Webinar – Get ready for the shift to SMSF Commercial Lending

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Good afternoon, everyone, and thank you for joining us today for the SMSF commercial webinar. My name is Craig Stuart. I'm the Head of Commercial at MA Money, and I'm joined today by our wonderful New South Wales business development manager, Katie McNamara. Welcome. Thank you for having me. Welcome. So the purpose of today is to talk about, obviously, SMSF. With upcoming restrictions to residential lending under LRBA arrangements, we expect more clients may start considering commercial property through their SMSF.

For brokers, that creates an opportunity to better understand how these structures work and how to support clients through that process. Today, Katie and I will talk you through the fundamentals of SMSF commercial lending and LRBA structures, along with MA Money's product features, eligibility requirements, and our credit process. We'll also show you our calculator and other tools available to support your clients in conversations. We'll cover the key documents required and work through some real scenarios and practical solutions. If you have any questions throughout the webinar, please submit them via the Q&A tab at the bottom of your screen. We'll leave time at the end of the session to answer as many questions as we possibly can. For those seeking CPD points, we'll send an email tomorrow to everyone who attended, including the webinar recording and details on how to claim your CPD points. Now, let's get going. Let's do this. There's only one thing. In your presentation, I was getting the message that there's an echo on here. It won't be a second, everyone. I just don't know if we can fix that from here.

Let me just mute myself. Perfect. Can everyone still hear me?

Beautiful. Yep, all good? Okay, awesome. Okay. Let's continue on. I'm sorry about that. All right, a little bit about MA Money. So MA Money is one of the fastest-growing non-bank lenders in the country, with over $7 billion worth of loans under management. And we offer a whole range of different products that predominantly suit the self-employed market, but not necessarily beyond... Sorry, not necessarily just the self-employed market. So we are also helping people in the PAYG world. We are helping credit-impaired people. We are helping people who ultimately don't fit the needs of a major bank.

In terms of MA Financial Group, we are an ASX-listed company. We have over $15 billion in assets, and a strong strategic focus on credit and lending. What we are really well known for is our speed to market, our streamlined processes, and the consistency on our conversion rates. So we've been doing that for a solid four years now. And again, the broker market is very receptive to what we're trying to do.

How do we deliver more? So in line with our streamlined processes, our credit process has a 48-hour SLA to conditional approval. In regards to the self-employed market, we have one of the strongest alt doc policies in the country, including just the one form of supporting income verification, which in most cases will typically be an accountant's letter. But we also can accept six months BAS as well. We have an exceptionally experienced team of BDMs across the country with specialist backgrounds. In fact, we'll show a slide later on in the presentation with the BDM team across the country, but it's about 25, 26 of us.

We're consistently one of the top-ranked lenders for servicing on Quickly. And the reason we can produce such quick responses to your applications is we have a streamlined process through apply online for our residential and commercial loan applications. The simplicity doesn't stop there. We do not credit score, we don't factor in CCR, and nor do we have any DTI requirements for our assessments.

Katie, do you want to have a crack at this slide? Of course. Who are the customers that we help? So, like Craig mentioned, there is a broad range of clients that utilize us either for our pace, for our policies, for our niches. I say we are very much specialized in the self-employed space. The ease of assessment for us in either full doc or alt doc is very straightforward. Our accountants letter is very favorable with accountants as well. We primarily look at residential or commercial property. We can look at equity for cash out, including business purpose. In the commercial space, it is a little bit different with our predominant requirement being business use. So there isn't an NCCP cash out policy for us. It has to be business use only. We have customers that have credit impairments, including previous history of arrears, including discharged bankruptcy. And then for our PAYG customers, we can look at customers that have short-term employment, or they may have earned some extra money through bonus or commission structure. We don't shade this income either, so we do take it at 100%. Other types of income, we could be looking at child support, family tax benefit, those types of things that other lenders may look at differently. And in the commercial space, for SMSF commercial and commercial, multiple dwellings on one title. So if you're looking at a multi commercial security, we can assist with that. Our commercial and SMSF commercial is pretty similar with the product. We need to look at industrial type securities only. We really love our retail shops, warehouses, factories, that- Sort of thing in commercial for specialized. I'd say our vacant hard stand land is very strong in that market as well. SMSF vacant hard stand land can be a little bit of a tricky one because it does need to be a single acquirable asset. And maybe just throw into the mix there that we also can look at storage units as well in the commercial space. Yeah, no minimum square meterage for us, so hole in the wall cafes, storage units. Yep. It's a really good asset class for us. Borrower types, so we're definitely open for business, company, and trading. We also look at individuals as well. In the SMSF space, we do take on individual trustees. However, it's not a very common structure that we see, and family or unit trusts are also fine for us too.

