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INTEREST RATES, EQUITY MARKETS AND THE ECONOMY

The Reserve Bank of Australia kept the Official Cash Rate at 7.25% per annum following their June meeting.

Interest and money markets are at an interesting point. The spread between the official cash rate and the prevailing bank bill rates are wide when compared to historical trends, and with banks reliant on these markets for funding, there is a strong upward pressure on costs of funds that is being partially borne by borrowers.

This in the medium term may be a permanent trend. The sub prime crisis has also made it very difficult for securitization programs to be packaged and competitively priced, so financiers that are not approved deposit taking institutions cannot compete at present.

This is the impact of sub-prime, a level of contagion risk whereby the funding of prime assets is also directly affected by sentiment.

Some positive news (for the RBA) are

QUOTE OF THE MONTH

"Even if you are on the right track, you'll get run over if you just sit there!"

- Will Rogers

America Comedian (1879-1935)

Market Statistics

Rate / Index / Com	29-May-08	22-May-08	Change	29-Apr-08	Change
Official Cash Rate	7.25%	7.25%	● 0.00%	7.25%	● 0.00%
Federal Funds Rate	2.00%	2.00%	● 0.00%	2.25%	▼ -0.25%
ASX 200	5,709	5,827	▼ -117.50	5,607	▲ 102.50
Dow Jones	12,594	12,626	▼ -31.75	12,832	▼ -238.07
5 Year Bond Rate	6.67%	6.51%	▲ 0.17%	6.32%	▲ 0.35%
30 Day Bank Bill Rate	7.48%	7.51%	▼ -0.03%	7.55%	▼ -0.06%
90 Day Bank Bill Rate	7.76%	7.67%	▲ 0.08%	7.80%	▼ -0.04%
Australian Dollar (US)	95.59	95.80	▼ -0.21	93.56	▲ 2.03
Gold (Ounce)	883	922.75	▼ -39.75	880.00	▲ 3.00
OPEC Baset Rate	124.27	127.59	▼ -3.32	109.86	▲ 14.41

Sources: www.rba.gov.au, au.finance.yahoo.com, www.opec.com; Note: Some figures have been rounded

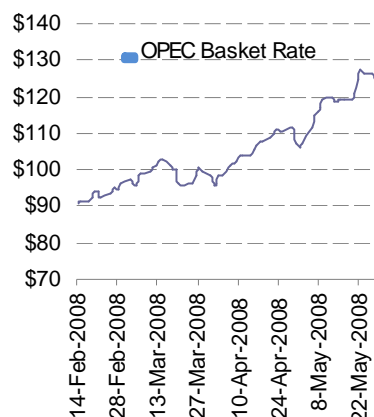
signs of slowing credit trends in the private sector as lending increased by 0.4% in April - its lowest level in five years. In addition, supporting weaker demand growth, is our pessimistic attitude toward the global economy, a downturn in local share bourses and a dip in retail spending.

By contrast, the mining sector is doing well and their expenditure in the first quarter was very robust given the increase in the prices of coal and gas in particular, along with other commodities. The spike in these prices is due to the continued rise of

India and China's economies and is likely to continue into the foreseeable future. Some economists have predicted further rate rises by the end of the year, given the current level of employment, wage growth and inflationary levels. This is despite the fact that we may not have seen the full extent of rate rises flow through the broader economy.

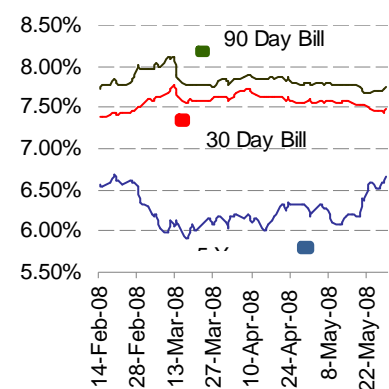
For those of you with exposure to interest rates, keep a close eye on the 30 to 90 Day Bill rates, which provides a strong indication of the sentiment of rate movements in the future.

OPEC Basket Rate



OPEC Basket Rate: Oil prices may increase production costs resulting in the upward pressure on prices.

Money Market Rates



Money Market Rates: Five year bond rates have increased in May 2008 in response to inflationary expectations.

QUESTIONS AND ANSWERS

The MCP 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 Faasau on (03) 9620 2001 or email enquiries@mcpgroup.com.au.

LEGAL

My husband and I are selling our investment property to our daughter and son-in-law. Will they be able to save on stamp duty if we sell the property for below market value?

According to a host of government websites, stamp duty payable depends on the greater of the contract price or the value of the property. If you agree to sell the property at a discount the State Revenues Office (SRO) would deem stamp duty to be payable on the actual valuation of the dwelling.

