



SMSF Gearing Package

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Multiport's SMSF Gearing Package

Your guide to borrowing to buy residential and commercial property in an SMSF

Multiport is a leading provider of self managed superannuation fund (SMSF) and managed account administration, reporting and compliance services. We are dedicated to providing the highest level of service for a transparent and competitive fee.

We'd like to introduce the Multiport SMSF Gearing Package. Advisers and SMSF trustees can now easily access a complete gearing solution for the purchase of either residential or commercial properties via a single application.

This document explains how the service works, the terms and conditions of the service and its features and benefits.

By coupling the SMSF Gearing Package with either a daily or annual Multiport SMSF administration service, you can enjoy a fully integrated gearing solution that utilises our significant industry expertise and deliver a successful and compliant outcome for your SMSF.

An exciting new opportunity

You can now borrow money to buy property in your SMSF. If this strategy is appropriate for your circumstances, the potential benefits can be considerable. Some of these include:

- the ability to reduce your Capital Gains Tax position (potentially to zero)
- fast tracking the growth of your super fund (if you choose your property investment well)
- having the ability to combine the total superannuation of a family group towards a property investment, and
- expansion and leveraging the assets of the fund
- using your SMSF to acquire an asset that you may feel more comfortable with

Before you get started there are a few terms you should be aware of. In order to borrow to invest in property in an SMSF your fund needs to enter into a Limited Recourse Loan Structure. The entity that buys the property is a Bare Trust. The overall structure is referred to by lenders as a Security Custodian Trust. The Lender may be a bank or other financial institution or could be you, a related party.

As you can see, the rules for this type of borrowing are complex.

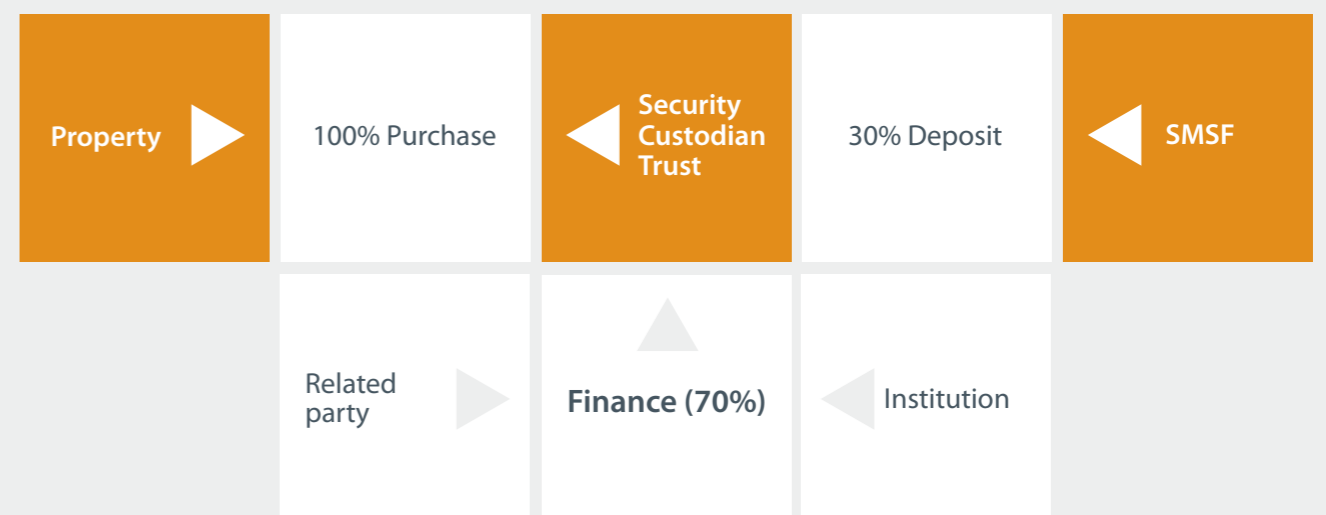
For an SMSF to borrow to acquire property it must establish a "Security Custodian Trust" structure. When your SMSF applies for a loan using the Multiport SMSF Gearing Package, Multiport will arrange for the preparation of all the required documentation. This will usually include establishing a company to act as trustee for the Security Custodian Trust if you do not already have one.