What is SMSF lending? SMSF lending allows an SMSF to borrow money through what's called a limited recourse borrowing arrangement or an LRBA. With the recent changes that we'll go through in the next few slides, obviously, the landscape for that is changing, so we're going to be focusing primarily on that commercial space other than refinancing existing SMSF. So what is limited recourse? So essentially, it means the lender's recourse is limited to the property being purchased, meaning the other SMSF assets are protected. So when you are doing an SMSF transaction, you've got a bare trust that is set up for every asset. That bare trust is the owner of that property, whereas the SMSF over-encumbering is the borrower for that transaction. So if there is an issue, that limited recourse is restricted to that bare trust only, and then the SMSF itself is separate to that. So the structure of the loan is held in a bare trust or called a holding or a custodian trust on behalf of the SMSF, with the tax benefits to do with it as well. So the rental income and capital gains within the SMSF are taxed at a concessional superannuation tax rate. And your job, so as the broker, I find SMSF loans are fantastic because you're kind of working as the middleman between the lender and their accountant or financial planner. So your role isn't here to give financial advice or to tell them what they should and shouldn't do, to give them options on what they can do. So if they've been approached by an accountant or financial planner that they're working with and said, "SMSF's a great option," you've now got an array of lenders that you can choose from with different niches, and you can find them a home for that transaction.

What's changed, Craig? What has changed? Tell me all about it. Look, I think you'd be hiding under a rock if you didn't have any inkling of what is going on at the moment with the budget. So, some massive changes, and changes that certainly are going to impact on the investor market definitely. So there was a natural shift pre the budget change for investors starting to look at commercial opportunities anyway, and I think that had a lot to do with rental yield, longevity of leases in the commercial space. Even the price point on some commercial properties was significantly less than resi. So there was a natural shift pre-budget, but certainly after the budget, this will shift a lot of business and investor sentiment over to the commercial channel. So essentially what the changes are, are from the 10th of August, LRBAs can no longer be used to purchase residential investment properties. This change applies to new residential property purchases made through an LRBA from this date. And then the other change as well, maybe not significant, but will work in favor of a lot of investors, is the cap has now increased from 30,000 to 32,500, and our calculator will be updated to reflect that as well. It's not all bad news, right? Not all bad news, that's for sure. Two and a half grand. Fantastic.

All right. Do you want to walk through this one, Katie? Perfect. So SMSF structure, how we look at an SMSF, it's probably one of the most complicated things to get into apply online, but we've got a really handy guide for this. For your guarantors, your SMSF members, so all individual trustees and members of the SMSF must be guarantors, or in the case of having a corporate trustee, any directors and shareholders of that corporate trustee for the SMSF will be guarantors. The SMSF itself will be SMSF trustee as trustee for SMSF as the borrower. SMSF is the only borrower. And so the security trust for the guarantor, that must always be a corporate trustee, so it must always be a company. The property title is then held by the bare trust or the security or custodian trust. That's also who signs the contract. So an example of this, you've got a corporate SMSF trustee structure with your ABC Property Limited as trustee for ABC SMSF. Your guarantors could be Craig and myself, as trustee for the SMSF or our company that we have together, Property Limited, as trustee for. Security ownership is separate, so the bare trust. When you've got a corporate trustee and even when you've just got individuals, you'll have two trusts. So one is your SMSF and one is your bare trust. The individuals means that it's just the borrower, John and Jane Smith, as trustee for the J and J SMSF. Your guarantors are both John and Jane and your property trust and security ownership in that property trust as well. I think I'd probably add to that, for anyone who hasn't participated in SMSF lending before, on paper, that looks probably a little bit convoluted. But bear in mind that you will be working very closely with either an accountant or a financial planner in structuring this together. Exactly. And your BDMs are always happy to assist as well.

