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INTEREST RATES, SHARE MARKETS AND THE ECONOMY

THE MONTH IN REVIEW

The Reserve Bank of Australia (RBA) lifted the Official Cash Rate to 6.75%. The rise in the Cash Rate is the sixth in succession which represents an 11-year high.

It is unusual for the reserve bank to increase interest rates in the middle of an election campaign. However other than underscoring the independence of the Reserve Bank the rate rise indicates the strength of the Australian economy in an uncertain international environment.

The September quarter's inflationary figure of 0.7% suggests factors such as a lack of rainfall and wage growth are continuing to push up prices, leaving inflation susceptible to increasing above the RBA's target range.

In the short to medium term the US housing market still contains an element of uncertainty, with credit defaults reaching historical highs. Re-

QUOTE

“Do not wait to strike until the iron is hot; but make it hot by striking.”

- William Sprague

Financial Quote

“Household credit accounted for the bulk – 85 per cent – of the rise in overall credit to GDP over the past 15 years...we may not yet have seen the end of the rise in household debt.”

- RBA

ports suggest that banking institutions now hold elevated inventories of residential property due to loan foreclosures. If banking institutions decided to sell these properties there could be a further decrease in market values.

The US has been the largest consumer of Chinese produced goods. If consumer spending in the US stalls the demand for Chinese goods would decrease, and there could be a short-term slowdown in demand for Australian materials. But many experts believe that this will be offset by an increase in international investment into Australia, as investors seek to capitalise on the continued growth throughout Asia. Only time will tell.

Market Statistics

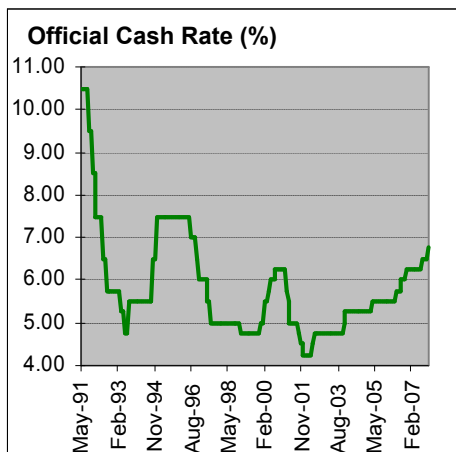
Official Cash Rate: **6.75%**
U.S. Fed. Funds: **4.50%**
90-Day Bill Rate: **7.12%**
5 Year Bond Rate: **6.55%**
\$AUD (US cents): **89.36**
All Ordinaries (Aus): **6,726.9**

As at 20 November 2007

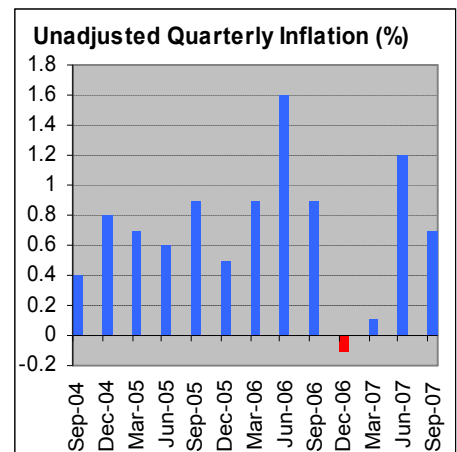
AROUND THE BAY

The MCP Rollers had a great day on the Ride Around the Bay. The heat and head wind made for a challenging ride particularly, from Sorrento back to the City. We had two legends who completed the 250 km ride with seven of the team successfully completing the 100 km from Sorrento. All participants are looking forward to next year; however, we expect to have the team on the road throughout the year. We are continually seeking recruits so please register your interest with us. Please note that our team contains all levels of experience from the serious to the social rider.

Official Cash Rate (%)



Quarterly Inflation (%)



Official Cash Rate: The rate rise of 0.25% has lifted the Official Cash Rate to 6.75% p.a. This is now an 11-year high.

Quarterly Inflation: Inflation for the September quarter was 0.7% which, when adjusted, is near the annual RBA limit of 3.0% p.a.



