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INTEREST RATES AND THE ECONOMY

THE AUSTRALIAN MARKET

Once again, the Official Cash Rate remains at 5.50% per annum for the month of April. Historically, this has been a lengthy period of Cash Rate stability, which has been correctly supported by several key economic variables including inflationary data. However, it seems that momentum is building for a rate rise as illustrated in the money market graphs (right).

Interest rates are affected by the level of supply and demand for money. In situations where there is an increase in the demand for goods and services/production, prices generally increase. As a result, the demand for money increases and, by correlation, so should interest rates. But the question remains: What drives the demand for Australian money supply?

QUOTE OF THE MONTH

"Sooner or later, those who win are those who think they can."

- **Michael Korda**

Market Data and Important Statistics

As at 23 April 2006

- Official Cash Rate: 5.50%
- U.S. Fed. Funds Rate: 4.75%
- 90 Day Bank Bill Rate: 5.70%
- 5 Year Bonds Rate: 5.60%
- All Ordinaries: 5199.1
- Aust. Dollar (US Cents): 73.85
- Two (2) and ten (10) year bonds have increased by approximately 30 basis points (0.30%) since late March.
- Gross Domestic Product growth stood at 2.7% for the 2005 calendar year.

The answer is infinite, but some of the main parameters influencing the demand for money are our unemployment levels, domestic retail spending, business investment, consumer savings, the Consumer Price Index and commodity prices. Traditionally, higher employment means higher prices. This is due to the bidding war between employers for human capital, and the increase in

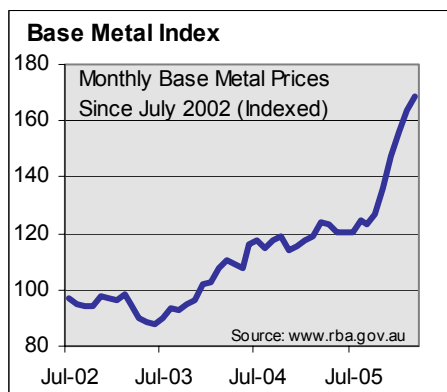
the cost of a unit of output as less efficient resources are used in production.

In Australia, our unemployment rate is at 5.2% which is near historical lows, while inflation remains in check although it has hovered around 2.5% per annum for several quarters. Additionally, building approvals have dipped slightly, savings in proportion to consumer spending has increased as housing prices have softened, and our trade balance has blown out to a record high of \$2.7b.

These conflicting economic variables have resulted in uncertainty amongst money market professionals and economists. But now it seems that momentum for a rise has increased, particularly after the Federal Funds rate rise (US) late in March of 0.25%.

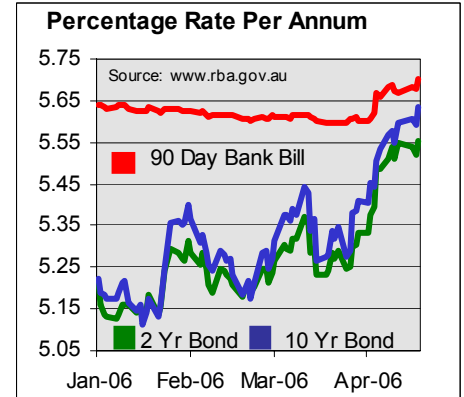
There is a view that economic growth will approach the upward limit of the RBA's target range throughout the year in a low unemployment economy, which may lead to a rise. This may happen sooner than many expected and we are of the view that clients with interest rate exposures should consider their position moving forward.

Price Index (Base Metals)



Higher commodity prices may have led to the increase in the demand for Australian funds.

Percentage Rate Per Annum



The kick in the 90 Day Bank Bill Rate and Bond Rates may be a bullish sign for our Cash Rate.

MCP GROUP WELCOMES OUR NEW EMPLOYEES

MCP Group would like to extend a warm welcome to two new employees. Rebecca Ball will be joining MCP Group as a Financial Planning Assistant after completing an accountancy traineeship with Ernst & Young. She is currently completing a Bachelor of Business majoring in Accounting at RMIT University, and is a welcome addition to the MCP team.

