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INTEREST RATES AND THE ECONOMY

Will there be a Rate Rise in 2007?

The Official Cash Rate will remain at 6.25% for the month of February following the Reserve Bank of Australia's (RBA) decision to keep our Cash Rate on hold for the very short term.

Perhaps some of the most notable movements in the Money Market space surrounded 90 Day and 180 Day Bank Bills, which fell by a staggering 9 and 13 basis points respectively following the release of fourth quarter inflationary information.

However, there are a number of telling statistics and economic fundamentals that may become evermore pressing moving into the latter part of this financial quarter. Some of the RBA's key concerns include our spiraling unemployment rate coupled with the increase in the cost of living as a result

QUOTE OF THE MONTH

"The optimist sees the opportunity in every danger; the pessimist sees the danger in every opportunity."

- Sir Winston Churchill

of the heightened level of consumer income; which has resulted in the hire of workers as strong business performances are transformed into expansionary business ventures.

Additionally, other concerns emanate from the severity of our drought and, resultantly, the flow on effect of farming losses to consumers. These factors have been venerated in previous editions of the MCP Group Newsletter due to their influence on our Cash Rate. One of the most revered objectives for the RBA is to ensure that our inflationary levels are retained at a level which underpins efficiency advances.

Furthermore, with our employment rate at around 4.5%, the RBA may be pressed to raise the Cash Rate in the very near future. As a pre-emptive

Market Data/Statistics

Official Cash Rate: 6.25%
U.S. Fed. Funds Rate: 5.25%
90 Day Bank Bill Rate: 6.39%
5 Year Bond Rate: 5.945%

All Ordinaries: 5,899.30
Dow Jones: 12,580.83

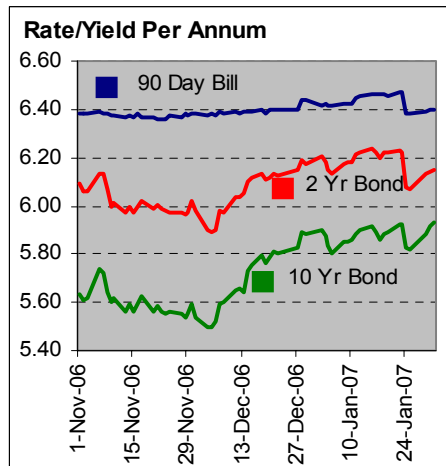
As at Monday 12th February 2007

"We too see the risks of a near term Rate hike by the RBA."

- Major Australian Bank

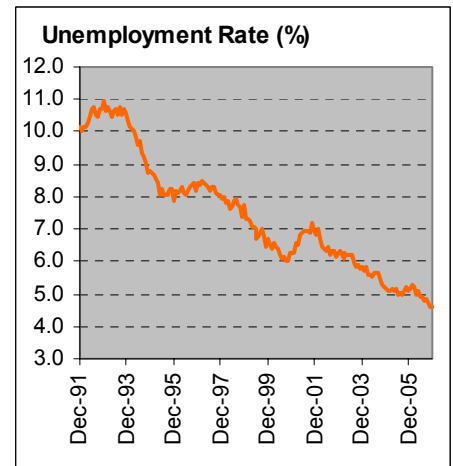
measure, our monetary regulatory body will find it difficult not to err on the side of caution, as a sudden reduction in jobs due to an excess supply of stock may spell public disaster. Supporting an interest Cash Rate increase is our inflation rate, which totals 3.3% for the 12 months to December 2006. There is also a market prediction that inflation

Money Markets Movements



Money Market Rates: The recent dip in the 90 Day Bank Bill Rate, 2 Year and 10 Year Bond (22 February 2007) evidences the sentimental downwards revision of the prospect of a Rate Rise.

Unemployment



Unemployment: The unemployment rate has decreased markedly since 1993. It is now at historical lows which has prompted some experts to believe that a Rate Rise may be warranted to reduce output.

will be near 3.4% for the 2007 March quarter (seasonally adjusted).

