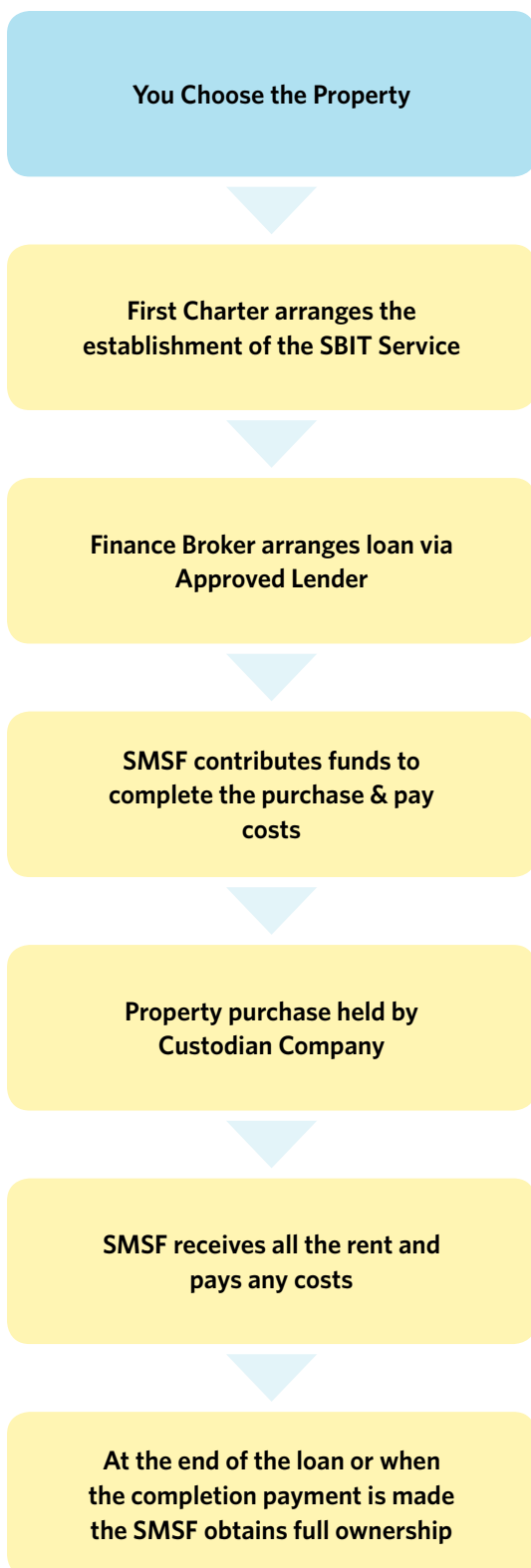


Super Borrowing Instalment Trust Service

designed for Financial Advisors, Accountants, Finance Brokers, Real Estate Agents and Trustees of Self Managed Super Funds.

This service is designed to assist you and your clients to establish the facility required to enable them to purchase property through their super fund via an installment trust facility using borrowed funds from an approved lender. It is crucial to have the process done correctly. It is a complicated process for both the clients and the agents involved that unless they have the time and expertise to navigate through the paperwork & structures needed, to successfully complete the transaction.



Overview

An amendment was made to the superannuation Industry (Supervision) Act in September 2007, which allowed super fund to borrow to invest in an Installment Warrant, provided certain conditions were met. Whilst the amendment was originally done to allow funds to invest in installment warrants over shares, the changes to the act were much wider than anticipated and now allow self managed super funds to borrow to purchase a wide variety of assets including property.

How does the structure work?

The super fund Trustee borrows money under a limited recourse loan and uses this money to invest into a special purpose trust. The special purpose trust is asset specific (the trust can only be set up and used for a single asset and is prepared solely for this use, a standard unit trust can not be used). The special purpose trust buys an approved asset such as an investment property, business real property or shares. The super fund trustee has an obligation to make further payments for the asset under an installment agreement over a period of time. Once the super fund has paid the total instalments they can then call for the transfer of the asset.

Financiers, including some major banks are already providing facilities to lend to the Super Installment Trust facility.

What sort of property can be purchased?

- Residential Investment Property
- Commercial, Industrial and Retail Investment Property
- Owner Occupier business premises (business real property)

What are the opportunities?

- The super fund can borrow to acquire assets it may not be able to afford to purchase and pay them off over time.
- The super fund can accelerate the purchase of the property using large tax deductible contributions to the super fund.
- The super fund obtains the income and capital growth from the asset from the time of acquisition.
- A business can borrow funds via the super fund asset

to purchase a premises to operate a business from.

- The fund could purchase business real property or a portfolio of listed securities from a related party.

What are the risks and costs?

- Set up costs
- The lender will charge a premium due to the limited recourse nature of the loan
- It is a time consuming drawn out process to set up the initial facility
- Some banks are not keen to lend due to the previous borrowing restrictions
- Borrowing costs from the lender
- Need to be conscious of the super fund cash flow and it's ability to repay the loan particularly if the fund is paying a pension
- Stamp duty or capital gains may apply if the asset is transferred from a related party
- GST need to be allowed for in the super fund cash flow, when purchasing commercial property (though it is refunded by the ATO once the purchase is completed)
- The arrangement may not be available for ever. There is a risk that the provisions may be changed by legislative amendment or Australian Taxation Office rulings.

What are the documentation and legal requirements?

- Special purpose company to act as custodian
- Trust Deed for the special purpose trust
- Loan agreements between the special purpose trust and the super fund
- Preparation of loan applications from the lender
- Personal Guarantees (if required)
- Advice on Stamp Duty and legal sign off of the arrangement

First Charter facilitation

The First Charter services is designed to save you time and facilitate establishment of the Super Borrowing Instalment Trust Service.

How much does it cost to set up?

Following is an indication of the likely costs which will be incurred, with the establishment of the structure:

- Establishment Fee
This fee is payable when you submit an application. This is a fee for processing your application and establishing the Custodian and Security Trust.
\$3,300 inc GST

Other Costs

- Review of existing super trust deed to permit borrowing (if required) and legal sign off
- Bank application fees, agreements, valuation, security documentation, guarantees etc – quoted by the lender
- Stamp duty and registration
- Settlement or Conveyancing costs

The above cost will vary bases on the complexity of the structure. We can provide you a fixed quote prior to proceeding.

Once the initial structure is in place additional trusts can be set up for different assets for a fraction of the cost.

How to find out more?

If you would like to know more abobout this service or obtain a free quote or would like to know more about our other services please contact us.

Disclaimer

Prior to deciding to invest, potential investors should read this flyer in its entirety and consider the risk factors that could affect the performance of the service. Prospective investors should note this flyer has not been prepared with the objectives, financial situation or particular needs of any particular person or class of persons in mind. As such, the directors of the First Charter Asset Management Pty Ltd recommend that prospective investors obtain independent advice from an appropriately qualified person(s) in relation to any proposed investment to be made pursuant to this Flyer.



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