Dear Mr Murray,

Instead of taking money out of your super to pay for your home, some or all of your super at your choice could be placed into a locked "super" mortgage offset account (SMOA) held with your lending institution in exactly the same manner that it can be placed into a fixed term deposit (FTD) in super.
The benefits are:

1. the Sole Purpose Test is met as funds are not used for current day benefits as they are deposited by your super fund into the locked mortgage offset account and earn interest in the same manner as a FTD
2. the interest saved in a SMOA is ALWAYS more due to the higher lending rate than would be earned at the lower deposit rate
3. the loan term is ALWAYS reduced for the same reason allowing the repayments to focus on reducing the principal instead of just paying the interest
4. when applied to an investment property outside of SMSF, in return for using the super funds in a SMOA:

i. the taxable income of the property is increased due to the interest being reduced more quickly delivering more income for the Government
ii. reduces the family tax benefit reliance as the taxable income increases improving welfare independence
iii. investment properties that are clear of debt at retirement do not have the debt reducing your income and assets assessment improving welfare independence
iv. a positive income stream is generated more quickly improving welfare independence now and at retirement

5. house prices do not have to increase using this method as it can be made illegal to approve lending based on your super funds
6. the funds in the SMOA can be moved into any other form of super investment just as a FTD can on maturity.

A quick example follows:
Assume a house in Sydney is $750,000, the loan term is 30 years, the interest rate is 5.25%:

Using the NAB home loan calculator results in $740,950 in interest cost on top of the principal

Assume $200,000 was in your super funds and was placed in the locked SMOA

Using the NAB mortgage offset calculator results in $469,230 in interest saved, and 9 years and 4 months reduction in loan term.

If the same $200,000 was in a fixed term deposit for 21 years (30yrs -9yrs) at 3.25% as FTD's are generally around 2% lower than the deposit rate, using the ASIC Money Smart compound interest calculator would only earn $196,000 in interest.

This comparison is applicable across all the years of the loan as moves in the cash rate affect deposit and lending rates generally equally.

I urge you and your fellow distinguished FSI Board Review members to consider this simple solution that works and delivers real results.

Regards

Paul Swan