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Industry sounds alarm on SMSF lending ban

The Government's decision to ban new limited recourse borrowing arrangements (LRBAs) for residential property within self-managed super funds (SMSFs) risks reducing investment, limiting credit availability and undermining efforts to increase housing supply, according to the Australian Finance Industry Association (AFIA), the Mortgage & Finance Association of Australia (MFAA) and the Commercial & Asset Finance Brokers Association of Australia (CAFBA).

The measure, agreed as part of the Government's broader tax reform package, will prohibit new residential property borrowing through SMSFs while grandfathering existing arrangements.

Latest Australian Taxation Office data shows SMSFs hold approximately \$75 billion in assets under LRBAs, supported by \$28.9 billion in debt, representing gearing of around 39 per cent.

AFIA chief executive officer Diane Tate said the reforms targeted a small, specialised and well-regulated segment of the lending market.

"This is a well-understood market that has operated effectively within a clear regulatory framework for many years. Asset limitations already apply to SMSFs and these arrangements are primarily used by Australians seeking to sensibly diversify their retirement savings," Ms Tate said.

MFAA Executive of Policy Naveen Ahluwalia said mortgage and finance brokers, who facilitate more than 81 per cent of Australia's residential home lending, were already seeing investor confidence weaken.

"Mortgage and finance brokers are hearing from investors who are delaying decisions, reassessing future investments and, in some cases, stepping away from the market altogether," Ms Ahluwalia said.

"SMSFs play an important role in housing investment and restricting access to lending risks becoming another disincentive for Australians willing to invest in residential property.

"At a time of housing shortages and rental pressures, the focus should be on encouraging investment that increases housing supply, not discouraging it," Ms Ahluwalia said.

CAFBA Chair of Advocacy David Gandolfo said the decision reflected broader concerns about the impact of recent policy changes on investor and business confidence.

"Commercial and asset finance broking is a real time barometer of business sentiment, and our members are seeing an immediate retreat of capital and business investment under this policy and others announced in the Federal Budget," Mr Gandolfo said.

Ms Tate said the decision also raised broader concerns about the impact of the Government's tax reform agenda on credit markets.

"This is another example of the Government not consulting on proposed tax changes that will affect credit availability and Australia's lending market. Technical amendments will be critical to ensure existing borrowers are not disadvantaged and the transition is orderly," Ms Tate said.

AFIA has also raised concerns with the Senate Economics Committee about the potential impacts of the broader tax package on borrower serviceability, collateral values, credit risk and securitisation markets.

“The finance industry is the transmission mechanism through which tax policy affects the real economy. Reforms of this scale should be supported by comprehensive analysis to ensure they do not create unintended consequences for credit supply and the cost of finance,” Ms Tate said.

AFIA, the MFAA and CAFBA remain committed to working constructively with Government and industry stakeholders to ensure reforms support a competitive, resilient lending market while helping address Australia's long term housing challenges.

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ABOUT AFIA

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 members, including banks, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators, and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.