All right. So product features. So in terms of the commercial channel, which predominantly will be commercial assets, we are willing to go up to a max of $2 million and an 80% LVR.

What I did forget to mention is that next to commercial securities, we've got residential refinances as well. So even though there will be no new residential SMSF business, there is a capability for existing SMSFs to refinance them out from where they sit today. Now, that's something you will probably want to keep an eye on, because it's probably fair to say that some rates will potentially go up, or remain the same depending on where markets move. So there might be better options elsewhere. Hopefully, it may money might be that home for your client. Moving back to the commercial product, corporate individual trustees, we talked about that a slide ago, so we can accept either. We'll take up to six members, and we offer options for both PAYG clients and self-employed applicants. Importantly, there is no liquidity or net asset testing. You will find there are some competitors who insist on either a figure or a timeframe. There might be three to six months with liquidity.

And in the commercial world, we can accept new purchases, and again, we can refinance resi and commercial. An important feature is the ability to apply future contributions. We've got some examples coming up as scenarios, which will show that better. But MA money essentially will allow up to 10% of your income as future contributions. P&I and interest only, rental income is shaded at 90%. In the commercial world, that is the net figure, so the outgoings that the landlord are paying will be subtracted when you put that number into the calculator.

We do look at Cat 1, Cat 2, and Cat 3 postcodes in the commercial world. That is really, really important. The reason I say that, a lot of lenders either insist on Cat 1 only, some are Cat 2, but not many are Cat 3 as well in the commercial channel.

Redraw, offset accounts, and cash out are not available in SMSF. You will find that almost anywhere you look in the market. It is extremely rare to offer offset. It is our legal opinion that you cannot do so.

And really importantly, I've talked about investor market. There is also a massive segment in the SMSF world where businesses are acquiring a commercial asset to operate out of. Now, we can allow that, and in terms of the rental income that we will use, we simply need to have a registerable lease agreement in place between the bear trustee and the business. So if you can provide that to us, we will take the rental and apply it in the servicing.

Do you want this one? Yeah. Submission checklist, very straightforward. You find it at the bottom of the SMSF product guide. So once you've figured out what the rates and fees and charges are, scroll down to the very bottom. This makes it very straightforward, very simple. So all applications require the application form. Everything's through apply online for us, so all of that's generated when you get your documents sent out to sign by the customer. The VOI for all members, that's your standard 100 points, Cat 1 or Cat 2 for those ones, passport, driver's license. We also have the ability to do Next Gen ID for these as well, if they apply. And then your executed SMSF trust deed and security trust deed. This is probably a question I get a lot about the execution of the trust deed. So if you've got a 100-page document, at the moment, solicitors, JPs, accountants, financial planners. Generally, it's the accountant or the financial planner that acts on behalf of them to set up the deed. You can actually just get the first page signed and say, "This page and the following X pages are accurate and true copies of the original." That meets our requirements for us. We need that before we get to settlement, otherwise it will hold up the file. The evidence-wise, so SMSFs that have existed for 12 months will have 12 months of their history and trading, be able to see their cash management account. So if we can get the annual return from the ATO or their last 12 months statements, fantastic. Both is usually better as well. The reason I say this is that if you've got an SMSF that's been operating for more than 12 months and they've got a P&L on their annual return, getting your expenses and operating expenses from that document is sometimes easier than going to the accountant and asking them to write it out. If you've got a brand new SMSF, so we can take SMSF transactions on without them being set up yet. We understand that rollovers can take a little bit of time, getting all that organized with their accountant. If it's under 12 months, get their existing industry fund for the account that's going to be transferred. We'll always request to have the rollover of funds provided to us as well, but that will show us their contributions for the last 12 months, any expenses like life insurance that have to be factored in if they're being carried over onto the SMSF. Income evidence for members, very similar to what our full doc policy is. This is a full doc product for us. We don't have an alt doc SMSF product. So two most recent payslips within the last 45 days, one year tax return, and latest ATO notice of assessment. SMSF running costs, straightforward. If it's a brand new SMSF, get an annual running cost estimate. It's $1,500, I think, by minimum for us, which is awesome. Rental income, so lease agreement when it's tenanted. For commercial, for us, we need to have an executed lease in place when we're looking at a new commercial purchase. Mm-hmm. Yeah. If it is the case that Craig was speaking of earlier around the commercial owner-occupied, there's a few additional layers that need to come into play with that when it's owner op, being lent out to the business. Need to have between 10% variance either up or down. Ideally, paying on market rent for us is perfect for the valuation. If they're already renting out that property, usually makes it a bit easier. The new lease gets signed over between the new owner and the owner occupier. And then we can refer back to the valuation, make sure that we're within 10%. There is a reason we have that rule in place from memory. Yeah. Because at the end of the day, the SMSF will be audited by the ATO, and it needs to be at market value or close enough to market value. And if it's not, then there can be a significant tax bill to that particular SMSF. Which gets them shot in the foot anyway. Yeah. So it's in the client's best interest, certainly, to be mindful of that market value is. And so anyone trying to, I suppose, circumnavigate an answer or an approval based on higher figures will get found out when it comes to the audit time. Yeah. Yeah. Just on lease agreements in the commercial space, Katie did mention that we do have to have a lease agreement in place to accept that rental. I think that's fair to say, unlike the residential market, which typically it is not hard to find a tenant, there can be periods of vacancy in the commercial world, so we need to ensure that there is a tenant in place. Beautiful. For existing rental income, that's straightforward. Yeah. One statement. You want to do the contributions? Sure. So we have obviously two types of contributions. We have concessional and non-concessional.