When financing your loan for the purchase of your SMSF property, there are a number of conditions you must adhere to. These include:

- The property must be purchased in the name of the Security Custodian Trust when you borrow to purchase property within your SMSF.
- All directors of the Security Custodian Trust must sign the Purchase Contract.
- It is recommended that the Purchase Contract be signed 'subject to finance'.
- You must not put the name of your SMSF on the Purchase Contract.

As part of our facilitation service, Multiport can ensure all these aspects are expertly managed for you.

Example



In this diagram, the lender could be either a bank or a related party.

How does it work?

There are a number of steps involved in borrowing to invest in property through an SMSF. Multiport's SMSF Gearing package can simplify this process.

Property is purchased by the Security Custodian Trust

The Security Custodian Trust is an entity that must be established completely separate from your SMSF. The Security Custodian Trust will usually need to have a company as a trustee as this is generally required by banks. When an SMSF wishes to borrow to purchase a property, the property must be acquired by the Security Custodian Trust and not the SMSF directly. The property purchased is held on trust by the Security Custodian on behalf of the SMSF which has a beneficial right (but is not obligated) to acquire the property from the Security Custodian at a future point in time, generally when the loan is repaid.

Loan is made to the SMSF

Although the Security Custodian Trust actually purchases the property, it is the SMSF that borrows from the lender to fund the property purchase. In return the trustee of the Security Custodian Trust will provide a mortgage over the property purchased to the lender as security for the SMSF borrowing (which must be a Limited Recourse Loan).

Limited Recourse Loan

The Security Custodian Trust will provide the property purchased as security for the loan made to the SMSF. This is the only asset that can be pledged to the lender as security for the loan made to the SMSF. In this way, the lender's right to recover is limited to the property purchased in the Security Custodian Trust. This means that in the event the SMSF defaults on the loan the lender can repossess or sell the property only - they cannot repossess or sell any other SMSF asset.

SMSF acquires the property from the Security Custodian Trust

Importantly under the above arrangement the SMSF must have a right to acquire legal ownership of the property from the Security Custodian Trust by making agreed instalment payments after the property is purchased. Practically, this means that under the above arrangement the SMSF will acquire the property from the Security Custodian Trust through a series of agreed instalment payments which typically will work as follows:

1. The SMSF invests an initial deposit as part of the property purchase price;
2. The SMSF makes repayments until the debt is repaid in full.

Property income and expenses

As the SMSF is the beneficial owner of the property (with the Security Custodian named as the legal owner of the property until the loan is repaid) the SMSF is entitled to all rent and is responsible for paying all property expenses such as rates, insurance etc. The rent must be deposited to the cash account of the SMSF and expenses must be paid from that account.

Repayment of loan to lender

On the repayment of the loan the property purchased is typically transferred from the Security Custodian Trust to the SMSF. Based on current legislation and assuming the above arrangement has been correctly implemented, the transfer will not generally be subject to CGT and nominal stamp duty should apply. Through the Multiport administration service, we assist you to meet all the requirements of the law.

What happens if the property is sold?

Should the property be sold, the SMSF trustee, must use the proceeds of sale to repay the loan. The balance of the proceeds of sale can then be kept in cash within your SMSF or used to buy another asset. However, the existing loan cannot be used to buy another asset as it will be deemed to have been cancelled upon repayment.

Why do I need a corporate trustee?

Establishing a corporate trustee for both your SMSF and the Security Custodian Trust is an essential part of the process associated with using your SMSF to purchase a geared property where the lender is a bank or financial institution.

The majority of financial institutions require that a separate corporate trustee is established for each of the SMSF and the Security Custodian Trust.

Where the lender is a related party it is not always necessary to have a corporate trustee.

As trustees of an SMSF, the additional benefits of having a corporate trustee may include:

- enhanced flexibility in relation to estate planning because the trustee does not need to change.
- administratively easier to add, or remove members from your SMSF without having significant paperwork, and
- administratively simpler for establishment of broking accounts and naming of assets with registries.