Ride to Work Day: Shane Frost, Adam Routledge, Tegan Fisher and Bill Humphries.

The MCP Rollers: Please contact Bill Humphries on (03) 9620 2001 to join the MCP Group cycling team. The team consists of experienced and social riders, and participates in several events through the year.

QUESTIONS AND ANSWERS

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

FINANCE

What is cross collateralisation? How is it useful or effective?

Cross collateralisation refers to the securitisation of a loan against multiple securities.

For example, let's say that you hold an investment property that is valued at \$300,000 with a loan of \$150,000. This would mean that you have equity (your share of the property) of \$150,000. Now, assume that you wish to purchase a second investment property for \$300,000. If you join both investment loans and both properties under the one mortgage you could have a \$450,000 loan secured against both the properties valued at a combined \$600,000 (dropping your loan to value ratio to 75%).

Cross securitisation would be beneficial in this scenario as it would simplify your banking structure and allow you to purchase another investment property without paying Lenders Mortgage Insurance (as the total Loan to Value Ratio would be below 80%). Loans that are greater in size are often eligible to receive advantageous pricing discounts if taken under a Professionals Package.

WHAT IS PROBATE?

Prior to property being distributed under the terms of a Will, the Will needs to be 'proven' as being the last valid Will of the deceased, by being submitted to the Probate division of the Supreme Court. This process protects the executor, beneficiaries and claimants.



OBTAINING PROBATE IN VICTORIA – A SUMMARY

This is the formal process whereby those named in a Will as Executors and Trustees apply for the position of and are legally accepted as the rightful person/s to "stand in the shoes" of the Will maker after death. That is, the person/s are formally appointed to manage the affairs and Estate of the deceased, in accordance with the provisions of their Will.

The Supreme Court in its probate jurisdiction has the power to make orders in relation to the validity of the Will, the appointment of an Executor and the administration of a deceased Estate.

Where an Executor is applying for a Grant of Probate there are a number of formal procedures to be followed. Normally the larger the estate the more complex the Executor's task is and the more advice is required. This process starts with advertising the intention to apply for a grant of probate through to filing documents in court. Probate may not be required for very small estates or where property is held jointly.

WHAT IS AN ESTATE?

The term "estate" includes any thing of value to which a deceased person was, or might have been, entitled to claim during his or her lifetime, which will pass to the executor. Property that is held as joint tenants, which pass by survivorship, and some life insurance and superannuation assets that have prescribed beneficiaries, is not included in the estate.

The property of the estate may be bequeathed through a Will, or transferred through the laws of intestacy if there is no Will. A Will is the most commonly used legal instrument for the distribution of the tangible assets of a deceased person.

WHAT IS AN EXECUTOR?

An Executor is a person chosen by the Will maker to carry out that person's wishes and manage their estate. An executor may be a friend, a relative, or a professional.

An Executor is responsible for the administration and distribution of assets to beneficiaries according to the Will.

Executor duties can include:

- ◆ Attending to funeral arrangements;
- ◆ Identifying assets of the Estate;
- ◆ Applying for and obtaining the Grant of Probate/Administration (see below);
- ◆ Collecting any monies due;
- ◆ Paying debts, duties and expenses;
- ◆ Preparing tax returns;
- ◆ Protecting business interests;
- ◆ Transferring the assets to the beneficiaries according to the Will or relevant law.

DISPUTES

Where undisputed a Grant of Probate is generally issued. When disputed, a court case may follow.

Where an Executor is faced with a contentious matter such as a challenge to the Will it is essential to obtain legal advice as soon as possible.

SMALL ESTATES

Although not mandatory for small estates, a Grant of Probate is far more common when dealing with banks, share registries, titles office and building societies. This avoids dealing with their internal procedures to ensure they are fully protected against liability when dealing with Estate matters.

INTESTACY

If there is a Will but no Executor then you need to seek expert legal advice.

If there is no Will and no Executor the same applies. Where there is no Will the deceased is said to die 'intestate' and application must be made to Court for Grant of Letters of Admini-

stration authorizing the administrator to proceed to administer the deceased's estate according to statute.