Employer pay contributions to super is the SG-- or the acronym is SG, superannuation guarantee, and that is at 12% of gross income to the clients. The concessional cap, as we mentioned before, has just been increased to 32,500, and that is treated within the SMSF at a 15% tax rate.

You input that as a gross amount in the concessional contributions in our calculator, and again, we have the same tax rate applying as stands today. Non-concessional

contributions by a member,

their tax treatment, no additional tax in the SMSF.

And we have a separate cell in our serviceability calculator for non-concessional contributions above that $32,500. No additional tax, as we said before. I think this is important in order to accept non-concessional contributions,

if they're regular. So if we can see that regularly through their accounts, through their SMSF, then we only need to see that over a one-year period. If it is irregular, if they're lump sums, then we will need evidence over a two-year period to use that figure.

Okay. Let's try that again. Future contributions and SMSF member intends to contribute a fund. So sorry, this is additional contributions policy. All right, so the member may have contributions below the 32 and a half K concessional cap, but they intend to maximize this in the future. So what we will accept is up to 10% of their taxable income up to that cap of 32.5 K. Again, I won't do scenarios now because I know there's a whole bunch of scenarios where this showcases it's better. But essentially, if a client, let's say they've made

17,000 K, but their income is significantly higher, they can take 10% of that as additional contributions. The way that we support that is by receiving a letter from an accountant or financial planner, confirming that they have the ability to make those contributions. So in the serviceability calculator, future additional contributions as gross amount in the concessional contributions section,

and then the total existing and future cannot exceed that 32 and a half K concessional contribution amount.

I'm happy to walk through this. Yeah. What about where we- Yeah. So commercial properties, we've sort of touched on what we like.

And at the end of the day, these need to be properties we are 100% confident if we go to market in a resale position, that we can sell these properties. Again, we're being very, very lenient in regards to location. But the assets that we would normally take in the SMSF world will be retail shops, they will be strata offices, they'll be industrial factories, warehouses, et cetera. We can consider commercial vacant land within SMSF. For example, you mentioned hardstands before, so there's a really good example where a lease will likely exist with a logistics company, parking trucks, et cetera. So that fits within SMSF. And I mentioned storage units before. So, there's no minimum size there. Typically, what we will apply as a policy is that anything less than 50 square meters as a storage unit or a light industrial space, would be a max of 70% LVR. Otherwise, anything larger than that will go to our typical 80%. What we can't do, and I hate that word can't, but we are restricted in regards to farms, pubs, hotels. At the end of the day, really specialized security, with a limited resale market, they may be a little bit difficult for MA money to take on. In saying that, have a chat to your BDM. If you think it's a property in a good location, good tenants, and something worth discussing, we are open to those conversations.

