

IN THIS ISSUE

- **MCP Group News**
 - *MCP Group Organisational Changes*..... 1
- **Interest Rates and the Economy**
 - *The Australian Market*..... 1
- **Questions & Answers**
 - *Legal*..... 2
- **MCP Commercial Lawyers**
 - *Financial Broking Contracts Explained*..... 2
 - *To Hire Purchase, Lease or Purchase Outright?*..... 2
 - *Changes to the Long Service Leave Act 1992 (Vic)*..... 3
- **MCP Finance**
 - *Deposit Bonds - An Alternative to a Cash Deposit*..... 4
 - *Negative Gearing and Property Related Taxation Deductions*..... 4
 - *Financier News*..... 5
- **Interest Rate Schedule**



MCP GROUP NEWS

MCP GROUP ORGANISATIONAL CHANGES

MCP Group are excited to share a number of recent organisational changes. Sharon Nixon, our former client services coordinator, has been promoted to general office manager. She will be responsible for premise management, office administration and will also continue to head our client experience team.

We would also like to formally acknowledge the expanded role of Bill Humphries.

QUOTE OF THE MONTH

"It doesn't work to leap a twenty foot chasm in ten foot bounds."

- American Proverb

MARKET DATA AND IMPORTANT STATISTICS

As at 19 December 2005

Official Cash Rate: 5.50%
U.S. Fed. Funds Rate: 4.25%

90 Bank Bill Rate: 5.62%
10 Year Bonds Rate: 5.33%

All Ordinaries: 4590.9
Aust. Dollar (US Cents): 74.58

- The domestic current account deficit has risen from \$12b to \$13.5b in the September quarter.
- In the same period job advertisements (+1.7%) and business profits (+2.5%) continued to grow.

Bill's had extensive experience in commercial and corporate banking and will support our co-director, David McCleery, with commercial lending opportunities. His role will be focused towards managing the relationships our Group has with our key referrers. Bill will also coach our finance team and manage commercial loan accounts from submission through to settlement.

Additionally, MCP would like to welcome Elizabeth Douglas who's returning to work after maternity leave. She'll be responsible for the implementation of new strategies for the business in 2006.

We are more than pleased to announce these positive changes as we feel they enhance our ability to provide a premier service to our customers. Future organisational changes are planned to meet with growth and will occur in the near future. MCP Group will keep you informed of these changes as they occur.

INTEREST RATES AND THE ECONOMY

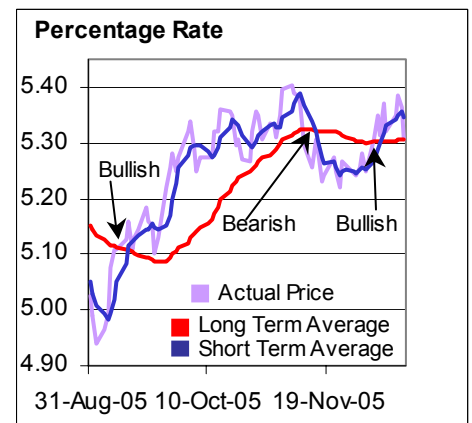
THE AUSTRALIAN MARKET

It seems Christmas has arrived early as the Reserve Bank of Australia has decided to leave the Official Cash Rate at 5.50% per annum for the month December.

Money market rates for two year bonds have been active over the past three months as evidenced by the graph below. There are conflicting viewpoints amongst economists regarding the future of interest rates. Some experts are still concerned about long term oil prices influencing the level inflation despite a recent decline in retail fuel costs.

Conversely, others believe our economy is already stalling by its own means as GDP growth declined considerably in the September quarter.

Two Year Bonds - Short and Long Term Moving Averages



The linegraph (31 Aug '05 to 16 Dec '05) indicates that there is momentum towards rising bond rates. A 5 and 30 day moving average has been used for the short term (fast) and long term (slow) moving averages respectively. These averages reduce market noise and evidence general market trends.

Many technical analysts believe that a bullish signal is present when the short term moving average (blue line) breaks upwards through the long term moving average (red line). This is because the short term trend is increasing more quickly than previously evidenced by the longer term trend (gain in trend momentum).

But the question remains: why have bond rates increased?