Earlier last year there were many market professionals that believed the Cash Rate would remain stable for at least 12 months. While their viewpoints may have been heavily reinforced with reliable empirical evidence and research at that point in time, it just goes to show how fickle the interest rate market, and our economy, can be. Even though, one would be foolish not to fathom a rate rise early in the year if our unemployment rate remains restricted to its current position. This looks probable!

Evan Tepper, MCP Group

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 email (enquiries@mcpgroup.com.au).

LEGAL

How do I make a Binding Death Nomination in respect to my Superannuation?

Binding Death Nominations are not always offered by the Trustees of a Superannuation Fund. However, if a Binding Death Nomination is made the Trustees are bound to pay a person's benefit to their nominated beneficiaries in the amounts and percentages specified in the Nomination.

Primary criteria that must be satisfied for a valid Binding Death Nomination include:

- Nominated persons are dependants or a legal representative of the person making the Binding Death Nomination;
- The Binding Death Nomination was signed by the member in front of two witnesses who are over the age of eighteen (18) and independent of the nomination;
- No more than three (3) years have elapsed since the Binding Death Nomination was made; and
- All the members nominated are still eligible to receive the person's benefit (i.e. none of the beneficiaries have passed away etc).

There is no provision in legislation to allow for a Binding Death Nomination

Franking Credit and the Payment of Tax on Dividends

Earnings before Tax Available for Distribution	\$100	
	<i>Tax Rate of 16.5% (Inc. Medicare Levy)</i>	<i>Tax Rate of 41.5% (Inc. Medicare Levy)</i>
Cash Dividend to Shareholder	\$70	\$70
Franking Credit to the Shareholder	\$30	\$30
Shareholder's Total Taxable Income	\$100	\$100
Individual Tax Calculation		
Tax Due on Dividend	\$16.50	\$41.50
Less Franking Credits	\$30	\$30
Net Tax Position	\$13.50	(\$11.50)

The Taxation Treatment of Dividends: The tax payable on a dividend depends greatly on the level of "franking" and individual tax rates.

to be overturned by the Trustee Board. We would advise a member to seek legal counsel before such a Nomination is made to ensure validity. Please contact our legal department if you require any further information.

FINANCIAL PLANNING

Can you please explain what Franking is and how it works?

A company may pay a dividend out of their profits or capital reserves in a given financial period. Generally, the company pays tax before the profits are forwarded onto shareholders.

The term "fully franked" refers to a dividend which is paid out of post tax profit.

The tax paid on a dividend is known as a franking credit. The implication of "franking" on the shareholder depends on their marginal tax rate. For simplicity's sake, let's say that a company makes a pre-tax profit of \$100 and has only one (1) shareholder. At the business tax rate of 30% the tax payable by the company would be \$30. The total dividend payable to the shareholder would be the \$100 dollars, comprised of the actual cash dividend to the shareholder (\$70) and the \$30 franking credit (tax paid by the company).

The tax payable on the dividend will depend on the marginal tax rate paid by the individual.



ELECTRONIC CONVEYANCING

There has been widespread consideration regarding Electronic Conveyancing ('EC') within the legal industry of late. With technology readily available and accepted as a convenient method of communication amongst the retail and service orientated industries, it seems that Electronic Conveyancing will soon be incorporated into the way in which Australia Conveyancers operate. At this stage the proposals are limited to electronic settlements - the rest of conveyancing practice will remain unchanged.

Stage one of EC is being trialed by Financial Institutions, with mortgages and the discharge of mortgages are lodged electronically. This has been in place since 21 August 2006.



Electronic Conveyancing: Set to revolutionise the Conveyancing Industry, electronic conveyancing will be slowly introduced to legal practitioners moving forward.

In 2007 EC will also be trialed by Solicitors and Conveyancers.