Here we go. Do you want to kick this one off? Let's get stuck into some scenarios. Some real stuff. Some real stuff. Scenario one, I've got a PYG employee on 270k gross income. So their concessional contributions at 12% is the 32 and a half- Thirty-two and a half. Yeah ... is capped. And then they've got voluntary contributions of 17.5k based on their SMSF statements. Yeah. So for the future contribution considered with the letter, can't do it in this case because they've already capped it out at 32 and a half. So when we're looking at any additional contributions in their statements, we can add it in as a non-concessional to post-tax. So in the serviceability calculator, they're now getting $50,000 of contributions for servicing. And what we mentioned, I think on two slides ago, is that voluntary contributions, the rule there, that if that SMSF statement had shown that it was a regular contribution, then we would accept that over the one year. If it was a lump sum contribution, we would ask to go back to second year to verify it.

All right, so a self-employed applicant, with obviously really strong profit, but has made no contributions whatsoever. Based on what we've discussed previously, we are willing to get to that maximum 32 and a half concessional amount. It is only 6.5% Of the 500K that they were earning. Bear in mind, before we said we were willing to go up to 10 as a number, but we cannot exceed the concessional cap. So in this particular instance, we would take 32.5K as a concessional contribution, but we do need a letter from the accountant to verify that they have the capability to do so.

Do you want me to take this one? Yeah, you go. Cool. I'll take this one because I actually remember writing it. So, this is a deal we did a little while ago. It was a real estate agent down in Victoria. They'd been renting the premises that they were buying, so obviously an opportunity here to put this asset into their SMSF.

It was ground floor space, purchase price was 2.2. We were willing to go to an 80% LVR. Really good fit out, really good location in Prahran. Good traffic passing by. In terms of what we were prepared to accept, their last 12 months contributions was only 15K.

Very similar to the last slide, we were willing to take the full 32.5K with an accountant's letter.

The rental income played a really big part in servicing on this particular one, and so what we got from them was a registrable lease agreement between the bare trustee that they'd set up and the business that they were operating. Now, in terms of where that sat in terms of market value, it was not higher or lower than the 10% net market rent, and we get that from the valuer's assessment. So we'll double-check that versus the lease. If it all fits, we're pretty comfortable. So you can see there that 132,000 per year figure that we use was 6% yield, which realistically was market value. So that one worked.

Now transfer from individual borrower to SMSF. Sorry, in specie one. Yeah, is it in specie, in specie? I've heard so many different ways to say it. I'm an in specie guy. In specie. I like it. So transfer a property from individual borrower to SMSF. So you've got an SMSF looking to transfer a commercial warehouse from their personal name into their SMSF. So this is strictly for commercial property only. Believe that there are restrictions around the SIS Act on doing it for residential. Mm-hmm. So this commercial warehouse in Wollongong, the customer was looked like they were owner occupying it anyway and wanted to move it into their SMSF. So there's a few moving parts to this one. If we're going to be using it as a security and we want to transfer it into the fund, you've got two transactions here. It's either the SMSF can pay for that amount back to the individual on their own with the funds held in their SMSF, or like we said, an in specie transfer is essentially a journal entry the accountant completes on behalf saying that that equity is essentially being transferred into the SMSF. So without having the cash, so to speak, it's being transferred in. So we can consider this transaction so long as it's at market value, contract price is within 10% of the valuation figure, and then the transferring the asset is deemed as disposable. So this may trigger a capital gains tax for the member, and then we also may have that stamp duty as well because it's all being done at market rate as if it's an at arm's length transaction. At the end of the day, it's really important to note that whilst this is feasible, again, legislation states that it must be at market value and, again, you are going to have costs like stamp duty involved. So, as a broker, you're the one getting the funding for your client, it is very important that they are set up with a very good accountant or financial planner who can walk through all of these little triggers with them.