According to a major economic research firm there is continued evidence that our economy is reaching productive capacities. This may be evidenced by our low unemployment rate and historical GDP figures. When these are coupled with high oil prices a slightly ominous picture is cast over our domestic economy. Albeit, despite these concerns, the economy and labour markets are performing reasonably. Now is the time to be 'wary' rather than 'worried' of any rate rises.



Some economic bodies question our ability to produce at existing rates, fearing that we're currently nearing capacity constraints.

It seems likely that the Reserve Bank will keep our Cash Rate at 5.50% for the time being. Future inflationary data and GDP figures will hold the key to future monetary policy. This data is set to be released well into the New Year.

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).

LEGAL

What is a caveat?

A caveat is a means by which the Certificate of Title (COT) can be marked to show that a party/person has an interest in a property. A caveat ensures that another party/person may not register an interest in the property without gaining consent from the initial person/party who has lodged the caveat.

One primary use of a caveat is to prevent the property owner from selling the property to another Purchaser, who registers their interest in the property between sale and settlement.



FINANCIAL BROKING CONTRACTS EXPLAINED

The state government has recently introduced legislation to standardise and establish minimum service levels throughout the mortgage broking industry. One major result of the government's desire to improve customer protection throughout this industry is the Financial Broking Contract ('FBC').

The FBC is designed to protect consumers and reduce their exposure to fees from brokers which may not have been disclosed prior to the initial submission of their financial application.

There are four essential components of a Financial Broking Contract:

1. A description of the broker's fees and charges associated with your loan.
2. A list of the broker's panel of lenders which demonstrates that the mortgage broker is actually 'broking'. This term simply means your financial application is being shopped around to several financiers to find the best financial product possible in terms of structure, rate and fees.
3. A comprehensive list of the basic fees and charges that will be associated with your loan including an interest rate bandwidth, fee schedule and also the level of remuneration that your broker will receive for the introduction of your loan to the financier. Upfront fees charged by the broker should also be disclosed in the FBC.

4. A clause which allows the broker to provide your information to third parties for the purpose of loan approval. These third parties may include, but not be limited to, mortgage insurers or property valuers.

Please be advised that the Financial Broking Contract is a document to protect the consumer and is not a binding agreement between a consumer and their mortgage broker. For example, your signature on the Financial Broking Contract does not legally commit you to the acceptance of the underlying loan.

For further information on Financial Broking Contracts please contact Jade Webster or Adam Maciejewski on (03) 9620 2001.

TO HIRE PURCHASE, LEASE OR PURCHASE OUTRIGHT?

Many readers may remember a legal article in our November edition of the MCP Group monthly newsletter regarding 'equipment financing'. The article was an introductory overview of what constituted a hire purchase or equipment lease, covering topics such as terms within the contract and a general description of the two methods of assets acquisition/utilisation.

The following article seeks to further explain the advantages and the pitfalls of hire purchasing, leasing or purchasing equipment outright.

PRELIMINARY 'NEEDS ANALYSIS'

The option of whether to purchase an asset outright, lease or hire purchase is a business specific decision. It requires various levels of business analysis and decision making about various issues including security ownership, levels of rates and fees and their effect on cash flow forecasting as well the tax implications of each of the three methods of asset utilisation.

Both a hire purchase and lease are long-term business commitments. Any default or inability to repay may prove to be costly to the business as break costs generally apply.

HIRE PURCHASE AND LEASING REVIEWED

Hire purchase refers to the periodic purchase of an asset over a certain time period. The purchaser is

allowed to operate and use the equipment under the terms specified by the financier/lender. The financier retains legal ownership of the asset until the purchaser makes all of their purchase repayments.

Leasing refers to a situation where the lessee (person or body leasing the equipment) uses the equipment as per the terms of the lessor (person or body lending the equipment) for a nominal fee.

The main difference between a hire purchase and a lease is that the financier owns the underlying asset at the end of a lease agreement.

THE ADVANTAGES AND DISADVANTAGES

There are many reasons why a business may opt to lease or hire purchase equipment.

Hire purchasing allows business owners to periodically build equity in their company. It also allows the hirer to claim depreciation and interest repayments as a taxation deduction, although legal ownership of the equipment rests upon the financier until all repayments have been met.



Many firms elect to lease equipment rather than hire purchase or purchase outright. Leasing may allow the lessee to continually upgrade equipment as technologies improve.

Leasing allows the equipment user to manage cashflows efficiently as payments are standardised throughout the term of the lease and don't increase or decrease with inflation/deflation.