The basic process is as follows:

A paper title will be converted into an electronic format, with the control of the title being noted as one party (Vendor's Solicitor), this control is then passed on to another party once a settlement occurs (Purchaser's Solicitor) and converted back to paper after settlement.

In more detail:

- All parties to the proposed transaction must agree to use the EC System.
- If the title deed is a paper Certificate of Title (pCT), it must be converted to an electronic Certificate of Title (eCT). It will be important that conversion is a simple process, so that conversion does not delay the discharge of a mortgage. Delays in the finalisation of settlements are the subject of much complaint.
- Subscribers must obtain express instructions from the Client whether a pCT is required. The default position will be that there will be an eCT.
- One of the parties creates an Electronic Lodgment File (ELF).
- Other participating Subscribers then enter into the ELF information necessary for the transaction.
- The participating Subscribers must nominate a Responsible Subscriber who is primarily charged with dealing with queries from the Land Registry in relation to the transaction.
- The EC System generates electronic documents. These are initially withdrawal of caveats, discharge of mortgage, transfers, and mortgages.
- The e-Documents are signed by the Subscriber on behalf of a Client. The e-Document signed by the Subscriber on behalf of a Client becomes the operative document.

It is likely that Subscribers will require mortgagor Clients to sign a paper copy, or at least specifically agree to the terms of the mortgage (rather than just have a general authority to sign a mortgage irrespective of its form). However, as Representation Agreements operate similarly to a power of attorney authorising the Subscriber to sign on behalf of the

THE ADVANTAGES AND DISADVANTAGES OF DISCRETIONARY TESTAMENTARY TRUSTS

✓	Flexibility: Allowing the Trustee and beneficiaries a great deal of choice determining who and how will benefit from the Estate.
✓	Asset Protection: Where a beneficiary is a business owner or bankrupt they can protect the estate assets from third party creditors or a trustee in bankruptcy.
✓	Relationship Breakdowns: The estate can be preserved to a certain degree in the event a beneficiary suffers a relationship breakdown, preventing dissipation of the estate through separation or divorce.
✓	Tax Effective: Payments can be made to beneficiaries in lower tax brackets (eg minors) thereby minimizing income tax. Note - Without a Testamentary Trust minors pay income tax on almost all estate earnings at the top marginal rate.
✓	Control of Spending: If a beneficiary has a habit of being unable to budget & squanders their money.
✓	Incapacity, Disability or Vulnerability: Control of money flows and requirements for a beneficiary unable to take care of their own affairs including those intellectually disabled, suffering Dementia or Alzheimers, or suffering a drug addiction.
✗	Cost of Establishment: At least twice as much as a simple Will.
✗	Additional Administration: Tax Return/s, Australian Business Number/s and Accounting.
✗	Loss of 15% Tax Rebate: As opposed to superannuation pensions.
✗	Complexity: They can be difficult to understand and therefore to progress and finalise.
✗	Funding: Willmaker needs a sufficient level of wealth.

Client, there is no need for a paper counterpart.

Subscribers can choose on a deal-by-deal basis whether to:

1. e-Lodge, under which duty and fees are paid electronically but not the purchase price; or
2. e-Settle – allowing electronic financial settlement as well as lodgment.

Erin Lawlor, MCP Legal

DISCRETIONARY TESTAMENTARY TRUSTS

In essence Testamentary Trusts are Trusts created by Wills, which come into existence upon a Will maker's death.

There are three main types:-

Discretionary – A Trust under which the Trustee has discretion or the ability to decide how the wealth in the Trust is distributed according to your wishes.

Protective – This type controls the disbursement of income (and/or capital) generated from the Trust, and are suitable where beneficiaries cannot control their own finances, including where they are incapacitated or vul-

nerable, for example involved with drugs of addiction or gambling.

Minors – Provides for beneficiaries under 18 years old, ensuring their income and capital is protected and managed to their advantage.