Joining Rebecca will be Al Grant, who will be working in the role of Resources Coordinator, ensuring that our website and electronic resources are kept up to date and in order. Al will also be involved with projects on an Ad Hoc basis as he completes his studies at RMIT.

We wish both Rebecca and Al the very best in their new positions.

QUESTIONS AND ANSWERS

The MCP Group team will answer a selection of our clients' queries in each edition of our monthly newsletter. To submit your query to our office please contact our Group by phone on (03) 9620 2001 or via email (enquiries@mcpgroup.com.au).

FINANCE

What details do I need to provide a lending institution when applying for a Commercial Loan?

A financier may require several documents and a vast array of information for the assessment of a Commercial Loan Application. These include, but are not limited to, the following:

- Details of your business (type, market position, description of products, trading history etc);
- Loan purpose;
- Details of your personal history including qualifications and employment (to analyse whether you will be able to ensure that the business has the highest possible chance of success);
- Loan repayment projections and servicing information. This may involve providing the financier with historical financials; and
- Business budgets for future trading periods.

Please contact David McCleery and

Bill Humphries at our office if you would like any further information.

LEGAL

What are the Capital Gains Tax ('CGT') implications for transferring a property to a spouse?

Our Accounting Alliances tell us that CGT will generally apply when transferring a property to your spouse. However, you can ignore a capital gain or capital loss made from a CGT event relating to a dwelling that is your principal place of residence.

This may change depending on how you came to own it and what you have done with it (e.g. if you rented it out or used it as an investment property). If you acquired a rental property or plant after 19 September 1985, CGT may apply when you dispose of this property. Accountants should be consulted in relation to all matters of taxation. The above information is to be considered as a guide only.



LEGAL ASPECTS OF DEBT COLLECTION

DEMANDS

If a party has overdue debts, creditors (the persons owed the money) may take that party to Court to recover their debts. Creditors will generally send a letter demanding payment of the debt or they will sue. A letter of demand is not a Court Document. However, failing to pay may result in legal proceedings. If legal proceedings are commenced, read the document carefully and work out what time you have to respond. If served with Court documents such as a Statement of Claim, seek legal advice.

LEGAL PROCEEDINGS

It is difficult to predict with any accuracy, the stages of the civil procedure through which a matter may run, though the following is likely: -

- Draw, File and Serve Writ and Statement of Claim (which Court will depend on the amount owing);
- Draw, File and Serve Defence to

Claim and any possible Counter Claim;

- Request for Further and Better Particulars of Claim and/or Defence;
- Answer any Request for Further and Better Particulars of Claim and/or Defence;
- Request for Discovery each parties' Documents;
- Preparation of Affidavit of Documents and subsequently produce and inspect Documents;
- Preparation for and attendance at Pre-Hearing Conference (before a Court Registrar and a usual opportunity to settle the matter);
- Any further Interlocutories as ordered or required;
- Preparation for and attendance at Hearing.

It may be that the matter does not run through all these stages. On the other hand it may be that further or alternative procedural steps may be taken, or alternatively, the Defendant may not contest the claim. Once an order has been made in a Plaintiff's favour, it is up to the creditor to initiate enforcement proceedings against the debtor. The Court does not enforce the debt on your behalf.



Recovering monies owed from debtors can be a costly and time consuming business process.

SUMMONS FOR ORAL EXAMINATION

This procedure involves the creditor issuing a summons against the debtor to attend Court and answer questions under Oath as to their financial state regarding income, assets and expenses. This summons may be issued against an individual or a company and is conducted in Court. On the day of the examination, the creditor may ask additional questions to those set out in the

prescribed questionnaire. If the debtor fails to appear, a warrant may be issued for his arrest. Upon review of the answers, the creditor can decide which is the most suitable enforcement methods to obtain payment.

WAYS WHICH DEBT CAN BE RECOVERED

1. Attachment of Earnings Application

If the debtor is employed, you can make an application to the Court to "garnishee" the debtor's wages. If the employer will not willingly provide the creditor with this information the creditor may need to issue a witness summons. The Registrar will make a decision as to how much the creditor will receive from the debtors' pay. It should be noted that 80% of a person's income is protected and 20% is the maximum amount able to be garnisheed. Once a decision has been made, the debtor's employer must be notified. If successful, the Creditor must inform the debtor's employer.

