

# BORROWING IN A SMSF

## SMSF LENDING

In 2007 Legislation made it possible for investors to borrow within their Self Managed Super Funds (SMSFs). Since then according to the latest statistics released by APRA and the ATO the SMSF Sector has grown to a size of approximately 600,000 SMSFs with around \$653.8 billion of assets.

Some of the benefits of having an SMSF are –

- The rental is not considered as a contribution
- SMSF loans are non-recourse loans
- Check with your Accountant - property held in the pension phase has a nil tax rate on income and capital gains tax

However, SMSF lending is complex and borrowers will need to ensure they have a qualified Accountant, qualified Financial Planner and a Lending Professional who understands SMSF loans and their requirements.

The requirements for SMSFs to borrow include.

- Borrowed money must be used to acquire an investment asset that complies with legislative requirements.
- The asset has to be held in a trust that has a trustee known as the custodian which must be separate from the actual SMSF.
- The SMSF Trustee purchases the property but the property must be held on trust for the SMSF by another third party entity, i.e. The Property Trustee. The Property Trustee then grants a real property mortgage over the property to the Lender.
- The SMSF pays the deposit, legal costs and stamp duty and borrows the balance from an SMSF Lender.

The most common issues that Lenders see include:

- Bare Trust and / or Trustee have not been created
- Contracts exchanged in wrong name
- Funds still in an industry fund (rollovers can take 4 – 6 weeks so this can relay delay the process)
- No Financial Advice in place
- Trust Deeds are not set up correctly for SMSF Lending

These issues can take weeks to resolve which means buyers could miss out on buying a particular property because they have not been properly prepared to make an SMSF purchase.

It is also important for buyers to note:

- Loan to Valuation Ratio are lower on SMSFs – usually only up to a maximum of 70%
- Higher interest rates apply for SMSF Lending
- Buyers need to have a minimum of \$200,000 in Superannuation to be eligible
- Lenders are currently limiting interest only loans; and,
- There are stricter servicing rules

SMSF Lending can be a fantastic way of preparing for your financial future but having the right team of professionals is essential to help buyers understand the process and pave the way for a smooth transaction.

Consult your Lending Professional for more information about SMSF loans.