Purchasing equipment outright increases a firm's balance sheet (statement of financial position) considerably, although it may decrease working capital which is vital for business success.

CONCLUSION

The decision to hire purchase, lease or purchase outright is a complex decision which is, in most circumstances, business specific. Please contact Bill Humphries or John Ross at MCP Group if you require any further information.

CHANGES TO THE LONG SERVICE LEAVE ACT 1992 (VIC)

On 1 January 2006, changes to the Long Service Leave Act 1992 (Vic) will come into effect. These changes provide greater Long Service Leave (LSL) entitlements for many Victorian employees, and importantly earlier access to these entitlements. Many of the amendments clarify some aspects of employment, for example the treatment of part time, casual or seasonal employees, the impact of paid and unpaid leave on the LSL accrual and the treatment of public holidays.

In summary the key aspects of the amendments are:

- No change to the qualifying period for the initial LSL entitlement, which currently stands at 15 years, with employees now being entitled to take LSL after 10 years continuous service on a pro-rata basis (previously 15 years).
- No change to the qualifying period for subsequent LSL entitlements after the initial entitlement, currently 5 years additional service.
- No change to the accrual rate of LSL, approximately 0.866 weeks per year of service.
- Upon termination employees will be entitled to pro-rata LSL payments after 7 continuous years of service (previously 10 years service).
- If an employee is dismissed for serious and willful misconduct they do not forfeit any entitlement – any accrued entitlement would need to be paid out on their termination.
- Continuity of service is maintained if taking any form of parental leave, whether paid or unpaid. Any paid parental leave is included in the years of service when calculating the LSL accrual. Unpaid leave whilst not breaking continuity of service does not count as service.

	Leasing	Hire Purchase	Outright Purchase
Adv.	You may be able to upgrade equipment as technologies improve	Preserves working capital as periodic repayments are made	You are the owner of the goods effective immediately
Adv.	There are limited upfront cash payments to lease an asset	Method of building equity in the business	Ability to sell, modify or trade the equipment at any time
Adv.	The same consistent payment is made each period	Repayments may suit your future cash flow requirements	There's no requirement to make regular loan/lease repayments the equipment is paid for upfront
Adv.	Some protection against inflation as regular repayments are made	Interest repayments and depreciation are tax deductible	You may claim the depreciation of the asset as a taxation deduction
Adv.	Many leases include the option to purchase the underlying asset at expiry	There may be other tax benefits associated with hiring the asset	Can instantly improve the nominal dollar value of your firm's asset position
Disadv.	You have an obligation to continue to lease the equipment even if there is a business downturn	You have no legal ownership of the goods until you meet all repayments	There may be a large upfront cost to purchase the equipment
Disadv.	You have no equity in the equipment until you decide to purchase it	The lender can repossess the equipment under certain circumstances	Upfront expenditure on the equipment may decrease business working capital.
Disadv.	You are required to keep the equipment in a certain condition specified in the lease. This may be costly	You may not sell or make alterations to the equipment without the consent of the financier	It may be difficult to upgrade the equipment unless a sale of the original equipment is made

The above list of advantages and disadvantages are to be considered as an introductory guide only. For further information please contact our office on (03) 9620 2001.

- Where an employee has variable, or no set hours, the employee's hours will be averaged over the previous 12 months, or 5 years, whichever is the greater.
- Casual and seasonal employees and apprentices are now specifically entitled to LSL, provided that there is not more than a 3 month gap between employment periods, unless the break in service was under the terms of the employment agreement. Casual and seasonal employees are entitled to LSL on a pro-rata basis.
- Public holidays extend the period of LSL. This is consistent treatment as for other types of leave, e.g. annual leave.
- Any employee absent from work on WorkCover continue to accrue LSL on the greater of the worker's pre-injury rate of pay or the actual rate of pay at the time of taking leave.

There are also increased penalties for employers who do not comply with the new amendments. All employees are entitled to 13 weeks LSL after 15 years service, i.e. approximately 0.866 weeks per year. After working a further five years, the employee will be entitled to an additional period of LSL. There is no change to this calculation. The changes in place relate to when an employee has access to this leave.

There are some transitional arrangements in place for employees with more than 10 years service but less than 15 years service at 1 January 2006.