Put simply, you cannot, by the terms and conditions established by the SRO, save on stamp duty by selling your investment property for below market value.

AN INTRODUCTION TO TRANSITION TO RETIREMENT PENSIONS

WHAT IS A TRANSITION TO RETIREMENT (TTR) PENSION?

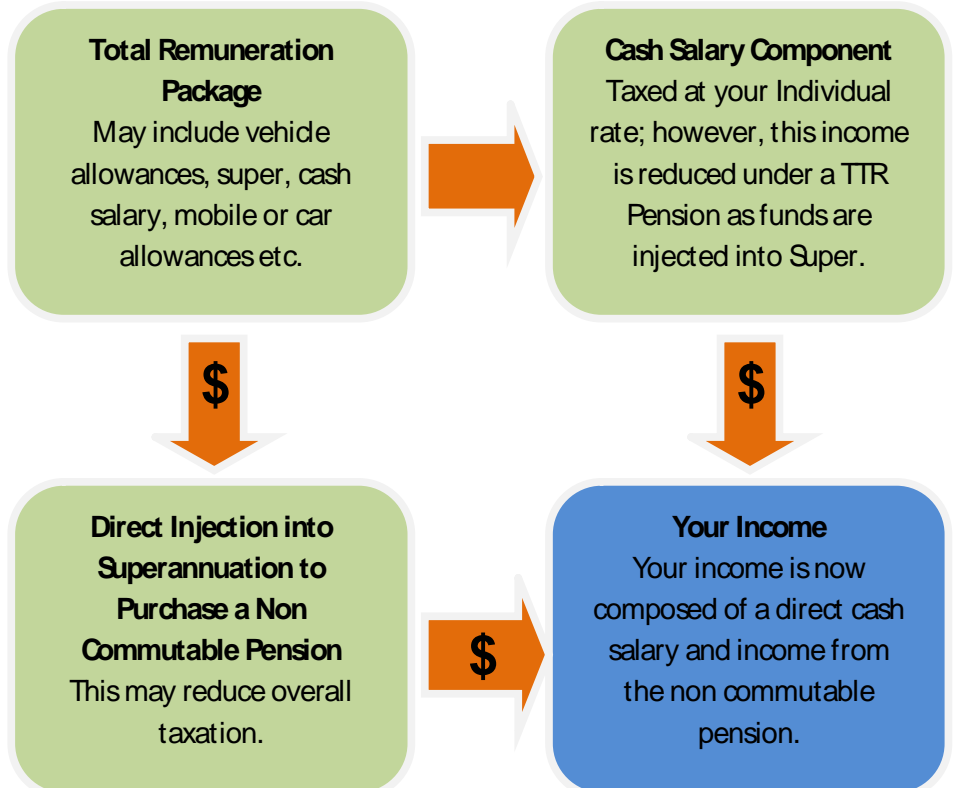
A Transition to Retirement Pension (TTR) is simply an income you can draw from your superannuation once you reach your preservation age (from 55 onwards depending on which year you were born), while you continue to work. The funds drawn from your super is made in the form of a 'non-commutable income stream', which prohibits any lump sum withdrawals unless extenuating circumstances apply such as formal retirement, termination of employment, reaching 60 years of age (even if you do not intend to retire), death or disablement.

WHAT OPTIONS ARE AVAILABLE?

A TTR Pension is a flexible strategy that allows you to move toward retirement in any one for the following ways:

1. Reduce your work hours and maintain your income levels – A

Transition to Retirement Pension (Basic Flow Chart)



Transition to Retirement (TTR) Pensions: Under a TTR Pension you draw an income from your salary and a non-commutable pension.

TTR Pension could supplement your income when you partially retire.

2. Increase your Income – A TTR Pension could supplement your personal income to reduce debt or improve your lifestyle (take holidays, renovations etc).
3. Increase your Superannuation account – A Transition to Retirement Pension may save tax which could be injected into your Super account.

HOW DOES IT WORK?

Your total remuneration package is normally comprised of a cash salary, which you receive and pay tax on at your marginal rate. Under a TTR pension you may opt to receive a discounted cash salary upfront, and salary sacrifice funds directly into your Superannuation account.

The funds from the Superannuation account are then used to purchase a non commutable pension, which means that you can receive a regular income stream but cannot make any lump sum withdrawals.

The pension you receive supplements the initial wage that you salary sacrificed to your super account.