Discretionary Trusts are the most popular type, and can cater for Protective and Minor requirements at the same time. You provide instructions to your Trustee in your Will, as to how you wish your Estate to be dealt with.

SUPER BINDING DEATH BENEFIT NOMINATION FORMS

Nominating with these Forms to beneficiaries has the advantage of providing certainty, and the disadvantage of a lack of flexibility.

SUMMARY

In certain circumstances Testamentary Trusts can provide significant benefits to a Willmaker's beneficiaries. Legal and accounting advice is vital to ensure appropriate Wills are created given a Will maker's personal situation.

Shane Frost, MCP Legal



WHY BUDGETING WORKS!

INTRODUCTION

A budget is a simple form of tracking your expenses, and acts much like a personal Statement of Cash Flows used by businesses. A budget should sum personal inflows including wages, commissions, interest or rental during a specific period such as a week, fortnight or month. Expenses are deducted from inflows and may be broken down into various subheadings and incorporate mortgage repayments, utilities, school fees, credit card loans and groceries etc.

WHY BUDGET?

A budget allows you to determine whether you are living within your means. If you spend more than earn it may mean that you are either accumulating personal debt or diminishing financial assets as a means of surviving. This is not beneficial and is advised against in most circumstances as it could exacerbate future cash-flow problems, meaning that severe personal expenditure reductions may be required. There is no better time to start budgeting than now!

TIP #1

Always allow an entertainment expense. This will ensure that long-term enthusiasm towards the budget is maintained.

DISADVANTAGES

Many individuals and families do not have a budget. The reason being is its time consuming and tedious to complete. Much like anything, budgeting is an activity that requires a significant investment of time. But with the advantages being so great, it would seem trivial to overlook the need for a budget due to this constraint.

ADVANTAGES

There are, as previously outlined, several advantages towards budgeting. These include but are not limited to the following:

- A budget is a way to measure performance and attain financial milestones.
- A budget can help you save money for investments.
- The excess funds may be used for a holiday, car, dining out, massage, golf clubs or renovations.
- A budget allows funds for emergencies.
- A budget may maintain a standard of living, as personal expenditure does not have to be mitigated due to loan costs such as interest on credit cards debt.
- It may increase your quality of life as monetary concerns are mitigated.



Fitting your Expenses into your Income: Spending within your means may allow you to avoid high interest bearing debt such as a personal credit card loan.

HOW TO ESTABLISH A BUDGET?

1. Understand why a budget is important, and establish a host of short-term and long-term financial targets in line with your objectives.
2. Monitor outflows for several periods to gauge, on average, how much you spend on particular items in the specific time period. Write down what you spend daily. It may help to have a set template tailored to your specific circumstances.
3. See a Financial Planner. This may seem a little extreme, but a reputable financial planner may be able to share various techniques on how to reduce expenditure (i.e. consolidating debt, refinancing your mortgage, reducing bank fees etc).
4. Set predetermined financial goals for your budget and monitor expenses.
5. Continually complete, monitor and review.

TIP #2

There may be periods where you may not meet your financial goal. However, continue with the budget and don't lose focus of your longer term financial objectives. One of the biggest reasons why a budget fails is due to a decrease in enthusiasm due to one poor budgeting period.

CONCLUSION

There are several benefits to budgeting, all of which are surmountable and valid reasons to establish and continue with a budget. One of most important personal characteristics when budgeting is the perseverance.

David MacManus, MCP Financial



CHANGES TO CREDIT TRENDS OVER THE PAST FIFTEEN YEARS: A BRIEF GUIDE

There are many elements that have driven the demand for property and increased the level of consumer borrowings.

These key drivers consist of, but are not limited to, the following:

THE UTILISATION OF EQUITY

It is understood that Australia has one of the highest level of direct share ownership on a per capita basis. This is predominately due to a large number of Initial Public Offerings (IPO's) of household Government services/agencies in the 1990's. This has invariably led to a larger number of individuals seeking financial advice and, in the process, becoming more financially savvy about investment related concepts.