Multiport can simplify the process

SMSF gearing arrangements can be complicated and it is important to undertake the structuring arrangements in the correct order. Failure to correctly implement the above arrangements may result in a breach of superannuation laws. The breach may mean the SMSF is non-complying, which in turn may result in significant tax penalties or even civil or criminal consequences for you as trustee. So it is important to get it right. As a result of this complicated process Multiport will attend to the entire setup process ensuring the property finance is executed correctly.

How long will it take?

You should allow approximately 60 days for completion of the process from the time you complete the application form to settlement of the property transaction. This period can however be longer in some cases.

Timeline of establishing a New Fund Vs Existing Fund

| New Fund | 1 – 2 weeks | | | 4 – 6 weeks | | 6 – 8 weeks |
|--|---|--|---|--|--------------------|--|
| Client submits application for a new SMSF and Gearing package (including Corp. trustee for SMSF) | SMSF Established and rollovers in process | Indicative Finance Approval | Security Custodian Trust and additional Corporate Trustee established | Client completes bank Document package | | Bank Completes loan application/ process Documents Settle on Property |
| Existing Fund | 1 – 2 weeks | | | 4 – 6 weeks | | |
| Client submits Gearing package Application | Indicative Finance Approval | Establish Security Custodian Trust and Corporate Trustee | Client completes bank document package | Bank Completes loan process & document package Documents | Settle on Property | |

Solution provider

Multiport is the facilitator of the SMSF Gearing Package. We do this by bringing together all the providers and services needed to enable you to successfully use gearing to invest in property through your SMSF. In order to use the SMSF Gearing Package, you will need to utilise a Multiport administration solution for the ongoing administration of your SMSF. We would be happy to discuss which administration service is best suited to your needs.

Relationships

Multiport has an agreement with SMSF Loans Pty Limited (SML). Where you are looking for bank funding they will source a loan that suits your requirements. Fees for these services are included in the fees you pay Multiport except where listed separately in this document.

Your adviser may be eligible for an introduction fee of up to \$1,000. This fee is part of the package price and is not an additional cost.

Process

New funds (ie those not currently established)

Multiport establishes the SMSF and corporate trustee under our normal establishment process and at standard costs.

New or existing funds (including those already using Multiport):

Step 1: Client engages Multiport to source a packaged SMSF gearing solution, to provide data to third parties and to confirm pre-payment of the fee.

Step 2: SML works with Multiport and the bank to fulfil all legal and Security Custodian Trust requirements and satisfy bank requirements to complete financing.

About the SMSF Gearing Package

The following features are included in the SMSF Gearing Package and are covered by our fee.

- Security Custodian Trust Deed
- Review of existing SMSF Trust Deed (where applicable)
- Establishment of a new corporate trustee for the Security Custodian Trust (if applicable)
- Stamping of the Security Custodian Trust
- Processing and relationship management with third parties
- Assistance and communication of timeframes to trustee/adviser

What does it cost?

There are two types of arrangements and the cost depends on who the lender is.

Bank Funded Loan

For a bank funded loan, the package fee for the facilitation of this service is \$3,295.

This fee excludes the bank application fee, bank legal fee and bank legal review fees as these vary between providers. The combination of these fees could range in cost from \$2,000 to \$3,500.

We will be able to provide you with a more precise cost estimate once the preferred lender is known.

Other costs may apply if you need to set up an SMSF and your bank may also charge additional fees. Costs such as conveyance costs, valuations, inspections and stamp duty apply to any property purchase and these are charged by the service provider you choose and the relevant state government based on the price of the property.

| Establishment costs | New fund | Existing fund |
|--|----------------|--|
| Create fund | \$660 | N/A |
| Corporate trustee of SMSF fund (highly recommended) | \$695 | \$695 (waived if already in place). |
| SMSF Gearing Package | \$3,295 | \$3,295 |
| Sub total | \$4,650 | \$3,990 |

Where the property purchase and use of the Multiport SMSF Gearing Package does not proceed beyond pre-approval stage, Multiport will refund the package fee less \$500, the amount of which reflects the initial work undertaken.