NEW GST SPECIAL CONSIDERATIONS IN LIV CONTRACT OF SALE

Practitioners are to be aware that if the margin scheme is to apply to the supply of real property under a contract of sale entered into on or after 29 June 2005, the parties must agree to that in writing prior to settlement.



DEPOSIT BONDS: AN ALTERNATIVE TO A CASH DEPOSIT

A deposit bond is a security guarantee which is given to the seller by the buyer to ensure that they'll 'go through' with a property purchase.

Deposit bonds are a great option for purchasers and investors who are unable to source funds to pay for the initial deposit on the property.

Deposit bonds are an alternative to bridging finance (finance used to fill the interim period between a housing sale and purchase) which can be quite expensive in terms of rates and fees. For example, bridging finance may be available for a purchaser who wishes to buy a property and sell their existing domicile at a later date.



Deposit bonds are also time convenient as the guarantee/deposit bond may be available within 24 hours of the bond's application.

A deposit bond is simply a substitute for a cash deposit between the signing of the Contract of Sale ('COS') and the actual settlement of the property. Moreover, it represents an insurance policy, or a written guarantee which is provided by an insurer to the seller, stating that the purchaser will be able to provide the deposit upon the settlement of the property.

Some vendors will readily accept a deposit bond. However, they have the right to refuse such a promise and can seek a cash deposit.

The insurer who issues the deposit bond will require a number of documents to ensure that the purchaser will be able to fulfil their 'deposit upon settlement' promise. These may include a valuation of the security property, a contract of sale, a letter of unconditional loan approval from a bank/lending institution and signed personal statement of financial position.

Deposit bonds can be organised prior to auctions and are valid for a

defined period (subject to pre-qualifications). The purchaser will complete a Counter Indemnity in the application. If the purchaser fails to provide the funds upon settlement, the Counter Indemnity is the legally binding right that gives the insurer the power to pursue the purchaser for those funds in order to fulfil the promise made to the vendor.

The legal implications associated with the failure to pay out the balance upon settlement are a major factor as to why deposit bonds may be rejected by a vendor. However, they are increasingly becoming a readily accepted alternative to the traditional deposit as they alleviate the requirement of a cash transaction before the final settlement of the property.

NEGATIVE GEARING AND PROPERTY RELATED TAXATION DEDUCTIONS

Negative Gearing is a situation where a person receives less income from an investment than investment expenditure. This is particularly common amongst property investors. In this situation the rental income from the investment property would be less than the expenses incurred to generate the underlying rent receivable.

For example, John's a PAYE employee who rents out an investment property. He is negatively geared and earns a gross annual income of \$55,000 per annum. He receives rental income of \$14,000 per year which brings his total annual earnings excluding deductions to \$69,000. However, due to the maintenance of his investment property he incurs approximately \$25,000 in deductible expenses and interest costs. Therefore, his post deducted assessable income now becomes \$44,000.

As John has paid periodic tax based on an income of \$55,000 he may be entitled to an end of financial year tax rebate (as he should've only paid periodic tax based on an annual salary of \$44,000).

The aim of a negatively geared property investor is to engage in long term capital growth that exceeds the loss in periodic income due to the fact that investment expenses

outweighs investment income. The resultant benefit of a reduction in taxation payable should only be seen as an ancillary benefit.

The number of items that may be claimed as a taxation deduction are wide and varied. As a general rule of thumb, all expenses used to generate investment income are tax deductible. These may include the following:

- Advertising and real estate costs to find tenants;
- General real estate commissions to manage the investment property;
- Bank charges such as cheque expenses and monthly fees for accounts used for investment purposes;
- Body corporate fees;
- Borrowings expenses such as interest charges and annual fees;
- Cleaning, mowing, pest inspection, electrical and all other service expenses used to maintain the investment property;
- Council rates;
- Depreciation on property fixtures and fittings;
- Insurance premiums;
- Land taxes, legal and accounting fees associated with drawing a lease etc; and
- Travel costs to inspect the property.

Depreciation refers to the reduction in the value of an asset that results from 'wear and tear'. Most assets lose their value and must be replaced after their useful life. A savvy property investor may claim depreciation for the following items (according to the Australian Tax Office's website):

- Air conditioning units and heaters;
- Removable floor coverings;
- Drapes and curtains;
- Dishwashers and cleaning systems;
- Hot water systems (including environmentally friendly systems);
- Security alarms; and
- Stoves and cook tops.

