

Self-Managed Super Fund (SMSF) Loan

Using your superannuation to invest in property is a highly complex matter. Not only do you need to consider the restrictions on the property that you can invest in under SMSF, you will also need to understand Australia's superannuation laws, contribution limit, restrictions on accessing your super fund money and rules around SMSF borrowing. Any mistakes made within your superannuation environment may lead to significant amount of penalty and/or failure to achieve your SMSF investment objectives. Therefore, it is crucial that you engage a qualified financial planner for advice before deciding to invest in a property using your superannuation fund.

What is the different between a SMSF loan and an Investment Loan under your name?

The nature of a SMSF loan is that it is a limited recourse borrowing. This means that a SMSF loan is structured in a way that in the event of default, the lender can only claim against the security property of the loan and not any other assets owned by you. An offset facility is usually not available with SMSF loan.

How much loan can I get?

Depending on the lender, you can generally borrow up to 70% to 75% of the value of a residential property under a SMSF loan. For commercial property, the amount of loan available is reduced to around 60% of the value of the commercial property.

How does interest rate on SMSF loan compare to investment loan?

Interest rate on SMSF loan usually is higher than the common investment property loan as it carry higher risk for the lender.

Can I get a SMSF loan for construction?

The superannuation law does not allow SMSF to borrow to improve purchased assets, hence construction loan is not available for SMSF.

How will the lender assess the borrowing capacity for SMSF loan?

The lender will consider various factors including the SMSF income, level of superannuation contribution and the potential rental from the proposed property when assessing the borrowing capacity of the SMSF. Usually 2 previous financial year's tax returns of the SMSF is required.

What types of loan repayment are available?

Both interest only and principal and interest repayments are available for SMSF loan.

Are there any other restrictions?

Generally, lenders will only lend to SMSFs that they believe have sufficient liquidity. In addition, lenders also have restrictions on the type of security property allowed. Usually, SMSF loan is not available for off-the-plan, service apartment and multiple dwelling securities. Most lenders also do not offer loan refinance for SMSF loans.

Most lenders will also require a certificate of advice provided by a qualified financial adviser or accountant before they will approve the SMSF loan. If lender requires a personal guarantee for the SMSF loan, they will require a certificate of legal advice from a lawyer.

What are the costs related to a SMSF loan?

Lenders usually charge application fee for the loan set up and legal fee to vet the trust deed of your SMSF and the bare trust. This legal fee can be significant. Other fees may include valuation fee and settlement fee. In addition, potentially you will need to incur financial planner / accountant / lawyer fees for the certificates of advice.

Disclaimer: Please note that this guide is developed without taking into account your objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice.