian FBO: Accountholder Name, Account # _____ and Tax ID #05-0552743." Also include copies of any prior debt instruments that have been transferred or renegotiated.
6. If payments consist of principal and interest, provide a copy of the amortization schedule.

If the account will only own a portion of the note and deed of trust/mortgage, specify the undivided interest on the note and deed of trust/mortgage and any assignments and provide a separate amortization schedule reflecting the account's proportionate share of the principal and interest payments.

**Sterling will no longer process unsecured loans to individuals.

Private Offering of Corporate Debt

1. Completed and signed **Investor Direction and Certification Form** (attached). Please complete Sections 1, 3, 5, 6, 7, 8 and 9 only. Sections 2 and 4 of the form do not apply.
2. Completed and signed **Subscription Documents, Purchase Agreement, or Investment Agreement**. (This will be provided to you by the Investment Entity.) Please provide all pages of the documents. The named purchaser/investor must be "Equity Trust Company, d.b.a. Sterling Trust, Custodian FBO: Accountholder Name, Account # _____ and Tax ID #05-0552743."
3. **Investment Servicing Agent Agreement** (attached). The Investment Servicing Agent should be a third party, or the accountholder may choose to act as his or her own unpaid agent. Neither Sterling nor the borrower (or affiliate of the borrower) may act as the agent. If the notes are issued under a Regulation D private offering and a third-party servicing agent is named within the PPM, then Sterling's **Investment Servicing Agent Agreement** is not required.
4. Copy of the debt instrument payable to "Equity Trust Company, d.b.a Sterling Trust, Custodian FBO: Accountholder Name, Account # _____."

REV 05/09

CONTACT US

P.O. Box 2526
Waco, TX 76702-2526

800.955.3434
254.751.1505
Option 2, IRA Services
Option 5, Sales

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5. **Private Debt Representation Letter** (attached) completed and signed by the Investment Entity. This form is only required if not previously provided to Sterling by the Investment Entity.
6. Copy of the filed **Articles of Incorporation, Certificate of Limited Partnership, Articles of Organization** or other organization filing. This is only required if not previously provided to Sterling by the Investment Entity.
7. Copy of the **Private Placement Memorandum** or other offering documents related to the investment. This is only required if not previously provided to Sterling by the Investment Entity.

Important Points to Know

- Sterling does not accept unsecured loans to individuals or loans secured by vehicle titles or other personal property, livestock or foreign real estate.
- Once a debt instrument has been purchased or re-registered, the original debt instrument, recorded deed of trust/ mortgage or assignments (if applicable) must be sent to Sterling to be held in safekeeping. Sterling may accept a certified copy of the original documents if a third-party servicing agent must hold the original documents.
- Investment decisions in Sterling's self-directed accounts are made solely by you and/or your authorized representative (if you have appointed one). You are responsible for the selection, management and retention/ disposition of the investments held within your Sterling account. Please refer to **Sterling's Fee Schedule** for the applicable fees associated with establishing and maintaining your account, as well as any applicable processing fees for the investment.
- Sterling is not affiliated with any investment sponsor, nor with any individual that may have sold or recommended an investment to you. In addition, Sterling does not provide investment advice or sell investments.
- Sterling has not performed any due diligence review of any investment. Sterling processes investments at your direction and Sterling's actions should not be construed as any endorsement of the investment or any determination as to whether the investment complies with the laws and regulations issued by the Internal Revenue Service, the Department of Labor or any other federal or state regulatory agency.
- Please read the attached **Frequently Asked Questions** for other important information you should know.

If you have any questions, please contact our IRA Client Services Department at 800.955.3434, ext. 5396, or if you have a Qualified Plan, ext. 5395.

Additional Resources

The following web sites provide helpful information and resources for investor education. Each site provides guidance and tips that may assist you with your investment decisions within your self-directed account.

- Securities and Exchange Commission: www.sec.gov/investor.shtml
- North American Securities Administrators Association: www.nasaa.org/investor_education/
- Internal Revenue Service (for Publications 560 and 590): www.irs.gov
- California Department of Corporations: www.corp.ca.gov/outreach/outreach_resources.htm

PRIVATE DEBT INVESTMENTS

FREQUENTLY ASKED QUESTIONS

What types of private debt investments can I hold within my Sterling account?

Types of private debt investments that Sterling will process include, but are not limited to, notes secured by deeds of trust/mortgages, contracts for deed, and corporate debt offerings (notes/bonds/debentures).

Are there any types of investments that Sterling will not process?

Types of private debt investments that are not administratively feasible for Sterling to process include, but are not limited to, unsecured loans to individuals or individual loans secured by vehicle titles, foreign real estate, and/or personal property.

Can my Sterling account loan funds to family members or to an entity that I or a family member owns or controls?

If your IRA loans funds to certain family members (lineal descendants and spouses of lineal descendants) or an entity that you or certain family members own or control (whether controlled individually or as an officer of a corporate general partner, managing member, etc.), the transaction could possibly be a prohibited transaction under **Internal Revenue Code Section 4975**.

Sterling's policy on this issue is that if you or another disqualified person is an officer or director of the borrowing entity (or an officer or director of a corporate general partner, managing member, etc.), and you will collectively own less than 50% of the entity, then you will need to obtain a legal opinion from an ERISA or tax attorney addressed to you in which the loan transaction is discussed in detail prior to Sterling processing your investment instructions. If you, any family member or disqualified persons collectively will own 50% or more of the borrowing entity, Sterling will not process the investment even if you are able to obtain a legal opinion.

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 accountholder, other fiduciaries, certain family members (lineal descendants and spouses of lineal descendants) and businesses under the accountholder's (or disqualified person's) control. Please review **Section 4975**, **Publication 560**, and **Publication 590** for specific information and definitions.

Does there need to be a servicing agent to monitor the collection and terms of the debt instrument?

Yes. As a directed custodian, Sterling does not provide these services and requires the accountholder to either enter into an **Investment Servicing Agreement** with a third-party or to act as his/her own agent. Please review the debt checklist for complete details and requirements.

How should payments be sent to Sterling?

Payments from the borrower or servicing agent should be sent to Sterling along with a completed **Deposit Coupon**. If a payoff is being wired to Sterling, the borrower or servicing agent should fax a copy of the **Deposit Coupon**.

What do I need to provide to Sterling when a secured loan is paid off or sold?

You will need to provide Sterling with a request for reconveyance, satisfaction of mortgage, assignment, transfer of lien, etc. along with a letter of instruction for Sterling to sign the instrument and send all original loan documents to the title company or agent handling the payoff/sale.

What happens if the borrower defaults on a deed of trust/mortgage held by my account?

You may direct your servicing agent to initiate foreclosure proceedings as specified in the **Investment Servicing Agreement**. Please review Sterling's **Processing Checklist for Real Estate** for the items you will need to provide to Sterling in order for your account to hold title to any property acquired through a foreclosure.