Where past generations have focused on alleviating their debt levels, newer ones are determined to make the most of the equity in their home/shares to purchase investments for retirement or additional income. This means that a new pattern has emerged over the last fifteen (15) years of keeping debt levels relatively high, leading to a larger portion of an individual's income to be spent on interest repayments as they vie for the capital appreciation of financial assets.

INTEREST RATES

Australian interest rates have decreased dramatically from the same time fifteen (15) years ago. This has reduced the level of interest loan repayments for the same level of borrowings from fifteen (15) years ago, which has led to an increase in the aggregate level of borrowings.

THE INCREASE IN THE PROLIFERATION OF MORTGAGE AND FINANCIAL PRODUCTS

There has been a large push in the Australian lending market by primary, mid-tier and smaller lenders due to the waiver of stringent government regulation of the financial industry surrounding new entrants. Put simply, more aggressive advertising campaigns and a higher number of financiers have led to an increase in the amount of borrowings by Australian credit consumers.



Social Changes: A change in social trends has led to an increase in the average age of marriage, thereby decreasing the average number of people per household and increasing per capita consumer borrowings.

LENDING AMENDMENTS

Coupled with the decrease in the underlying interest rate, there has been a high degree of credit policy relaxation as financiers vie for business. According to a paper entitled, 'The Submission Commission Inquiry on First Home Ownership', the percentage of housing assets as a ratio of housing income in 1995 was 2.8 times. This has increased to approximately 4.50 times in our current market environment.

DEMOGRAPHICAL CHANGES

A number of factors have led to an average increase in individual borrowings, and also in the aggregate total by the Australian public. The

deferral in the average age of marriage, high divorce rates and the fact that Generation X has moved out of home has led to an average decrease in the number of people per household. The Australian Bureau of Statistics claims that the number of people per household was 2.9 in 1991. Today, there is, on average, a touch over 2.5 people per household.

CONCLUSION

The simple fact is that Australian consumers are now borrowing more. The proportion of income spent on mortgage repayments is above 30% (the traditional maximum) in some major municipalities. The Australian consumer has to be more cautious than ever when it comes to their finances, especially as a minor adverse movement in the Cash Rate could spell problems for some highly geared mortgagors.

Adam Maciejewski, Jade Webster and David McCleery, MCP Finance

FINANCIAL NEWS

ANZ BANK (RESIDENTIAL)

The ANZ Bank offers a very attractive Medical Benefits Package aimed at professionals working in the health industry. Occupations covered include Radiologists, Doctors of Medicine, Physiotherapists and Optometrists. The primary advantage of this Package includes the waiver of Lenders Mortgage Insurance ('LMI') up to a Loan to Value ('LVR') Ratio of 95%.

COMMONWEALTH BANK (COMMERCIAL)

The Commonwealth Bank have recently reinforced their commitment to business lending. Their model may have less of a relationship emphasis than the other majors but they are very keen to compete on pricing. They have a number of industry specialisations in terms of cash-flow funding.

COMMONWEALTH BANK (RESIDENTIAL)

The Commonwealth Bank of Australia ('CBA') are offering a special offer with their Three (3) Year Special Rate Saver Loan. The offer is valid as at 1 February 2007 and incorporates a suite of savings – both upfront and residual. Most notably, the CBA are waiving their establishment fee and monthly loan service fee for

the life of the fixed term and beyond. It should be noted that the upfront fee is approximately \$600 and the residual loan service fee is \$8 per month (\$288 over the fixed rate period). Furthermore, they have agreed to keep this rate at below their Basic Variable rate (the margin will not change).