All right. Process. So we mentioned right at the beginning that one of the reason MA Money has been so successful last few years was our streamline and simple credit process. So we insist on applications being lodged digitally,

online. That's a better word. Much easier to say. So we do that via AOL.

You go there, lodge a deal, it will come through to us nice and quickly. We have a pre-credit team. That pre-credit team will sit there, and Katie ran through our checklist earlier. They'll go through and tick all those boxes, make sure that supporting documents are there, the application signed, et cetera. If that is done, excellent, it'll filter straight through to a senior credit analyst. If it isn't, you will receive an email saying, "A couple of documents are missing. Can you please obtain them for us ASAP?" So you'll receive that communication from the pre-credit team.

Again, once everything is received, it goes to senior credit analysts, who within 24 hours will come to a decision, and in most cases, that decision will be a conditional approval, as we've got there, a true conditional approval. Now, the great thing about this particular model, it remains very quick, but also means when you get a conditional approval, it's rare for there to be a shopping list of conditions outstanding. It typically will be something like a valuation report, maybe a couple of little items here or there. But you are getting a true decision and you're getting limited paperwork that you need to chase up.

That's all said and done. Let's assume that the valuation was the outstanding requirement. Go off, order the valuation through Property Hub. Once that comes back, it goes to a formal pipeline or a formal process where we have another set of eyes looking purely at that valuation report Bear in mind, this deal has already been assessed. It's already been approved by a senior analyst. It's been done. We now have someone looking at the conditions and the valuation to sign off on it. So realistically, at the front end of the process, you are typically getting a fully packaged response within 48 hours from our team, and then you typically have another 24 hours at formal as well.

I mentioned Property Hub, so you'll get your valuations through them, online valuations. And again, you're getting, in a lot of cases, depending on what type of deal it is, you are getting digital line documents as well.

You've got direct access to our credit assessors as well, plus your BDMs.

Speaking of, look at all of them. All right. There we go. To everyone across the country, here is the MA Money team.

Whatever state you happen to be in, you will have somebody from that particular region who will look after you, plus the backing and support of our head office as well.

All right, so thank you again for joining us today. We certainly appreciate your time and participation. If you have any further questions after the session, please feel free to reach out to your respective BDMs. As a reminder, we'll be sending an email tomorrow with a recording of today's webinar, along with information on claiming your CPD points.

Now, I think we'll move over to the Q&A part of the session. What do we have? So let's have a look. We've got, will you accept blended security? So mixed use commercial, that's a favorite, isn't it? Commercial downstairs and residential upstairs. So the answer to that pre-legislation change was a big yes, definitely.

I think at this stage, and we'll talk to our compliance and legal team about this. We think the answer still is yes. The predominant usage definitely will have to be commercial. If it was predominantly a residential aspect to that property, then it's going to fall more so into that NCCP world, and that would be awfully difficult. So, I think watch this space as we get further clarity, but I'm very hopeful that the answer will be we'll still look at mixed-use properties. Awesome. Yeah.

Thank you for that question. Is

an off-the-plan commercial property purchase with rental guarantee from the developer acceptable? That's a very good question, and I think it's a question I get on the weekly. We don't accept guaranteed developer leaseback. It's putting a lot of onus on the performance of that particular developer, which we don't get that information. We don't know what they're earning. We don't know the pre-sales. We don't know where they're at with their developments. So from a risk perspective, our decision has been that we do need to see an arm's length, third-party lease agreement. We won't accept developer leaseback. Beautiful. And last but not least, would you consider a restaurant as an acceptable security with a low LVR? Yeah. When it comes to acceptance of commercial assets, the key thing that I ask myself, there's many things, and location and what's operating out there, the fit out, all that type of stuff. But one of the key questions you ask yourself is what would be the alternate use for that particular premises? And I think in a lot of cases, restaurants could be converted into a more standard retail space. They could be converted into cafes. I think in a lot of instances, unless the fit out is absolutely crazy, that there is alternate use for restaurants. So certainly at our low LVRs, I'd have no issue at all. Beautiful. That sorts us out there. Thank you