Related Party Loan

The package cost is \$1,650. If a new SMSF is to be set up, the fee is an additional \$660. If a corporate trustee is required the cost is \$695.

Ongoing SMSF administration

Depending on your needs as the SMSF trustee, Multiport can offer both a daily administration and compliance service as well as an annual service.

Our daily administration service is generally best suited to an SMSF with multiple assets, including the property, or where a higher level of transactions are likely to take place over the course of a year. Our daily administration service is also well suited to circumstances where frequent monitoring of SIS compliance obligations is preferred. Under this administration option, clients and advisers also receive full website access to view daily updated portfolio valuations, transactions, tax records etc, as well as quarterly reporting.

Our annual administration service is suited to SMSF trustees with a limited number of assets and lower transaction volumes who don't require the functionality of web access and regular reporting.

Our ongoing administration costs are shown in the table below.

Please call us on **1300 364 672** and ask to speak to any of the gearing specialists to discuss which service may be best suited to your needs.

| Ongoing costs | Annual administration | Daily administration |
|-----------------------|-----------------------|-------------------------------|
| Administration | \$1,850 per annum | Starting from \$260 per month |
| Audit fee (per annum) | \$330 - \$550 | \$330 - \$550 |
| ATO levy (per annum) | \$150 | \$150 |

Important information

Privacy Statement

Multiport is committed to protecting your privacy.

Respect for your personal information is your right and our duty. Multiport has always protected the privacy of our clients' personal information. Multiport's Privacy Policy explains to you our approach to managing your personal information. If you have any questions in relation to our privacy policy feel free to contact us on (02) 9230 0177.

Multiport Privacy Policy - collection, use and disclosure of personal information

Multiport collects personal information about you to provide you with the products and services that you request. In most instances, we collect your personal information from you when you fill out an application form, but we may also collect information from you which you provide to us over the telephone or internet. In some situations, we may collect your personal information from a third party such as your financial planner, adviser, accountant or another organisation with which we have an arrangement for the promotion and sale of products and services offered or distributed by us.

The type of product or service you request will determine the type of personal information we collect. When we have collected your personal information, we use it to provide you with a product or service appropriate to your needs.

Multiport may disclose some of your personal information to external organisations who assist us in administering the provision of the products or services to you. An example of this is where your financial planner, adviser, or accountant works with us to provide products and services to you.

Like other financial services companies, there are situations where Multiport may disclose your personal information in circumstances where it is:-

- required by law (such as to the Australian Tax Office), and
- authorised by law (such as where we are obliged to disclose information in the public interest or to protect our interests).

We may also use your personal information to keep you informed of new products or special arrangements offered or distributed by us. Again, when conducting our marketing activities, we may disclose some of that information to our service providers.

Fees

SML Loans Pty Ltd may receive remuneration from banks from which they secure finance for you. Multiport receives a one-off flat introduction fee from SMSF Loans. Multiport receives no ongoing fees from banks or any other third parties. Your adviser may also be eligible for an introduction fee of up to \$1,000. This fee is part of the package price and is not an additional cost.

Should the property purchase or requirement for finance not proceed after pre-approval is secured, the establishment fees are non-refundable.

Advice Warning

Multiport (whether directly or via associated entities) is an administration service and therefore is not providing advice to you in relation to the borrowing of money or purchasing property.

Where this publication refers to a particular financial product then you should obtain a Product Disclosure Statement (PDS) relating to that product and consider the PDS before making any decision about whether to acquire the product. We also recommend that you should seek professional advice from a financial adviser before making any decision to purchase any financial product referred to on this website. While the sources for the material are considered reliable, responsibility is not accepted for any inaccuracies, errors or omissions.