ADVANTAGES

There are numerous advantages of a TTR strategy, some of which include the following:

- If you are under 60 you may take advantage of the 15% annuity tax offset.
- Super and salary sacrificed contributions incur a tax rate of 15%, which may be less than your marginal taxation rate.
- You may be in a better position to take advantage of benefits such as the government's co-contribution or the spouse contribution tax offset.
- Flexible working options.
- No tax on income earned within the Superannuation account when in the pension phase if you are over 60 years. For example a \$300,000 account which earns 10% over a year - assuming no capital gains - would incur \$4,500 in tax. This would be \$0 under a TTR pension (assuming you are over 60) which represent a tax saving of \$4,500 per year.

TTR pensions are a complicated retirement strategy. A TTR pension can impact your Super Guarantee contributions or you may be subject to a capped super contribution in general. A TTR pension may also

impact government benefits. As such, we highly recommend speaking with a qualified and experienced financial planner to discuss whether a TTR is right for you.



Supplementing your Income: Transition to Retirement Pensions can be used for a variety of purposes, including holidays.

from their account without incurring tax penalties so long as they contribute \$1,000 in four separate financial years.

- The account holder will receive a government co-contribution of 17% on the first \$5,000 contributed annually.
- The four year withdrawal rule applies at the commencement of the financial year that the account was established.
- Account holders are allowed a 14-day cooling off period to close the account if they wish.

The starting date for the accounts is 1 October 2008, due to the requirement for account providers to develop products and organise human and capital expenditure resources.

MCP Group will keep you updated with any further news surrounding the First Home Buyer Saver Account as they arrive.

FIRST HOME BUYERS UPDATE

STAMP DUTY CONCESSIONS

The new Rudd/Swan government has announced favourable initiatives to assist home buyers including various stamp duty concessions and the continuation of the First Home Buyers Grant. Furthermore, home buyers in regional areas will receive a further \$3,000 bonus payment.

The concessional stamp duty for first home buyers will save purchasers in the vicinity of \$2,500 based on the median Australian house price of \$317,000.

MCP's Finance Toolkit has been updated reflecting all these changes.

FIRST HOME BUYER SAVER ACCOUNTS

After its consultation phase, the First Home Buyer Saver Account has been announced to have the following attributes/regulations:

- Its maximum contribution is \$75,000 indexed annually to be used solely for the purchase of a home.
- Earnings within the account will attract a 15% tax rate much like Superannuation. Account holders will be able to withdraw amounts

ASIC TO REGULATE FINANCE BROKERS

Senator Nick Sherry, minister for Superannuation and Corporate Law for the Rudd Government (who is also responsible for the supervision of ASIC), has recently announced the strict licensing of the finance broking industry to commence in 2009. The recent announcement, made at the MFAA conference in Sydney, is a result of the draft Finance Broking Bill created in 2007 by the NSW Ministerial Council for Consumer Affairs.

The main objectives of the Bill are to require all finance brokers to be licensed to practice in Australia for all business and personal credit lending, and to offer a Finance broking contract to all clients. With strict penalties for professionals who do not comply with the impending legislation, brokers will also be required to provide a list of suitable products and explain why a particular product is most appropriate, disclose all commissions and may even force them to assess and confirm that a borrower can repay the total funds sought.

MCP are very supportive of regulation and have played a lead role in the discussions in this area, including presentations and submissions to the industry.

PURCHASING PROPERTY - A BASIC GUIDE

Many property buyers, irrespective of their professional background, are often confused when it comes to purchasing property. Buying property is a complicated process, involving the utilisation of several professional services including real estate agents, legal (conveyancing) and financial organisations.

The following article sets out to succinctly explain the purchasing process. For further information feel free to contact our team.

STEP 1: BUYING THE PROPERTY

If you are buying through a real estate agent you are generally required to make a deposit of up to 10% of the purchase price, upfront. The deposit basically confirms your intention to commit to the purchase of the property. In some circumstances the vendor may allow you to use a deposit bond, which forgoes the requirement to physically transfer cash to the vendor, as a guarantee is used in its place. Purchasing privately often requires you to pay a similar deposit, which can be anywhere from a few thousand dollars to 10% of the purchase price. Typically, the deposit is paid when you sign the Contract of Sale.

It should be noted that signing a contract is subject to a cooling off period (where you can rescind your offer to purchase the property without incurring any financial penalties).

Also, be aware that stamp duty applies when purchasing a property, which can add thousands in costs when buying your first home.

STEP 2: SIGNING THE CONTRACT OF SALE

The Contract of Sale for the purchase of the property may be prepared by the real estate agent or the vendor's solicitor. The Contract of Sale outlines the conditions of purchase including the settlement date, amount, deposit and ancillary conditions that must be met before the sale goes ahead.

There are two kinds of contracts: Unconditional and Conditional.

