



## With interest rates moving fast, borrowing from your SMSF is the latest trend.

Many SMSF loans land in the set and forget strategy. As long as our fund is performing, we do not tend to look at our SMSF loans as often as we might our home and investment loans.

Using an SMSF loan to purchase an investment property can be a terrific way to diversify an SMSF's portfolio. However, having a high interest rate can potentially hinder the performance and growth of your fund.

### **With interest rates now moving fast, refinancing an SMSF loan has become popular.**

You may have seen a small drop in your SMSF property value in some states in the past 12 months, however a property purchased say five years ago would more than likely still have increased equity.

If you initially purchased your investment property with a 20% deposit and have made consistent loan repayments over five years, your property could have as much as 40% or more in equity.

***'Having your property loan nearly half repaid, you may qualify for a better SMSF loan rate than when you initially applied for the loan.'***

Another reason you may consider refinancing an SMSF loan is to gain access to more flexible loan features. These include more favourable terms and conditions such as unlimited early repayments and a free offset account.

***'Refinancing an SMSF loan can be a complex and daunting process. So we recommend you don't go it alone.'***

### **How is an SMSF loan different to a home loan?**

If you currently have a mortgage on your house, it may be tempting to think there aren't many differences between an SMSF loan and a home loan.

Yes, an SMSF loan does only require a couple of additional legal documents, however the process of buying the property can quickly become overly complicated if the documentation is not properly generated.

Refinancing an SMSF loan can take longer than refinancing a traditional loan, sometimes between four and six weeks from application to settlement. That's why it's important to familiarise yourself with the differences between an SMSF loan and a home loan to ensure your fund and loan are compliant at all times.

### **SMSF protection when borrowing**

The Limited Recourse Borrowing Arrangement (LRBA) is one of the biggest and most valuable differences. The structure of these loans protects the other assets in your super fund via limited recourse to stop the lender from laying a claim to other assets in your fund. The recourse is only associated with the loan against the asset should the fund default.

However, lenders may still ask for a personal guarantee for the full loan amount in the event the SMSF cannot make the monthly loan repayments. The risk will then apply to your personal assets (similar to your standard home loan). This means you still must find the money to make the loan repayments or you may be forced to sell the property.



## Forget that renovation in your SMSF!

A significant difference is that while you are still repaying the loan, you are prevented from making any structural changes to the property.

Yep! It is not designed for those who like to renovate to add value to appreciate a property.

### This means you cannot:

- add a granny flat to the property
- complete major renovations to the kitchen or bathroom
- add additional rooms, or
- extend or improve the property in any way.

You are only permitted to make improvements to the property that are **crucial to its function**. For example, re-carpeting after flood damage.

### Other restrictions are:

- you cannot increase the amount you are borrowing
- your new loan must be for the same amount as your existing SMSF loan, and
- you cannot acquire legal ownership of the property during the process of refinancing, meaning the property needs to stay under your fund's name even when you refinance the loan.

To learn more about the documents required to refinance, the costs involved and whether to refinance through your SMSF loan, make sure you read our topic sheet on **CONSIDERATIONS WHEN REFINANCING YOUR SMSF LOAN**.

## MOST IMPORTANTLY - LET'S NOT FORGET THE ATO RULES

Ensure your new SMSF loan is adhering to the rules and regulations set by the ATO to prevent an audit of your fund and its investment.

As always, you should always seek independent financial advice before making any decisions relating to your SMSF loan(s).

**If you want a quick chat to explore whether your SMSF loan is worth refinancing, feel free to reach out.**

Contact us to read  
**'Considerations when refinancing your SMSF loan'**

