SIPP Borrowing to Purchase Property and Land

Where a SIPP is acquiring property or land, it may borrow in order to fund part of the purchase price and costs. The limit on borrowing is 50% of the current net asset value of the SIPP immediately before the loan is made, so if the SIPP is valued at £100,000 then the trustees can borrow up to £50,000 which would enable the SIPP to purchase property valued up to £150,000 (ignoring fees and taxes).

If the SIPP is taking out a second loan, any existing borrowing must be taken in to account when calculating the new borrowing allowance. So, if the SIPP has a net asset value of £100,000.00 and already has a loan of £25,000.00 then the maximum additional borrowing allowance would be £25,000.00

The SIPP can borrow from any UK lender, which could be a bank or a SIPP member or their business provided any loan from a connected party is on commercial terms.

We do not operate a panel of lenders so the SIPP member will be responsible for arranging finance. Although facilities are often negotiated locally, most banks will have a centralised lending unit and a specialist team that deals with loans to pension schemes.

All bank documentation including the application for loan must be completed by InvestAcc and not by the customer personally. Completing applications personally is likely to cause delays with the lender as it is a pension scheme loan, not a personal loan. Any documentation requiring the client's signature / personal information will be sent to the customer by InvestAcc and should be returned to InvestAcc after completion.

When completing the borrowing section of our Property Questionnaire, customers should provide details of the relationship manager they have initially been dealing with, InvestAcc will then provide the relationship manager with all the instructions to take out a SIPP loan and the documentation required.

Please be aware that the lender will typically require a first legal charge over the property. They will also want the lease term set so that loan repayments are affordable, we would expect that rent exceeds loan repayments by at least 30% where the interest rate is variable, or 10% where it is fixed, and that tenant(s) are committed to a lease which cannot be broken earlier than the expiry of any loan. Bear in mind the lender will be interested in assessing the commerciality of the proposal and will want to assess the likelihood that tenant(s) will be able to pay rent in accordance with the terms of their lease.

If there is more than one SIPP scheme purchasing the property and they all require bank borrowing the SIPP members will need to discuss with the chosen lender whether a joint loan or individual loans will be taken out. This information will then need to be provided to InvestAcc with the Property Questionnaire.

If multiple clients wish to purchase a property using their pension schemes and there is to either be separate loans for each client, or not all clients are borrowing then the lender must provide a division of liability letter protecting the non-borrowing pension scheme's value of shares in the property from any default in the loan and ensuring the each pension scheme is not jointly and severally liable for any repayment for another scheme's loan. Please note that all owners of the property will have to agree to the loan as they will be required to sign the legal charge to secure the loan to the property.

Please note that involving a commercial lender is likely to extend the overall timescale required to purchase the property.

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