2. Warrant to Seize Property

A creditor can apply to the Court to issue a Warrant to Seize the debtor's property. The creditor must have a current address of the debtor. This is a viable option if they suspect that the debtor possesses the financial ability to pay by lump sum or has seizable goods. If the Sheriff is successful in seizing goods, the issuing and enforcement fee will also be recovered.

3. Application for an Instalment Order

This is an application which can be made by either the judgement creditor or the judgement debtor. Installment orders allow you to pay off a debt in set amounts at set intervals.

4. Bankruptcy

Bankruptcy is a legal process in which a party is declared to be unable to pay his debts as they fall due. It involves handing over control of assets to a bankruptcy trustee. The trustee decides which (if any) of your assets can be sold to pay your debts. There are two (2) ways you can be made bankrupt. Either on your own request (debtors petition) or on the application of a creditor (creditors petition). Bankruptcy means the debt collector is no longer free to pursue the debt in the usual manner. Once a

debtor becomes bankrupt the debt must be proved. Any payment will be in accordance with a scheme for the administration of the debtor's estate as set out in the Bankruptcy Act.

STATUTE BARRED

The Limitations of Actions Act 1958 imposes a six (6) year limitation period on bringing legal action in relation to a contract in Victoria. Debtors have an absolute defence to legal action brought to recover a debt which is six (6) or more years old.

HARASSMENT OR COERCION IN DEBT COLLECTION

Section 60 of the Trade Practices Act and relevant States based legislation prohibits physical force, undue harassment or coercion, in connection with debt collection. This seeks to eliminate unreasonably frequent telephone calls and/or telephone calls late at night or early in the morning, deceptive tactics, including misrepresentations about the consequences of non-payment or the debt recovery process, and use of abusive or threatening language.

JOINT TENANCY VERSUS TENANTS IN COMMON

Joint tenancy is most common in marriage relationships, where each owner has an equal right to the possession of the property. If one member passes away, their ownership of the property is transferred to the other party.

Under this ownership regime the property may not be partially sold. The term "Joint Tenancy" refers to an individual's right for possession over the whole property. Each individual's share may not be included in a Will and may not be sold as a separate asset. However, joint tenancy may be severed in certain unfortunate circumstances such as divorce, which may result in a 'Tenants in Common' ownership arrangement.

Tenants in Common is a term that refers to the shared ownership of a property that can be sold or treated as an individual financial asset. Each owner of the property under a 'Tenants in Common' structure may sell their portion of the property without the consent of the other owner(s). Tenants in Common ownership doesn't have to mean that



Declining affordability rates may increase the popularity of Tenants in Common ownership structures.

each of the owners holds an equal share in the property. The estate may, in some circumstances, be divided into unequal proportions, relative to the amount of funds contributed towards the purchase of the property.

Joint tenancy is the more prevalent form of home ownership in Australia. However, with changing social trends including De Facto relationships and the average increase in the age of marriage, Tenants in Common may become a more popular form of home ownership in years to come. Another contributing factor towards the current use of this type of ownership may be the decreasing affordability trends for residencies and land.

All parties to a Tenants in Common property ownership arrangement are advised to speak to an independent lawyer/solicitor as there are legal, as well as financial ramifications for failed ownership arrangements.

DID YOU KNOW?

Elders who are on the old age pension who purchase a property for owner occupancy are exempt from stamp duty for purchases up to \$250,000.

They will also receive a reduction in stamp duty for purchases ranging from \$250,000 to \$350,000.



MCP GROUP APOLOGY

Our office apologises for the slow service delivery of some of our banks at the moment, which is due to volume constraints in an abnormally busy lending period.

REVERSE MORTGAGES IN A NUTSHELL

AN INTRODUCTION TO REVERSE MORTGAGES

A reverse lending product allows "asset rich" but income poor homeowners who are nearing/over the retirement age to mortgage a portion of their estate to a lending institution as a means of receiving an upfront or trailing source of income. The loan is repaid when the homeowner sells their property or at their death. Generally speaking, the mortgagor is allowed to reside in their residence as normal upon the earlier of these two conditions.

