

every success in his new role and hope that our MCP can build on the foundations and skills that he has helped us develop.

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.

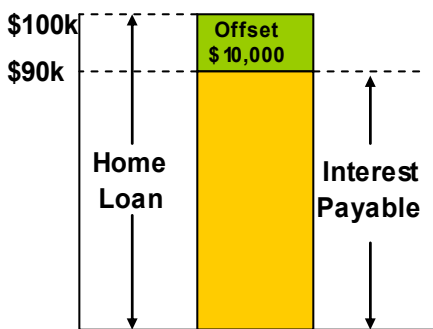
Finance

What is an offset account?

An offset account is a deposit account which reduces the amount of interest payable on your core home loan mortgage. Interest is calculated on a daily basis and charged monthly.

For example, if you have a mortgage loan of \$100,000 and \$10,000 in your offset account, interest payable on your mortgage would be calculated on a loan of \$90,000. The basic method to calculate interest payable is by subtracting the funds in the offset account from the main

Basic Offset Account



In the above example, the calculated interest payable would only be based on the gold section (interest payable).

mortgage.

There are a few variations to your traditional offset account which has been outlined above. Some offset accounts are only activated after they exceed a predetermined limit (e.g. \$2,000). Other offset accounts requires that only 50% of the account's balance will offset the core home loan mortgage.

Legal

I have bought a property and the lender wants an independent valuation – should I worry?

If you purchased in a public market and your offer was reasonable then you needn't worry. A Contract of Sale is arguably the best piece of evidence a valuer can use to confirm the price of a property.



In most circumstances the contract of sale value dictates the valuer's estimated price for the property. Generally, there is no greater gauge to determine a property's worth than what somebody will pay for it.

The lender most likely seeks to ensure the property is suitable for residential purpose (e.g. if a business was being run out of it this may be a concern), and also to ensure it is fit for residential living (a house without a roof might be a concern). Some lenders may rely on the Contract of Sale and not bother with a valuation.

INTEREST RATE ANALYSIS

The official cash rate remains unchanged for the month of August after the Reserve Bank of Australia ('RBA') decided that the cash rate of 5.50% p.a. adequately reflects the state of the Australia economy at present.

According to the RBA the decrease in domestic demand has been due to "households consolidating their balance sheets and spending less quickly".

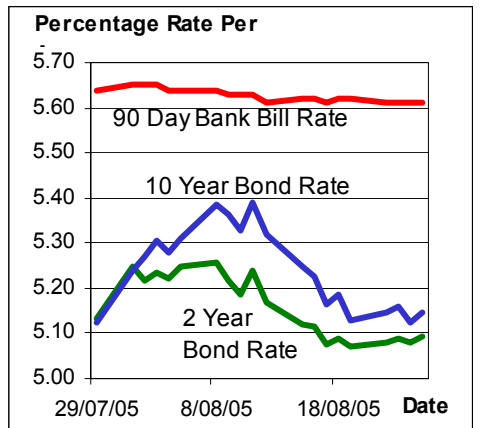
It has now been approximately one and a half years since the initial cooling of Australian residential property markets. Empirically, this may be evidenced in quarterly house price data, in which Sydney and Melbourne housing prices have reduced/stagnated by -17% and 0% respectively from early 2004.

Economically referred to as the **Wealth Effect**, the decrease in residential property (net assets) has eased the RBA's inflationary concerns, as households are less likely to obtain funds through the extension/establishment of investment loans

and lines of credit which are secured by the owner occupied of investment properties.

Global production is set to be above the long-term average throughout the remainder of the year. China is set to continue in its robust fashion, South East Asia is set for positive economic movements while troubled countries such as Japan and Singapore have been earmarked to be positive contributors to world GDP growth.

Interest Rate Movements



There has been sharp movement in the ten (10) year bond rate due to long-term economic uncertainty.

Perhaps one of the biggest economic highlights in the Asian region is the appreciation in China's currency of 2% (pegged against the US dollar). While this may be a relatively small readjustment, it paves the way for further relative rises against the greenback. This will undoubtedly improve the purchasing power of the Chinese currency, in turn increasing the demand for Australian commodities (and therefore domestic cash), which may increase Australian interest rate levels.

