

Steps to borrowing through your SMSF

How does buying through your SMSF work?

The structure to set up borrowing through a SMSF along with compliance regulations can be complex to understand. So it's important that you obtain specialist financial planning, accounting and legal advice to make sure this investment strategy is right for you.

If you already have a SMSF, you will need to make sure you have the necessary authority to borrow under your fund via specialist advice. The Loan Studio SMSF property investment specialists can help explain the process and set up your loan structure.

Step One - Set up a separate security trust

The first step to purchasing an investment property through your SMSF is setting up a separate security trust on behalf of your SMSF. This new security trust will buy and hold the property, and provide a guarantee for your loan.

Loans to SMSFs are 'limited recourse loans', this means that if you default the bank can only access:

1. the investment property
2. other property securing the loan

(The bank won't be able to access your other super assets.)

Step Two - Funding your investment

Like regular property investment, you'll need a deposit from your self managed super fund, and a loan to cover the difference. You'll need to take into consideration how much the bank will lend you, and how much your SMSF will need to provide.

When you compare the loans offered by different banks, check interest rates carefully. Some lenders charge their regular home loan rates, while others use higher business loan rates.

Step Three - The Security Trust buys and holds the property

The Security Trust buys and holds the property on trust for your SMSF. Rent payments flow through to your SMSF and help pay off the loan. If this rent doesn't completely cover your loan repayments, the extra needs to come from your SMSF. You'll need to consider your cash flow when thinking about this investment type, professional advice is important.

Step Four - After the loan is paid off

Once your loan is fully repaid, the property can be transferred from the security trust to your SMSF.

Want to know more?

Do you have a smsf and are ready to buy an investment property?

Before you start searching, talk to us. We can help you through the process, so you're ready to start investing in property.