WHY HAVE THEY BEEN RELEASED?

Our demographical composition is set to change dramatically over the next few decades and, as such, many financial institutions have realised the importance of having a reverse mortgage product in the market. According to the Australian Bureau of Statistics, there are currently 300,000 people aged 85 and over which represents 1.5% of our population. Forecasts indicate that the percentage of our population aged 85 and over will reach 6-7% by 2021, which is ample empirical evidence that our nation is ageing accordingly.

WHAT ARE THE GENERAL TERMS, CONDITIONS AND FEES OF A REVERSE MORTGAGE PRODUCT?

Mortgagors must be approximately 55 before they are eligible to take out a reverse mortgage on their property. The maximum LVR (loan to value ratio) of a reverse mortgage loan increases as the mortgagor ages. Lenders generally allow an LVR of 15% when the mortgagor is near the retirement age (55-65 years old), up to an LVR 40% as they get older (80-85 years old).

The loan may be taken as a lump sum or a trailing income stream. Repayments are allowed in some instances with selected financiers, and rates start at 7.72% per annum but may be as high as 8.37% per annum. Start up costs can be as low as \$300 excluding fees charged to obtain independent legal and financial advice, which is mandatory for mortgagors taking out a reverse lending product.

WHAT ARE THE ADVANTAGES OF A REVERSE MORTGAGE PRODUCT?

The advantages of a reverse mortgage product are varied. A reverse mortgage product allows for the mortgagor to increase or maintain their standard of living. The funds may be used for any number of reasons including holidays, repairs to their house or for investments etc. A reverse mortgage also allows the potential mortgagor to maintain their financial independence without having to downsize.

The Advantages and Disadvantages of a Reverse Mortgage

✓	Frees up funds to maintain and/or improve your standard of living
✓	May be used for personal or investment purposes
✓	May alleviate the requirement to downsize and/or allows a mortgagor to make alterations to their property to extend their occupancy tenure
✗	Debt accrued may not allow for the mortgagor to downsize in later years when/if required
✗	Portability may not be allowed for houses in retirement villages
✗	May affect your eligibility for the pension
✗	Financially costly and timely to establish due to the requirement to obtain legal and financial advise
✗	Deferred establishment fees generally apply
✗	Higher rates than the standard variable rate

A reverse mortgage product may affect your eligibility to receive the pension. As such, financial and legal counsel is mandatory before these products are taken out.

THE DISADVANTAGES?

The implications and ramifications of a reverse mortgage are numerous. Firstly, a reverse mortgage may not allow you to downsize in 15 to 20 years time if you elect to; as portability generally isn't available for homes in a retirement villages or smaller units. Additionally, your estate may be reduced which could influence the assets available for distribution under your Will, even if the historical returns for property have been higher than the interest charged for a reverse mortgage.

Furthermore, as the pension is means and asset tested, a reverse mortgage may negatively influence these payments (don't forget that your primary place of residence is exempt under Centrelink's asset test).

WHAT ADVICE DO I NEED BEFORE I TAKE OUT A REVERSE MORTGAGE?

Taking out a reverse mortgage is a big decision. You are legally required to seek financial and legal counsel before the loan can be drawn. You should also speak to your family before such a decision is made due to implications of a reverse mortgage on your Will.

CONCLUSION

The reverse mortgage will become an integral component of the Australian lending market in years to come, particularly due to our demographical composition. With an ageing population and the imminent retirement of Australian baby boomers, reverse mortgages are here to stay. Our Group of companies is intrinsically placed to deliver advice relating to these financial products, due to our access to qualified legal and financial staff with accounting backgrounds. Please contact our office if you require any further information.

MORTGAGE SAVINGS STRATEGIES IN REVIEW - OUR TOP SIX TIPS

Many readers have commented on our 'Mortgage Saving Strategies in Review' sections in previous editions of our newsletter and, due to requests, we've decided to give readers the top six tips that we can offer to expedite home ownership.