However, nobody can accurately predict future interest rate movements, particularly when they are influenced by global political decisions. The long-term future of domestic interest rate levels remains uncertain. Educated estimates are our best and only guide.



PRIVACY LAWS

Generally, the federal Privacy Act covers the collection, use and disclosure, quality and security of personal information. The federal Privacy Act also gives you rights to access and correct personal information about you. You also have the right to make a complaint if you think your personal information has been mis-handled.

The eleven Information Privacy Principles in the federal Privacy Act protect your personal information and give you rights in the way Commonwealth and ACT government agencies handle your information.

1 - Manner and purpose of collection of personal information

Personal information can't be collected unless it's directly related to a specific function or purpose, and it can't be collected unlawfully.

2 - Solicitation of personal information from individual concerned

A collector has to take steps when collecting personal information to ensure that the individual knows why the information is being collected, that it is being legally collected, and to whom the information will be disclosed.

3 - Solicitation of personal information generally

When a collector collects personal information, they must make attempts to ensure that the information is relevant, complete and current, and it does not intrude unreasonably upon the personal affairs of the individual.

4 - Storage and security of personal information

A record-keeper in possession or control of personal information must ensure that it is adequately protected from misuse and that if the information is passed on to a related party everything possible is done to prevent misuse of that information.

5 - Information relating to records kept by record-keeper

A record keeper in possession or control of personal information must ensure that their records are kept in

such a format that it is clear what the records are and what their purpose is if someone is to make enquiries, except where they are allowed by law to refuse to provide that information.

6 - Access to records containing personal information

An individual who provides information to a record-keeper is entitled to have access to that record, unless the record-keeper is required by law to refuse to provide that information.

7 - Alteration of records containing personal information

A record-keeper must ensure that appropriate amendments are made to ensure that records are current and accurate, and requests by individuals to have their records altered must be addressed if possible.



The Privacy Act seeks to prohibit other bodies from obtaining, using or forwarding your personal details without your consent. The Privacy Act covers areas such as record keeping and the alteration of documents.

8 - Record-keeper to check accuracy etc of personal information before use

A record-keeper is obliged to ensure that personal information is accurate and up to date before using it for the intended purpose.

9 - Personal information to be used only for relevant purposes

Personal information can only be used for a relevant purpose.

10 - Limits on use of personal information

Personal information can be used for a purpose other than for which it was originally obtained only if consent has been obtained from the individual, it is a matter of 'life or death', or of public safety, or it is required or allowed by law. Any use of personal information used in relation to law enforcement must be recorded.

11 - Limits on disclosure of personal information

A record-keeper cannot pass on information to another entity unless the

individual is aware that kind of information is usually passed to that entity, they have consented to the disclosure, it is a matter of 'life or death' or of public safety, and/or it is required for law enforcement purposes. If it is required for law enforcement purposes this must be reported.

SPOUSAL TRANSFERS

Generally, when a house or a property is sold/transferred government taxes such as stamp duty are payable. However, there are particular circumstances in which this duty may not be payable (e.g. love and affection transfers).

If a husband/wife sells a property to their other half, no duty is payable to the SRO. As specified in the legislation outlined below the "love and affection" exemption is broader than many people think – exemption applies even where there is financial consideration.

Set out below is the relevant section of the Duties Act. Our office has confirmed the exemption with the State Revenues Office.

Duties Act 2000 Act No. 79/2000 43. Marriage and domestic relationships

(3) No duty is chargeable under this Chapter in respect of a transfer of dutiable property from one person to another person, or from two people to one of them, or from one person to themselves and another person if—
(a) the people are spouses or domestic partners of each other; and
(b) no other person takes or is entitled to take an interest in the property under the transfer.

TESTAMENTARY TRUSTS

A testamentary trust is a trust that takes effect at your death. There are many reasons why you may wish to draft a Testamentary Trust into your Will.

- Testamentary Trusts are an important way of ensuring your children obtain the maximum potential from your inheritance to them.
- Properly drafted Wills can protect children from relationship breakdowns.
- You can protect your beneficiaries from business and investment risk.
- You can ensure children in their

minority are not exposed to penalty tax rates.