The above list is merely a sample. For a comprehensive description of depreciation claimable assets please contact the Australian Taxation Office or your accountant.

FINANCIER NEWS

AMP BANK

The AMP Bank currently has a well priced 3 year fixed rate product (6.64% per annum). The AMP Bank is one of Australia's largest financial institutions and are renowned for their high levels of customer service.

ANZ BANK

In November the ANZ Bank introduced numerous policy adaptations aimed at making it easier to gain lending approval. One of these initiatives includes abolishing the accountant phone call to confirm income for Lo Doc 60 & 80 applicants.

There were situations in the past where accountants were called by the ANZ staff only to be caught 'off guard'. As they may have been unaware of the applicants income levels, time delays were often experienced, with some accountants hesitant to divulge any income earning details whatsoever.



Many brokers have welcomed the alleviation of the requirement to telephone the consumer's accountant under ANZ Lo Doc 60 & 80 Loan applications.

The bank has also introduced a No Genuine Savings Product. Now customers can gain finance approval by sourcing the minimum 5% deposit through other parties or the First Home Owners Grant.

WESTPAC BANK

The Westpac Bank would like to advise all loan applicants that they may lock in the advertised fixed rates at the time of the initial application for an upfront fee of 0.15% of the loan amount. This is beneficial for customers who are worried about sizable increases in fixed rates between the initial submission of their application and settlement.

CHRISTMAS GREETINGS AND A HAPPY NEW YEAR FROM MCP GROUP

MCP Group would like to wish our referrers, agents, customers and business associates all the best for the Christmas period and the New Year.

We thank you for your continued support towards our firm and hope that you have a safe New Year and a well earned rest. We are excited about Group changes that have taken place in 2005 and look forward to promising 2006.

MCP Group will continue to function over the Christmas period (excluding public holidays), although some staff members will be taking time off during this period.



MCP Group wishes all Group stakeholders a happy Christmas and a safe New Year.

However, any queries are more than welcomed. Our Group will ensure that these queries are promptly answered by a suitable and qualified MCP professional as soon as viably possible.



Level 7, 520 Collins Street
Melbourne VIC 3000
Phone: (03) 9620 2001
Facsimile: (03) 9620 2002

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 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	ANZ Bank	6.72%	6.72%	6.72%	6.85%	6.79%	6.65%	6.79%	0.60%	0.20%		
	CBA	6.72%	6.72%	6.81%	6.72%	6.70%	6.44%	6.64%	0.70%	0.25%		
	NAB	6.82%	6.97%	6.72%	7.32%	6.85%	6.79%	6.47%	6.79%	0.60%	n/a	
	Westpac	6.72%	6.77%	6.62%	6.62%	6.89%	6.79%	6.65%	6.79%	0.60%	0.25%	
	AMP Bank	6.82%	7.02%	6.76%	7.06%	6.69%	6.69%	6.64%	6.69%	0.50%	0.25%	
	Adelaide Bank	7.32%	7.42%	6.79%	7.32%	6.75%	6.75%	6.69%	6.79%	0.60%	0.25%	
OTHER LENDERS	BankWest	6.65%	7.02%	6.65%	7.24%	6.75%	6.75%	6.85%	0.50%	0.25%		
	Citibank	7.31%	7.41%	6.62%	7.25%	6.85%	6.89%	6.99%	0.65%	0.25%		
	GE Money	N/A	N/A	6.89%	6.99%	Not Available					1.00%	0.50%
	HSBC Bank	7.03%	7.03%	6.69%	6.87%	6.85%	6.85%	6.75%	6.85%	0.60%	0.25%	
	ING Bank	7.40%	7.30%	6.70%	7.24%	6.59%	6.59%	6.74%	6.60%	0.60%	0.25%	
	Macquarie	6.80%	N/A	6.74%	7.55%	7.05%	7.05%	6.95%	6.69%	0.60%	0.25%	
	St George	6.62%	6.72%	6.74%	6.62%	6.89%	6.79%	6.79%	6.59%	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).

	Variable Base Rates			Fixed Rates				
	Standard	Overdraft/L.O.C.	1 Year	2 Year	3 Years	5 Years		
LENDER	ANZ Bank*	7.67%	8.60%	7.33%	7.39%	7.45%	7.60%	
	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%	7.79%	
	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%	7.35%	7.30%	7.40%	7.55%		

* 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.