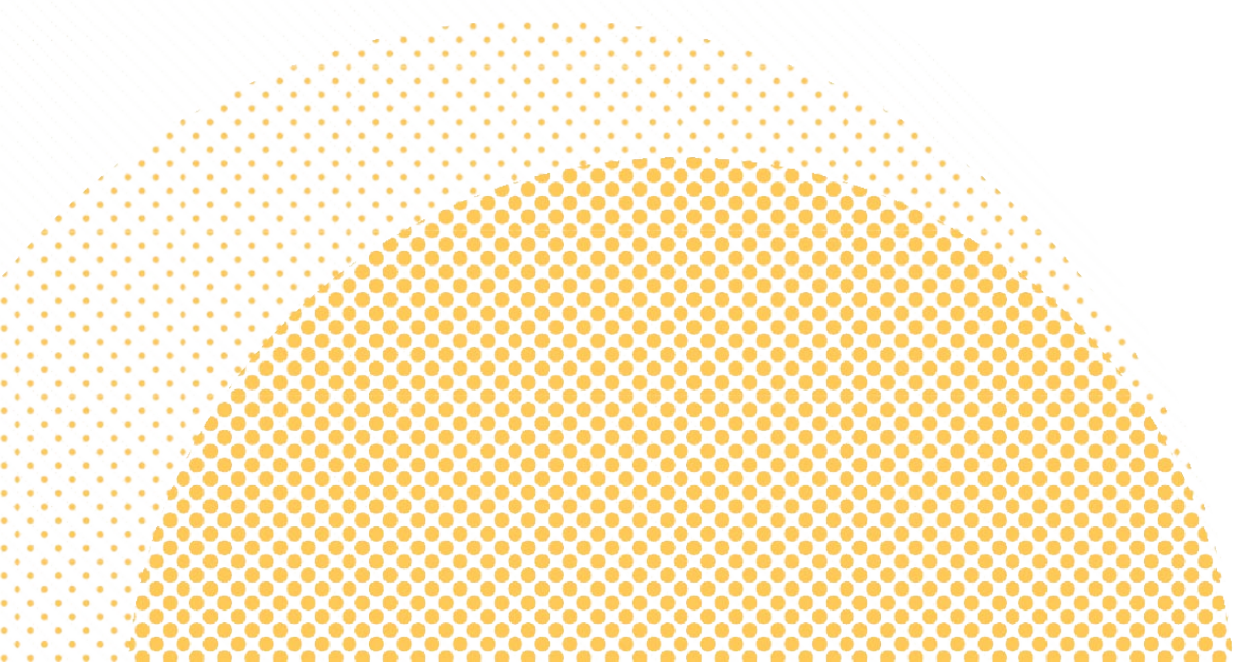


# RESOURCE GUIDE



Self Managed Super Fund  
Loan Fact Sheet



A Self-Managed Superannuation Fund (SMSF) home loan is a loan taken out by an SMSF to purchase property as part of its investment portfolio. This type of loan allows members of the SMSF to use their superannuation savings to buy residential or commercial property. Here's a comprehensive overview of how SMSF home loans work and key considerations:

## **How SMSF Home Loans Work**

### **1. Establishing an SMSF**

Before applying for an SMSF home loan, you need to set up an SMSF. This involves creating a trust deed, registering the fund with the Australian Taxation Office (ATO), and setting up a bank account for the SMSF.

### **2. Investment Strategy**

The SMSF must have a clear investment strategy that outlines the reasons for purchasing the property and how it aligns with the fund's objectives.

### **3. Borrowing Structure**

- **Limited Recourse Borrowing Arrangement (LRBA):** The SMSF must use an LRBA, where the loan is secured against the purchased property. This means that if the SMSF defaults on the loan, the lender's recourse is limited to the property alone, not the other assets in the SMSF.
- **Bare Trust:** The property is held in a separate trust (bare trust) until the loan is fully repaid, ensuring the lender's limited recourse.

### **4. Loan Application**

The SMSF trustees apply for a loan from a lender that offers SMSF home loans. The application process typically includes providing the SMSF's financial details, investment strategy, and the proposed property's details.

### **5. Property Purchase**

Once approved, the SMSF can proceed with purchasing the property. The SMSF must ensure that the property adheres to the ATO's guidelines, including the sole purpose test (the property must be used to provide retirement benefits to members).

## 6. Rental Income and Loan Repayments

Rental income from the property goes into the SMSF and can be used to make loan repayments. The SMSF can also use other funds, such as member contributions and investment earnings, to service the loan.

## 7. Property Management

The SMSF trustees are responsible for managing the property, including maintenance, tenant relations, and ensuring it remains a viable investment.

### Key Considerations

- **Compliance:** The SMSF and property purchase must comply with superannuation laws and regulations, including the sole purpose test and borrowing restrictions.
- **Costs:** Setting up and managing an SMSF can be dearer than maintaining an industry fund as it involves fees for financial advice, accounting, audits, and legal services.
- **Risks:** Property investment comes with risks such as property market fluctuations, tenant vacancies, and interest rate changes.
- **Liquidity:** Ensure the SMSF maintains sufficient cash or other liquid assets (such as shares) to cover loan repayments and other expenses.
- **Diversification:** Over-concentration in property can reduce diversification and increase risk; consider balancing the SMSF's investment portfolio.
- **Financial Advice:** Seek professional financial and legal advice to ensure the SMSF home loan aligns with the fund's objectives and complies with regulations.

### Correct structuring of purchase and other considerations

- Name contract needs to be in – Bare Trust
- Name insurance needs to be in – Bare Trust
- Name and contact details to provide to rental agent for leasing agreement – Trustee of the SMSF with contact details being the individual members
- Name for repairs invoices – Trustee of the SMSF
- Bank Accounts – Trustee of the SMSF
- Council Rates and Other Property Fees – Trustee of the SMSF

## **Example Scenario**

*John and Sarah's SMSF Entities:*

*Superfund – Freedom Super Fund*

*Trustee – Freedom Super Pty Ltd*

*Bare Trust – Freedom Property Investments Pty Ltd*

### **1. Setting Up the SMSF**

*John and Sarah established Freedom SMSF with the help of a financial advisor.*

*They create a trust deed, register with the ATO, and open an SMSF bank account.*

### **2. Investment Strategy**

*Their investment strategy includes purchasing a residential property to generate rental income and capital growth for their retirement.*

### **3. Finding a Property**

*They identify a suitable investment property in Pakenham valued at \$500,000.*

### **4. Loan Application**

*They apply for an SMSF home loan with a lender, seeking to borrow \$350,000 (70% of the property value). The SMSF provides a 30% deposit (\$150,000) from its existing funds.*

### **5. Establishing a Bare Trust**

*A bare trust is set up to hold the property until the loan is repaid.*

### **6. Loan Approval and Purchase**

*The loan is approved, and the SMSF purchases the property. The title is held in the bare trust's name.*

### **7. Managing the Investment**

*The property is rented out, generating \$20,000 per year in rental income, which is used to make loan repayments and cover property expenses. John and Sarah also contribute to the SMSF, adding to its funds.*

### **8. Compliance and Reporting**

*They ensure the property and loan remain compliant with superannuation laws.*

*They also arrange annual audits and report to the ATO.*

*By following these steps and considerations, John and Sarah use their SMSF to invest in property, aiming to enhance their retirement savings while adhering to regulations and managing risks.*

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