- You can properly deal with life insurance payouts and superannuation.
- You can prevent possible capital gains on sale of your primary residence, and minimize other tax liability.
- You can precisely provide for incapacitated beneficiaries and those otherwise in crisis.

Testamentary Trusts do not suit all circumstances and you may require personal consultation with lawyers and accountants.

Please contact Shane Frost on (03) 9620 2001 if you have any further queries in regards to Wills or Testamentary Trusts.

OWNER-BUILDER LAW REFORMS

The Victorian Building Commission (VBC) website contains information for practitioners regarding the new owner-builder laws which come into operation from 14 June 2005. From 14 June, owner-builders:

- Must obtain a Certificate of Consent from the Building Practitioners Board in order to obtain a building permit to carry out domestic building work to the value of more than \$12,000; and
- Can only obtain building permits for a single dwelling and associated work on a single property in any three-year period, and
- Must reside and continue to reside, or intend to reside in that single dwelling.



DEBTOR FINANCE FACILITIES – THINK BEFORE YOU ACT

We have had a number of our business clients looking at or have undertaken debtor or invoice finance facilities in recent times.

Whilst these types of finance facilities have valid application in certain circumstances, we are having experiences where the funding raised is used for longer term funding objectives which, in our view, is inappropriate funding application.

Debtor finance should ideally only be used to fund short term working capital needs, ideally where a company is undertaking significant growth. An example may be where a business needs to import significant forward orders of inventory for new sales opportunities.

We are able to review the composition of your balance sheet, in conjunction with your accountant where appropriate, to assess the structure of existing debt and advise whether this type of funding is appropriate. Contact David McCleery or Bill Humphries for further information.

AUSTRALIAN TAXATION OFFICE RESTRICTIONS ON LOW-DOCUMENTATION LOANS

The Australian Taxation Office has announced that they will severely review the income circumstances of people with low-documentation home loans because it seems on broad inspection many of these applicants are underreporting income earned through self-employment.



The ATO are set to clamp down on businesses/individuals who have low documentation home loans and who appear to be underreporting their taxable earnings.

The audit program has already reaped \$25 million through recouped taxation, with further clamps set to restrict the level of tax avoidance in our economy, particularly within the building and construction industry.

The low-documentation market is valued at approximately \$30 billion dollars per annum, and with the Australian Taxation Office now equipped with data matching software, there will be a system to ensure that each individual does not overstate or understate their income (therefore under, or overpaying taxation to the ATO).

According to Michael Carmody, Commissioner with the Australian Taxation Office, the ATO will, "continue to refine their risk profiling processes to identify cases for audit action".

Applicants to come under fire are those who work in industry that have a high degree of cash inflows as a means of revenue. It is understood that these businesses may be more inclined to distort their earnings for taxation purposes. All lenders are legally required to convey details of the applicants loan and reported earnings upon request.

FINANCIER NEWS

ANZ Bank

The ANZ Bank has increased their maximum loan limit for their ANZ Lo Doc 60 Loan. Available to borrowings which do not exceed 60% of the value of the security property, the Lo Doc Loan is now available to borrowings up to \$800,000. This represents a substantial increase on the \$450,000 limit which was previously in place for all low doc applications. All ANZ loan products are available under this loan policy. Luxury properties and spousal guarantees are also available to be used with this product under ANZ banking policy.

The bank has also introduced a secondary version of their standard Lo Doc Loan which has a loan to value ratio up to 80%. The policy is not available on Money Saver, Equity or Easy Start Loans and **may not** be taken on a Break Free Package. Mortgage Insurance is compulsory for all loans above a loan to value ratio of 60 percent. However, the ANZ Bank allows for mortgage insurance to be capitalised (paid on principal and interest basis over the life of the loan).

In a busy month for the ANZ Bank they have also reduced their Money Saver Loan interest rates by 0.10% for all loan splits that exceed \$250,000.

Bendigo Bank

The Bendigo bank have recently released a lending facility which allows borrowers to access the equity in their home in a secure and a cost effective manner.

