

## Client Guidelines – Borrowing in a Self Managed Super Fund (SMSF)

The following provides information to be considered when assessing borrowing and loan applications for SMSF. This section does not constitute lending policy (which will vary by lender), but instead provides information to assist in the overall assessment. This is a guideline only as each transaction and lender will review on a case by case basis on its merits and different credit criteria will apply for each application and lender.

### Definition

Australian SMSF's are Superannuation Industry Supervision (SIS) Act complying funds established for the collection of superannuation contributions for essentially self employed persons. Under legislative changes effected September 2007, SMSF's are permitted, as part of their investment strategy, to borrow for the acquisition of commercial and/or residential investment property.

The SMSF Trustee must confirm the property and borrowing arrangement would not breach any of the superannuation investment rules and requirements including:

- » The sole purpose test
- » The investment strategy requirement
- » The related party acquisition rule
- » The arms length dealing requirement
- » The in house asset rule
- » The prohibition against charging

### Typical Needs of clients in this area

Commercial and Residential investment property for investment purposes only. Funding for the acquisition of specialised commercial property may be considered on a case by case basis and may vary from lender to lender.

### Borrower Requirements

- » Loan purpose must be solely for funding the acquisition of the investment property
- » Acquisition of commercial property may be from a related or unrelated party subject to the transaction being of a commercial nature
- » Acquisition of residential property must be from an unrelated party subject to the transaction being of a commercial nature
- » A loan to the SMSF is to be asset specific and limited in recourse to the asset being purchased by the SMSF
- » The SMSF Trustee is to act as the borrower
- » The SMSF is to be the sole provider of loan servicing
- » A separate Trust (can be called a Warrant Trust, Property Custodian Trust, Instalment Warrant) must act as the holder of the legal title to the property being acquired on trust for the SMSF
- » This Trust must be a company entity
- » A Trust arrangement deed is to be held/established between the SMSF Trustee and the Trust providing the SMSF with beneficial interest in the property
- » Personal Guarantee is taken by the bank limited to the debt not the asset
- » Sign off is required by Financial Advisor and/or Accountant for bank to proceed

### Extension Rates (LVR's) and Loan Terms

- » For residential property general LVR is 70%, maximum loan term is 25 years (max 10 years interest only then P&I)
- » For commercial property general LVR is 65%, maximum loan term is 15 years (max 10 years interest only then P&I)

To talk further with us at CORE Lending please drop into our office at 8/9 Longland St Newstead or call us directly on 07 32 600 600 today.

