

## Introduction to Pension Borrowing

While the appetite for lending to self-directed pensions was subdued during the recession years, banks are again making loans to pensions. Facilities for investment in commercial property will originate with our larger banking partners, while ICS mortgages (Dilosk) are making facilities available for the purpose of residential purchases.

### Typical Pension Borrowing for Commercial Property

It may not come as a surprise that the banks demand better security and stronger financials than might have been sought in the past. To begin with, any loan facility provided to a pension will need to include a full capital and interest repayment schedule. Under Revenue rules, interest only loans to pensions are prohibited. Also in accordance with Revenue rules, the loan term for pension lending is limited to a maximum of 15 years. This is in line with standard commercial lending practices across the banking sector.

As an additional restriction, the term of the loan will need to at least match the unexpired term of the lease on the target property. With this in mind it is crucial that the lease term is established at the outset and that a copy of the lease is obtained when assessing the loan for suitability. This requirement stems from the expectation that all loan repayments will be funded by rental income only and so avoids reliance on pension contributions in order to meet the repayments.

### Taking security

Pension borrowing is always granted on a limited recourse basis, meaning that the lender cannot pursue the assets of the trustees or the pension scheme member in case of default. As the property is the only asset provided as security for the loan it is to be expected that a lender requires a rental yield that is sufficient to meet capital and interest loan repayments.