1. Get the right product

Understand that the underlying interest rate is important, but should never be the sole reason for taking out a particular loan.

For example, you may not reside in the same residence all your life. Getting a loan with portability can save you hundreds on establishment fees if you decide to move houses in the future. Conversely, taking out a fully featured loan when your situation calls for a basic product can cost you thousands in unnecessary interest charges.

2. Be Smart About Debt Consolidation

Consolidating debt can be a smart way to reduce interest charges. However, if you extend the life of the loan you will end up paying more interest. Take a credit card debt of \$10,000 for example. Paid at an interest rate of 17% per annum over two years you will be charged \$1,866 in interest. If this debt is repaid over a term of 30 years at a rate of 7.32% p.a. you will pay \$11,819 in interest charges. Enough said!

3. Take out a Professionals Packages

All of the Big Four banks have Professional Packages. To qualify for a package you generally need to have three operating financial products with a bank and pay an annual/monthly fee. Most commonly, these can be your primary mortgage, a credit card with a pre-approved limit and a transaction account.

They (the Packages) can cost up to \$475 per annum but may save you thousands in interest charges as they allow a loan discount of 0.5% to 0.7% per annum off the Standard Variable Rate if certain criteria are met (loan size). They may also allow for additional features such as an offset account, portability and the waiver of the application fee.

4. Run an Offset Account and Use the Interest Free Days on your Credit Card to Defer Living Expenses

Interest earned for monies in a standard transaction account are almost negligible (not taking into account high interest earning internet based holding accounts). The funds in an offset account will be deducted from your mortgage before the calculation of interest, essentially

meaning that you are earning a return on the money in your offset account at the Standard Variable Rate for no risk whatsoever.

Deferring the payment of your living expenses with the use of the interest free days on your credit card can also increase the effectiveness of having such an account.

5. Make Additional Repayments

A \$300,000 mortgage paid at the rate of 7.32% per annum over a principal and interest term of 25 years will cost you \$354,590 in interest costs (based on monthly repayments of \$2,182 per month).

If you make \$500 in extra repayments per month you will incur \$205,887 in interest charges. The loan, under the later repayment regime, will take you approximately 16 years to repay. This represents a saving of around \$150,000 in interest charges over the life of your loan, which will be paid nine (9) years earlier.

6. Maintenance and Education

You take your car to get serviced! Why wouldn't you get your mortgage reviewed every now and then!

The mortgage market is an evolving financial sector. New products and cheaper rates are available all of the time. Basically, you get more "bang for your buck" now than you did ten years ago. Ensure that your mortgage changes as you do.



Don't forget about your mortgage. Read the odd financial article or get a "health check" for your mortgage by a reputable finance broker.

A basic product or fixed rate loan may have been a good idea then, but it doesn't necessarily mean that it's a

good idea now (you may be in a new position which has a fluctuating commission/bonus structure). Educate yourself and/or get it reviewed by a specialist. Just don't forget about your loan.

FINANCIER NEWS

Commonwealth Bank

The Commonwealth Bank have recently raised interest rates for their Fixed Rate Loan Products. The increases are quite considerable and are probably due to the sharp spike in money market rates which have occurred throughout April. They may be an indication of a possible rise in the Standard Variable Rate in the near future.

Macquarie Bank

The Macquarie Bank have introduced the ability for all Reverse Mortgages to fix their rates for the life of their loan. The fixed rate is currently 8.40% per annum which is quite competitive. Their ten (10) year Fixed Reverse Mortgage Loan is currently 8.35% per annum.

Westpac Bank

The Westpac Bank have announced a number of positive credit amendments. Effective immediately, rental payments can now be used as genuine savings. Additionally, redraw is available for all fixed rate loans moving forward. They have also introduced a product which allows mortgagors to borrow at an LVR (loan to value ratio) of 85% without the need for Lenders Mortgage Insurance. This is an industry first which may prompt other lenders to follow suit. However, the increased flexibility comes at a cost, as the rate starts at 7.02% per annum.