As in all these processes when a person applies for Letters of Administration certain documents are required before the matter can proceed.

Intestacy results in assets being distributed to any one of nine different classes of beneficiaries according to prescribed statutory order. Where there is a person/s qualifying in a particular class the whole estate passes to that class and no one else.

Where an Executor or Administrator has been appointed the administration of the Estate must occur within a reasonable time. Generally, it should not be more than one year. The Grant normally takes between two to four months. Of course matters can be more complicated where a will is contested or disputed - the former because of its validity and the latter because of a lack of adequate provision. In these cases one can expect that the distribution of an Estate can be substantially delayed.



A BASIC GUIDE TO THE AGED PENSION

WHO CAN RECEIVE THE AGED PENSION?

Males over 65 years of age and females over 63 years can apply for the age pension, depending on when they were born (i.e. there is a sliding scale for females). A person that lodges a claim for the age pension must be an Australian citizen (in most cases) and have a maximum level of income and assets (which is referred to as an assets and income test).

HOW MUCH PENSION WILL I RECEIVE?

The amount of pension available depends on the level of income and assets held by the individual or the couple. The maximum age pension available to a single is \$537.50 per fortnight and \$449.10 per individual for a couple per fortnight (i.e. they would receive a combined \$898.20). The reason why each individual of a couple receives less than a stand alone single is due to the sharing of ex-

penses such as water, electricity and transport. The aforementioned allowances are inclusive of a pension supplement. Reduced pensions will also apply to couples or singles that exceed the income or assets test thresholds.

If the pensioners are isolated from each other due to sickness or injury they are eligible to receive the full single pension.

WHAT IS THE INCOME AND ASSETS TEST?

The income and assets test is used to determine the amount of pension available to potential pensioners. Pension applicants who earn a certain amount of income may have a portion of their pension reduced, or may not be eligible to receive the pension at all (including pharmaceutical benefits and discounted travel). Additionally, pensioners who hold assets above a certain threshold may also have their pension reduced.



The aged pension: MCP Financial offers a range of services including retirement planning advice.

ASSETS TEST

As mentioned in an earlier newsletter the assets test has changed effective 20 September 2007. As a result, more people are now eligible to receive the pension, as the government has made significant moves to relax the applicable threshold.

The amount of pension will be reduced by \$1.50 for every \$1,000 of assets over these amounts (for single pensioners or couples combined).

INCOME TEST

The income test also applies to applicants on the aged pension. The pension will be reduced by \$0.40 cents in

Assets and Income Test Thresholds

Effective 20 September 2007

Income Test (Per Fortnight)		
	Full Pension	Partial Pension
Single	\$ 132	\$ 1,490
Couple	\$ 232	\$ 2,492

Assets Test		
	Full Pension	Partial Pension
Homeowners		
Single	\$ 166,750	\$ 529,250
Couple	\$ 236,500	\$ 839,500
Non-Homeowners		
Single	\$ 287,750	\$ 650,250
Couple	\$ 357,500	\$ 960,500

Assets and Income Test: The income and the assets test is used to determine the amount of pension payable.

the dollar for singles and \$0.20 cents in the dollar each for couples.

CONCLUSION

There are numerous other benefits available to pensioners including medical rebates, travel discounts and utility allowances. Please contact MCP Financial if you require any further information.

EXAMPLE – THE ASSETS AND INCOME TEST

Bill is 65 and owns his own home with \$200,000 in assets. The full pension entitlement is \$537.50 per fortnight for Bill as he is single. Bill also has recurring income of \$5,000 per annum from his investments.

Based on the assets test he will have a reduced pension of approximately \$50 per fortnight (i.e. \$200,000 - \$166,750 lower threshold / 1000 = 33.25 times \$1.50 = \$50 approx per fortnight less). Alternatively, using the income test Bill's pension will be reduced by \$76 per fortnight (\$5,000 per annum = \$192 per fortnight x \$0.40 = \$76.00 less per fortnight). As the income test will reduce Bill's pension by the highest amount he will receive \$461.50 of pension per fortnight (\$537.50 less \$76.00).