Unlike a reverse mortgage, with the Homesafe Equity release product, the Bendigo Bank takes a percentage charge over your property. Upon the sale of the property they will garnish a percentage of the property sale price, which is capped to a maximum of fifty percent.

Bendigo Bank will offer rebates on this product if your home is sold for more than anticipated, or if the property is sold earlier than expected.

The Bendigo Bank also specialises in commercial finance, offering a wide suite of products while providing a high level of customer service.

Citibank

Citibank have reduced the rate for their Basic Variable Loan, which is now priced at the extremely competitive price of 6.62% p.a. This represents a discount of 13 basis points (0.13%) for the life of the loan.

To qualify for this special offer the underlying borrowings must be equal to or greater than \$250,000, supported by a maximum loan to value ratio of 95% and made on a full documentation basis. There is no monthly fee and up to four loan splits are allowed. The loan can be in the name of a trust, company, trading or individual.

For self-employed applicants, Citibank will provide low doc loans at a loan to value ratio ('LVR') of 80% when two years of financials are provided or 70% for applications supported by one years worth of financial statements.

They will also provide finance for inner city apartments above 50 square metres up to a LVR of 70% which applies to establishments in the Docklands area.

National Australia Bank

The National Australia Bank has a commercial finance department that offers financing solutions for a wide variety of lending circumstances. These include growth and start-up, inventory, motor vehicle, plant and equipment, proper, trade finance as well as managing cashflow.

They have always provided premium service to all loan customers and are keen to increase their share of the commercial lending market.

Macquarie Bank

Macquarie Mortgages have extended their special offer up to 30 September 2005. All Mortgage Saver Loans that exceed \$300,000 will be priced at 6.69% p.a. while all loans that are less than \$300,000 in size will attract an interest rate of 6.74% p.a.

Macquarie has also allowed all Mortgage Save Home Loan customers (standard and low documentation) to link a fully functional, 100% offset account to their mortgage.

Standard and Express (low documentation) options allow two separate borrower defaults up which are up to \$2,000 each. Please note that none of these defaults are allowed to have occurred in the last two months (PMI mortgage insurers). This limit increases to \$5,000 under Gemworth's mortgage insurance policy.

Owner builders will also be allowed under the following conditions:

- Maximum LVR of 50%;
- Single dwelling construction only permitted (multi dwelling establishments are not allowed under this policy); and
- Loans must be for investment purposes.

NSW STAMP DUTY REFINANCE CONCESSIONS

As of 1 August 2005 refinance stamp duty concessions will change. Currently there is no stamp duty payable on mortgage loans payable where the borrower is the same (or substantially similar).

The new limits will apply for the lower of the amount of the earlier loan or \$1 million. Duty on mortgage stamp duty currently stands at 0.4%, and will be payable on any amounts over the \$1 million limit. Conclusively, **it may not be favourable** for applicants with over \$1 million in borrowings to refinance (switch financiers) unless the new financier covers some, or all of the switching costs.



MCP BUSINESS STRUCTURES: COMPANY OWNERSHIP

A company is an entity owned by shareholders and managed by directors. It is governed by a set of rules called a constitution or replaceable rules contained by the Company Law. Company law in Australia is composed of the case law, and the Corporations Act. The Australian Security and Investment Commission ('ASIC') is the federal government body which administers Company Law.

COMPANY BUSINESS STRUCTURE

| ADVANTAGES | DISADVANTAGES |
|---|--|
| 1. A company is a separate legal entity. | 1. Highly regulated through the Corporations Law (Cth), Trade Practices Act etc. |
| 2. A company can sue and be sued in its own right. | 2. Greater regulation arise in increased costs due to compliance. |
| 3. A director isn't responsible for company debts (unless guaranteed). | 3. Expensive to establish (financially and time wise) |
| 4. A shareholder's liability is limited to the paid value of their share. | 4. Personal and banking guarantees may be required (for lending purposes). |
| 5. Transfer of ownership is simply done by transferring shares. | 5. ASIC and members of the public may search company records at any time. |
| 6. The company can make contracts with shareholders. | 6. Onerous director duties apply. |

Please speak to Shane Frost at our office for further information regarding company ownership structures.



