

Thinktank..

SMSF LRBAS

ALTERNATIVE PRODUCT ROADMAP

An increasing amount of borrowers have been looking at using their super to invest in property via SMSFs and turning to brokers to help them take out SMSF LRBAs. In this alternative product roadmap, partnered by Thinktank, Per Amundsen, head of research at Thinktank, explains what these are and how brokers can write them

Q. What are SMSF LRBAs and what do they help borrowers do?

An SMSF LRBA (limited recourse borrowing arrangement) loan allows borrowers to invest superannuation savings in direct real estate that is highly tax-effective. The major benefit of this loan type is that it opens up choice to individual savers/investors which is not available in any other way.

Given the popularity of the direct property asset sector in Australia, this is a real factor for individual investors who want to take advantage of what they see as a sound long-term investment as part of their wealth management plans for retirement.

It's true that SMSFs can invest in this sector without borrowing/gearing. But in practical terms, this is difficult given the cost involved, be it for residential or commercial properties.

Borrowing for investment in real property is an accepted and entirely reasonable alternative to take advantage of that option in an SMSF and commonly fits very comfortably within a fund's investment strategy.

Informed wealth management, legal and tax advice is always strongly recommended.

Q. How easy/difficult is it to introduce this product into the client conversation?

By taking some time and effort to introduce the SMSF LRBA option to your client, you can make the decision process relatively easy.

The first question to ask is: 'Do they have an SMSF or are interested in starting one?' The key will be whether they are interested in having a more direct role in managing their super investments. If the answer is yes, then an SMSF will certainly be worth considering.

The next question to ask is: 'Does direct property appeal as an attractive investment?' To arrive at this answer,

your client should first seek informed professional advice to ensure their circumstances make this a practical option, and that their super savings and contributions profile are adequate.

If all these boxes are ticked, then you're in a great position to take them through the next steps to setting up the finance.

Q. What is the product lead time to settlement?

There are a number of factors that will determine the lead time to settlement. Does your client already have an SMSF? Have they found a property they might be interested in? Have they already discussed with a licensed financial adviser what is involved in starting an SMSF and using an LRBA to assist in acquiring the property?

Generally, we find that the lead time is longer than for most other mortgage products (six to eight weeks) due to the factors above and how various elements need to be



Thinktank Commercial and Residential SMSF

Commercial

- \$3 million max loan size
- Purchase/refinance of complying LRBAs (institutional and related party)
- 30 years max loan term
- 75 per cent LVR in addition to GST funding available
- No ongoing fees or charges
- Project contributions utilised
- SOA and other alternatives available
- Variable commission arrangements
- All structures and funding types considered
- In specie transactions (business real property only)
- Tenants in common
- Unit trust structure that comply with in-house asset rules

Residential

- \$1.5 million max loan size
- Purchase/refinance
- 80 per cent max LVR*
- 30 years max loan term
- No ongoing fees or charges
- Project contributions utilised
- Competitive establishment and lender set-up fees

**subject to acceptable security parameters*



Per Amundsen
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conducted in a particular way before signing a contract of sale or bidding at auction.

However, with a property under contract and all matters essentially in hand, it can be just as quick as any standard residential or commercial loan.

Q. Which clients is it suitable for?

The LRBA option is suitable for those with an existing SMSF or someone wanting to establish a new SMSF.

It is ideal for a client with a reasonable level of superannuation savings who has confidence in residential or commercial property as a long-term investment. A prime example of residential would be a middle-aged PAYG couple with combined super accounts totalling at least \$250,000 at the time of settlement.

From a commercial perspective (which represents more than half the opportunities we see), a common profile would be a couple who are self-employed and have run their own business successfully for some years

from leased premises that they would now like to buy. This commercial property type of investment is quite different and is usually a little more involved but can be a tremendously beneficial approach for owner operators with a long-term view towards retirement.

Whether for residential or commercial purposes, it's very important to make your client aware from the outset that they need to be prepared for the extra time and effort required to set up this type of loan, both on their part and yours. They need to be genuinely serious so they don't lose interest in the goal and realise they are taking on a large degree of ongoing responsibility when they decide to set up an SMSF.

Q. How much can brokers make writing these loans and how long do they take to write?

Upfront and trail commissions are generally about the same as other loans. Commission arrangements with Thinktank for commercial

SMSFs are adjustable, with average upfront and trail commissions seeing 0.5 per cent and 0.25 per cent per annum, respectively.

As the expected duration of an SMSF is longer than a standard loan, you should expect to be earning a full trail commission for many years longer than a standard loan.

The flow-on benefit from this type of loan is it enables you to develop an even stronger relationship with your client given the level of involvement, often leading to more business and referral opportunities.

Q. Do brokers need to upskill or is this a pure referral model?

An SMSF LRBA is definitely an upskill opportunity, and Thinktank is keen to work with new entrants to the market in providing seminars and workshops.

While it may not be for everyone, developing expertise in providing SMSF LRBAs can be well worth it, both from a business point of view and the professional satisfaction of assisting people to achieve their financial goals. ■

Redefining commercial finance

Thinktank has a proven track record of providing straight forward commercial property finance solutions, with no surprises.

Support your self-employed and investor clients with:

- 'Set and forget' loan terms from 6 months to 30 years
- Purchase, refinance and equity release (\$100K – \$3M)
- SMSF finance options
- National Relationship Manager support
- The deepest commercial property experience in the market

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