An Unconditional contract means you

are certain you wish to purchase the property, and have the financial capacity to do so (you are sure you can attain funds to facilitate the purchase). A conditional Contract of Sale is a binding contract; however, it is only binding on the proviso that certain conditions are met. These may be a purchase subject to a building inspection report being carried out evidencing a structurally sound premises, pest inspection, valuation of the property and, importantly, a finance clause (that the purchase will go ahead only if your financier approves finance). Repairs can also be included in a conditional contract of sale.

STEP 3: FINANCE

Applying for finance may be more difficult than expected for first home buyers. For example, in many cases where the loan to value ratio (LVR) exceeds 80%, Lenders Mortgage Insurance (LMI) may apply. However, one of the prerequisites for LMI is evidence of savings, which requires (in most cases) the borrower to prove they can save 5% of the value of the underlying property in any six (6) month period.

Other stamp duties may also add thousands to the total of purchasing a house and, if these are unaccounted for when you sign a contract, problems may arise later in the transaction.

Various lenders have different products with different serviceability guidelines. A bank will only advance funds (once again, in most circumstances) if you can provide evidence of your ability to repay the debt. They normally do this by subtracting your expenses from your income, as well as projected repayment at the current interest rate applicable plus a buffer to allow for potential future interest rate rises.

Your application must be supported with certain types of documentation, including 100 points of identification (Driver licence, passport, Medicare card, bank card, Citizenship

Certificate, rates notices, bills with your name etc). You will also need to provide a detailed assets and liabilities schedule as well as a budget (income and expenditures).

Once your application has been

PURCHASING	CONTRACT OF SALE	FINANCE	SETTLEMENT
<ul style="list-style-type: none"> • A deposit must, in most cases, be paid upfront, which confirms your intention to purchase the property. • The deposit is normally 10% the property's sale price. • Stamp duties apply when purchasing a property. 	<ul style="list-style-type: none"> • The contract is prepared by the vendor's estate agent or solicitor. • A cooling off period applies. • The contract may be conditional (i.e. subject to finance/pest inspection or unconditional). 	<ul style="list-style-type: none"> • Most products allow a loan to value ratio of up to 95% with Lenders Mortgage Insurance (LMI) or up to 80% without. • You may need to provide evidence of your ability to save for a deposit (genuine savings). • Evidence of serviceability is normally required. 	<ul style="list-style-type: none"> • Settlement generally occurs anywhere from 30 to 90 days after the Contract of Sale is signed. • Property titles are exchanged at settlement. • Repayments can commence a fortnight or a month after the property settles.

Buying your First Home: There are four broad steps that apply when you purchase your first property as outlined above.

completed and you have provided all of the supporting documentation your application will be sent to the financier for assessment. This is a process which can take anywhere from one to four days. Your loan may be deferred, approved, or the bank may require further documentation (more evidence of income or further documentation). Following the approval of your loan you will receive mortgage documentation and a loan offer/contract.

Basically, ensure that you have enough savings to complete the purchase, and that your income is sufficient to cover the cost of the loan. Ensure you can afford the loan and be realistic. Speak to a reputable financial professional and gather as much information as you can about purchasing a property.

STEP 4: SETTLEMENT AND PAYING THE LOAN

The day of settlement is stipulated in the Contract of Sale which is signed when you agree to purchase the property (can be anywhere from one to six months later). At settlement your solicitor or conveyancer will meet with a representative of the previous title holder exchange titles / funds etc.

After the exchange your loan will be drawn and the vendor will be paid in full, as well as any stamp duties and ancillary fees such as the registration of mortgage, application fees etc.

Please refer to your loan contract for

when repayments commence. This may be anywhere from two to four weeks after the contract has been signed. Remember, if you have chosen to repay with a fixed loan, the rate that applies is the one at settlement (not when you signed the loan offer).

The financier, solicitor and/or mortgage broker should all attempt to contact you when settlement has taken place.

MCP GROUP FAREWELLS TEGAN FISHER & WELCOMES MADELINE JENKINS

It is with deep regret the MCP family farewells one of its valued employees, Ms Tegan Fisher. Tegan has been with MCP Group for two years, and as an Administrator her smile, friendship and passion for her work will be sorely missed amongst her colleagues and peers. MCP wishes Tegan the very best as she sets out on a two-month European venture, and a bright and prosperous future. Bon Voyage Tegan!

It is on this note, that MCP Group would like to welcome the recent appointment of Ms Madeline Jenkin. Maddy comes to MCP Group with an administration background, and will be filling the shoes of Tegan as an Administrator/Receptionist. We are excited to have Maddy on board and welcome her to the MCP team. We wish her well in her new role.