OPPORTUNITIES SOUGHT

One of our Alliance Accounting Firms with a professional market base, based in St Kilda Road, Melbourne, seeks the acquisition of an accounting fee base for immediate acquisition. Fees of up to \$500,000 will be considered. Please email David McCleery at MCP Group (d.mccleery@mcpgroup.com.au) with any further queries.



Level 7, 520 Collins Street
Melbourne VIC 3000
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INDICATIVE INTEREST RATE SCHEDULE - AS AT 24 APRIL 2006

A selection of our financiers' most competitive Interest Rates. Rates displayed are generally discounted and may not apply to your situation. This is an indicative guide only. Comparison rates are available upon request. Please speak to MCP Group for further information.

	Variable Rates (Inclusive of Discounts)				Fixed Rates					Commission Rates (%)	
	Offset	L.O.C.	Basic	Low Doc	1 Year	2 Year	3 Years	5 Years	Upfront	Trail	
MAJORS	Residential Lending										
	ANZ Bank	6.72%	6.72%	6.72%	6.72%	6.85%	6.79%	6.65%	6.79%	0.60%	0.20%
	CBA	6.62%	6.62%	6.81%	6.62%	6.70%	6.84%	6.74%	6.84%	0.70%	0.25%
	NAB	6.82%	6.89%	6.62%	7.32%	6.85%	6.85%	6.79%	6.99%	0.60%	n/a
	Westpac	6.72%	6.87%	6.74%	6.72%	6.85%	6.79%	6.79%	6.95%	0.60%	0.25%
	AMP Bank	6.82%	7.02%	6.76%	7.06%	6.84%	6.84%	6.74%	6.84%	0.50%	0.25%
OTHER LENDERS	Adelaide Bank	7.32%	7.42%	6.79%	7.32%	6.75%	6.55%	6.79%	0.60%	0.25%	
	BankWest	6.65%	6.85%	6.65%	7.24%	6.75%	6.75%	6.85%	0.50%	0.25%	
	Citibank	6.81%	6.91%	6.75%	7.25%	6.85%	6.59%	6.59%	0.65%	0.25%	
	GE Money*	N/A	N/A	7.09%	7.19%	Not Available			1.00%	0.50%	
	HSBC Bank	7.03%	7.03%	6.69%	6.87%	6.85%	6.85%	6.75%	0.60%	0.25%	
	ING Bank	7.24%	7.24%	6.65%	7.24%	6.65%	6.65%	6.75%	0.60%	0.25%	
	Macquarie	6.64%	N/A	6.64%	6.98%	7.00%	7.05%	7.10%	0.60%	0.25%	
	St George	6.72%	6.72%	6.74%	6.82%	6.85%	6.85%	6.69%	0.60%	0.25%	
Suburban Management	N/A	N/A	6.74%	7.24%	Available Upon Request			0.60%	0.25%		

*Must be fully secured by Residential Property - Rates are Indicative Only. More lenders available upon Request (Selection provided only). LVR of 80% applies to GE Money.

	Variable Base Rates			Fixed Rates				
	Standard	Overdraft/L.O.C.	8.60%	1 Year	2 Year	3 Years	5 Years	
COMMERCIAL LENDING	ANZ Bank*	7.67%	8.60%	7.46%	7.53%	7.58%	7.70%	
	ING Bank	7.60%	8.70%	7.45%	7.50%	7.55%	7.60%	
	Citibank	7.70%	8.45%	7.45%	7.69%	7.69%	7.69%	
	BankWest*	7.40%	8.50%	Available Upon Request				
	Members Equity	7.49%	N/A	Available Upon Request				
	St George	8.30%	8.67%	Available Upon Request				
Westpac	7.65%	7.95%	7.45%	7.55%	7.60%	7.70%		

* ANZ Bank Commercial Loan Rates (Standard) must be secured by residential property. All commercial loan rates are a starting guide only. A buffer may be added to the above rates depending on the underlying strength of the commercial loan application. All rates are based on borrowings of \$500,000. The displayed Citibank commercial rate applies only to new business.

Nominal interest rates may be misleading in some instances (the rates we quote are subject to specific criteria being satisfied). Comparison Rates are provided upon request, tailored to your specific scenario for any number of products. Please contact our office for further information regarding comparison rates.