PEPPER HOME LOANS

MCP is pleased to be associated with Pepper since their products have been reinvigorated. Pepper can assist with a range of low document and credit impaired clients. Of particular interest is their Xpress Low Doc Product which allows a maximum loan amount of \$1.25M – at an 80% Loan to Value Ratio ("LVR"). The rate of 7.69% is attractive for LVR's over 60% as no lenders' mortgage insurance ("LMI") is charged. This creates a cost benefit analysis for clients borrowing over 60%, a potential lower rate with LMI or a higher rate without LMI.

PROVIDENT INVENTORY FINANCE

"A way to finance stock purchases without providing traditional security"

Inventory Finance provides businesses with finance for the acquisition of stock for manufacturing or resale to their customers. Potential clients are typically profitable, well established, have current financials and annual sales turnover of \$3m or more. Clients include manufacturers, wholesalers and retailers who purchase stock from Australian or overseas suppliers. Finance is available for most new stock, ranging from raw materials and work in progress to finished goods.

What makes this Inventory Finance attractive is that the stock to be financed does not have to be pre-sold, invoiced and delivered. Additionally, clients are not required to provide real estate security.

INDICATIVE INTEREST RATE SCHEDULE - AS AT 12 FEB 2007

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.

Residential Lending		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	7.37%	7.47%	7.47%	7.37%	7.39%	7.39%	7.35%	7.35%	0.625%	0.20%
	CBA	7.37%	7.47%	7.56%	7.47%	7.35%	7.35%	7.35%	7.35%	0.70%	0.25%
	NAB	7.37%	8.07%	7.37%	7.57%	7.35%	7.35%	7.25%	7.25%	0.60%	N/A
	Westpac	7.37%	7.52%	7.49%	7.47%	7.35%	7.35%	7.35%	7.25%	0.60%	0.25%
OTHER LENDERS	AMP Bank	7.42%	7.52%	7.48%	7.63%	7.35%	7.35%	7.28%	7.24%	0.50%	0.25%
	Adelaide Bank	8.07%	8.17%	7.54%	8.17%	7.35%	7.35%	7.35%	7.25%	0.60%	0.25%
	BankWest	7.40%	7.60%	7.40%	7.99%	7.35%	7.35%	7.35%	6.99%	0.50%	0.25%
	Citibank	7.71%	7.73%	7.37%	7.71%	7.40%	7.40%	7.30%	7.30%	0.65%	0.25%
	HSBC Bank	7.70%	7.70%	7.44%	7.70%	7.35%	7.35%	7.29%	7.35%	0.60%	0.25%
	ING Bank	7.40%	7.99%	7.40%	7.99%	7.39%	7.39%	7.29%	7.39%	0.60%	0.25%
	Macquarie	7.39%	7.55%	7.39%	7.73%	7.55%	7.55%	7.55%	7.55%	0.60%	0.25%
	St George	7.37%	7.47%	7.49%	7.47%	7.35%	7.29%	7.19%	7.15%	0.60%	0.25%
Suburban Management		N/A	N/A	7.49%	8.14%	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.

Commercial Lending		Variable Base Rates		Fixed Rates			
		Standard	Overdraft/L.O.C.	1 Year	2 Year	3 Years	5 Years
	ANZ Bank*	8.42%	9.35%	Negotiable - Available Upon Request			
	ING Bank	8.35%	N/A	Negotiable - Available Upon Request			
	Citibank	8.25%	9.20%	Negotiable - Available Upon Request			
	BankWest*	8.15%	9.25%	Negotiable - Available Upon Request			
	Members Equity	8.24%	N/A	Negotiable - Available Upon Request			
	St George	9.05%	9.42%	Negotiable - Available Upon Request			
	Westpac	8.40%	8.70%	Negotiable - Available Upon Request			

* 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.

The Interest Rates provided are subject to specific lending criteria being satisfied - and therefore may not apply in your case. These rates are provided as a guide only to demonstrate offerings in the market. Please call MCP Group for an interest rate quote for your specific scenario. Comparison Rates, Fees & Charges are provided in MCP Lending Proposals.