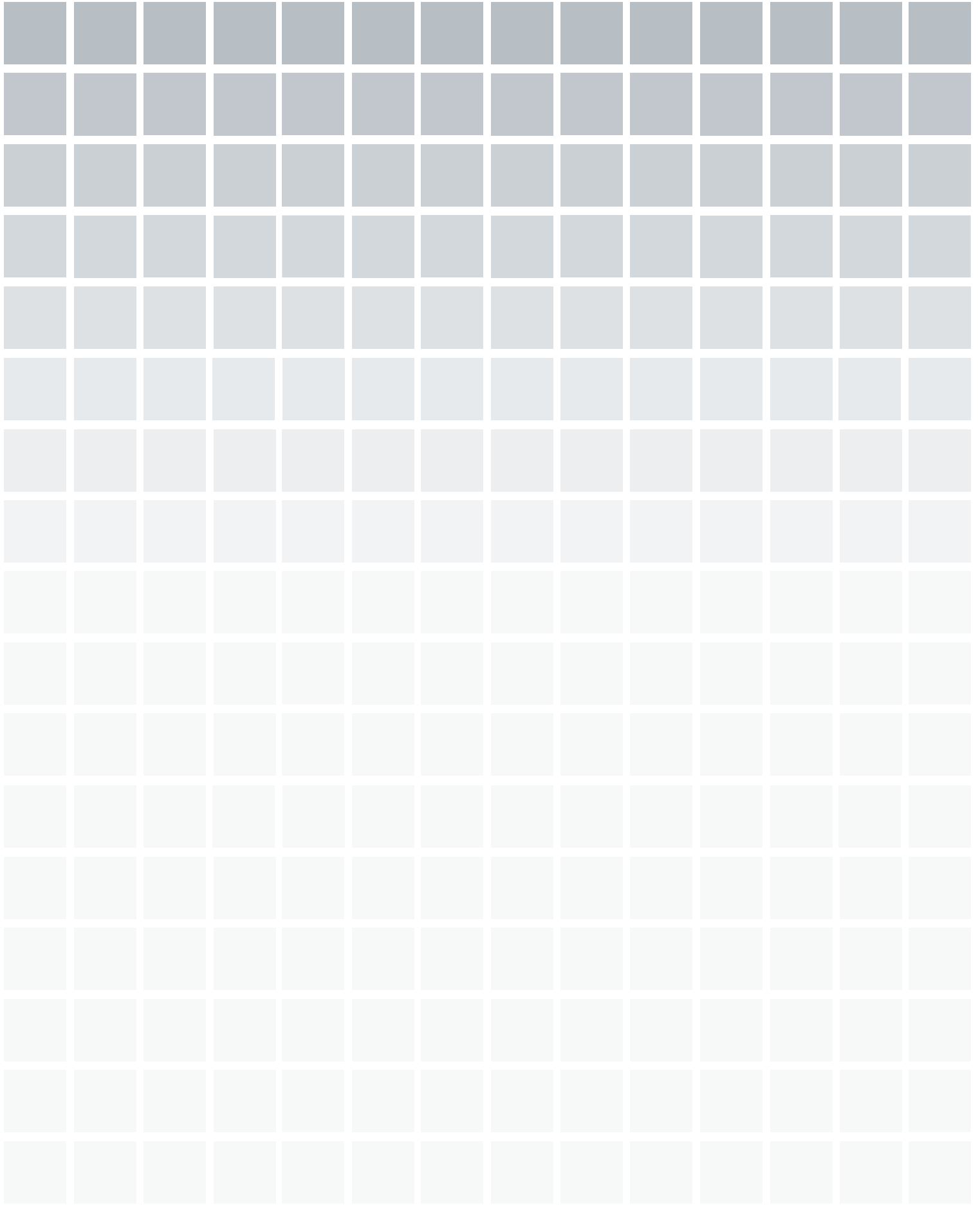
Anti-Money Laundering and Counter-Terrorism Financing

Multiport is required to comply with the Anti-Money Laundering and Counter-Terrorism Financial (AML/CTF) Act. This means before we can provide services you need to provide certain identification information and verification documentation.

We will need to identify and verify you prior to processing your instructions. We cannot assist in the arrangement of your finance on your behalf until all relevant information has been received and your identity has been satisfactorily verified.

The customer identification requirements form part of your application. You will need to complete and attach any necessary supporting documentation to the application to ensure successful and timely processing. In some circumstances, in accordance with the AML/CTF legislation, we may need to verify information or require additional information from you.

You acknowledge if we deem that the application may breach our obligations, or cause us to commit or participate in an offence under the AML/CTF Act, and we will incur no liability to you.



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