

# How to get a DIY fund loan

PUBLISHED: 21 Jul 2011

---

## Debra Cleveland

An estimated 40 per cent more do-it-yourself super funds are forecast to borrow money this year and there are a number of ways to get a loan for a fund. But it requires determination and stamina – because it's not easy.

The biggest interest in borrowing is among DIY superannuation funds wanting to buy business premises, says Crissy Demanuele, a consultant with adviser Strategy Steps.

There is also a lot of interest in residential property although this has been slightly dampened by rules specifying that you can't use the loan under which you made the purchase to make any improvements.

This would stymie plans to renovate a property or build on a vacant block of land.

It's difficult and costly for SMSFs to borrow to buy shares because individual loans have to be set up for separate assets or titles. For example, someone wanting to borrow \$60,000 to invest in six different listed companies would need six separate loan agreements.

Changes in June last year mean DIY super funds can borrow as long as they have a limited recourse borrowing arrangement – meaning the asset is held in trust until the loan is paid off and the lender can't access anything in the super fund other than the asset held in trust should a problem arise.

This sparked huge interest in gearing, with a report late last year by research house Investment Trends finding 29,000 DIY funds were borrowing, with a further 40 per cent expected to do so this year.

DIY funds have two ways to borrow (or can use combinations of both) – either via an off-the-shelf loan product from one of the banks or a related-party loan for which a fund member, family trust or company is the lender, says Grant Abbott, principal of SMSF Strategies.

The good news is loan rates at the banks are about the same as standard variable rates if the fund is borrowing to buy residential property. St George Bank's super fund home loan has a rate of 7.8 per cent. This is a change from about six months ago when these loans were at higher rates.

The bad news, says Mortgage Choice broker John Manciameli, is that applying for DIY super-specific loans from St George, National Australia Bank and Westpac is hard work. Too few DIY fund specialists at the banks mean loans become bogged down and that huge amounts of paperwork are doled out to clients' financial planners, solicitors and accountants.

Unlike dealing with standard home loans, says Emma Cunningham, principal of Aventree Financial, it's important not to focus mostly on costs such as interest rate, establishment fee and annual fee. Some establishment fees are pretty standard at \$600 and ongoing fees range from \$35 a month to \$395 a year. Far more important is the structure of the loan and what sorts of guarantees the lender requires.

In cases where the rental from the property may only just cover loan repayments, members of the super fund have to guarantee to make up the difference. Some lenders will take this a step further by wanting additional security held outside super – such as a family business.

Cunningham suggests people pay more for a loan that does not have these sorts of restrictions.

When borrowing from an arm's length lender such as a bank, says broker SMSF Loans, loan-to-valuation ratios are typically 80 per cent on residential property and 60 per cent for commercial.

Making up the difference is one reason, adds Abbott, that many DIY funds use a combination of bank loan and related-party loan. Such a loan has to be at market value interest rates and interest paid by the fund can't be higher than normal commercial rates.

"Setting up a related-party loan is sometimes simpler than dealing with the banks as the banks have quite strict



guidelines as to requirements and it just takes more time,” says Fiona Sonntag, principal of Argyle Lawyers. She recommends setting up a special-purpose company for the holding trust in which the geared asset would sit until the loan was paid off.

Dan Butler of DBA Lawyers says it’s worth having a corporate trustee for the DIY fund itself as many lenders won’t lend without one. DBA Lawyers charges \$3500 for a related-party loan package but he says it’s often as much as \$6000 once you take into account about \$500 for upgrading to a corporate trustee, \$800-\$1000 for a company custodian (of the holding or bare trust) and about \$1000 for conveyancing .

Smart Investor

## Related News

Topics [Personal Investment/Superannuation](#), [Financial Services Industry/Banking & Finance](#)



## Create an alert

Click on the links below to create an alert and receive the latest news as it happens

Topics [Personal Investment/Superannuation](#), [Financial Services Industry/Banking & Finance](#)