MCP
GROUP

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INDICATIVE INTEREST RATE SCHEDULE

A selection of our financiers' most competitive Interest Rates. Rates displayed are generally discounted - and may not apply to your situation. This is a guide only - all rates are indicative only. Comparison Rates are available upon request.

Retail Lending

| | Variable Rates (Inclusive of Discounts) | | | | Fixed Rates | | | | | Commission Rates (%) | |
|---------------------|---|--------|-------|--------|------------------------|--------|---------|---------|---------|----------------------|--|
| | Featured | L.O.C. | Basic | Lo Doc | 1 Year | 2 Year | 3 Years | 5 Years | Upfront | Trail | |
| MAJORS | | | | | | | | | | | |
| ANZ Bank | 6.62% | 6.62% | 6.62% | 6.62% | 6.85% | 6.85% | 6.99% | 6.85% | 0.60% | 0.20% | |
| CBA | 6.62% | 6.62% | 6.81% | 6.62% | 6.70% | 6.70% | 6.84% | 6.70% | 0.70% | 0.25% | |
| NAB | 6.62% | 6.72% | 6.62% | 7.32% | 6.85% | 6.85% | 6.99% | 6.85% | 0.60% | n/a | |
| Westpac | 6.62% | 6.77% | 6.74% | 6.62% | 6.95% | 6.89% | 6.99% | 6.89% | 0.60% | 0.25% | |
| AMP Bank | 6.67% | 6.82% | 6.76% | 7.06% | 6.69% | 6.69% | 6.89% | 6.69% | 0.50% | 0.25% | |
| Adelaide Bank | 6.79% | 7.42% | 6.79% | 7.32% | 6.75% | 6.75% | 6.99% | 6.80% | 0.60% | 0.25% | |
| BankWest | 6.65% | 7.35% | 6.65% | 7.32% | 6.75% | 6.75% | 6.85% | 6.75% | 0.50% | 0.25% | |
| Citibank | 6.62% | 6.75% | 6.62% | 7.25% | 6.85% | 6.85% | 6.95% | 6.85% | 0.65% | 0.25% | |
| GE Money | N/A | N/A | 7.34% | 7.85% | Not Available | | | | 1.00% | 0.50% | |
| HSBC Bank | 6.87% | 7.03% | 6.69% | 6.87% | 6.95% | 6.95% | 6.99% | 6.85% | 0.60% | 0.25% | |
| ING Bank | 6.70% | 7.30% | 6.70% | 7.24% | 6.75% | 6.75% | 6.85% | 6.75% | 0.60% | 0.25% | |
| Macquarie | 6.69% | N/A | 6.69% | 7.55% | 7.05% | 7.05% | 6.85% | 6.85% | 0.60% | 0.25% | |
| St George | 6.62% | 6.72% | 6.74% | 6.62% | 6.85% | 6.85% | 6.99% | 6.85% | 0.60% | 0.25% | |
| Suburban Management | 6.74% | 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).

Commercial Lending

| | Variable Base Rates | | Fixed Rates | | | |
|-------------------|---------------------|------------------|------------------------|--------|---------|---------|
| | Standard | Overdraft/L.O.C. | 1 Year | 2 Year | 3 Years | 5 Years |
| COMMERCIAL | | | | | | |
| ANZ Bank* | 7.67% | 7.67% | 7.30% | 7.29% | 7.30% | 7.41% |
| ING Bank | 7.60% | 8.70% | 7.40% | 7.35% | 7.35% | 7.40% |
| Citibank | 7.70% | 8.45% | 7.79% | 7.79% | 7.59% | 7.59% |
| 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 | 7.55% | 7.95% | 7.25% | 7.29% | 7.30% | 7.40% |

* ANZ Bank Commercial Loan Rates (Standard and Overdraft) must be secured by residential property. BankWest Loan Rates are a starting guide only as per BankWest's official website (a buffer may be added to these rates). All rates are based on borrowings of \$500,000.

As Comparison 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.

www.mcpgroup.com.au