ALL-IN-ONE ACCOUNTS: THE DANGERS AND BENEFITS

INTRODUCTION

There are various products in the market that allow mortgagors to engage in interest saving strategies. Two common products that allow such savings include all-in-one accounts and a mortgage loan linked with an offset account. An all-in-one loan is, as its name suggests, a transaction account and a mortgage rolled into the one simple finance facility. Alternatively an offset account is kept separate to the mortgage, although it essentially has the same interest reducing effect as the all-in-one account.

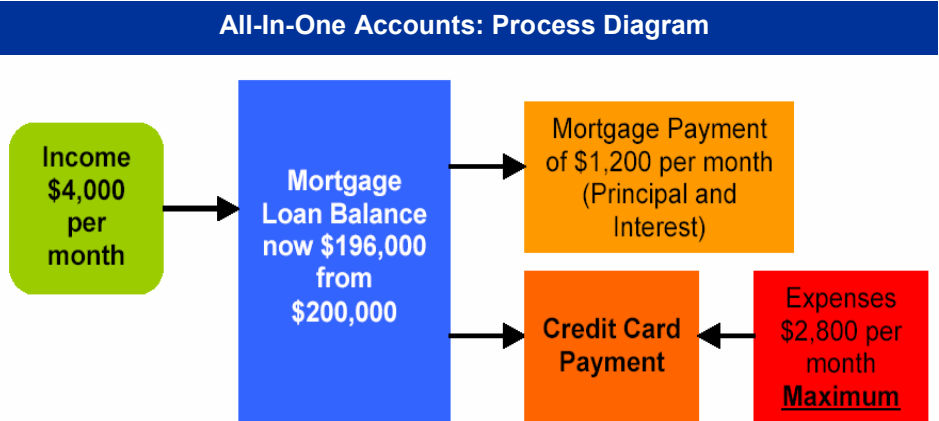
HOW DOES AN ALL-IN-ONE ACCOUNT WORK?

An all-in-one account is a lending product that combines a savings account and a standard mortgage. The mortgagor's income is injected into the loan to reduce the overall balance, from which interest is charged. Money is then drawn from the mortgage to pay for expenses, which are typically placed on credit to allow the offset to negate as much interest as possible.

In the example provided the mortgagors earn \$4,000 net per month, which is deposited into the mortgage to reduce the balance from \$200,000. The standard mortgage payment is \$1,200.00 per month and expenses are not to exceed \$2,800, as the mortgage balance would increase rather than decrease after these outflows are paid.

THE BENEFITS

An all-in-one mortgage can be effective for the right type of borrower, as excess monthly income is kept in the loan indefinitely, which can reduce interest charges. This is the main advantage for a mortgagor; the ability to reduce interest charges by keeping excess money within the mortgage. This is also a very flexible structure, as it allows a mortgagor to effectively contribute excess payments, in one period and make less of a contribu-



All-In-One Accounts: Income is injected into the loan, which is used to make the mortgage and expense payments.

tion in another.

The loan is best suited to an applicant that earns a base wage with a fluctuating bonus structure (assuming that their base income can meet the repayments) and mortgagors that can budget who typically have excess income left over every pay cycle. A mortgagor is also able to access any additional repayments made to their home loan effectively and easily with this structuring arrangement (they do not have to redraw funds and pay a fee).

THE DANGERS

The above diagram outlines a situation where credit payments and mortgage payment are deducted from the primary mortgage. However, this structure may not work in a situation where the mortgagor fails to budget and draws more from the account than they earn. In our example, if the borrowers were spend \$5,000, they would increase the underlying size of their mortgage from \$200,000 to \$201,000 (if they earned \$4,000 net).

As the mortgage has increased they may be forced to pay more interest, which makes it more difficult the following month.

If the mortgage loan was to increase to a size similar to the value of the underlying security property it may be difficult to refinance should a better loan offer arise or if your personal circumstances improved.

CONCLUSION

All-in-one accounts are effective for disciplined borrowers. However, a more suitable mortgage product such as a mortgage loan linked to an offset account may be recommended to

borrowers who find it difficult to budget. It is important not to draw more than is injected to all-in-one mortgage every pay cycle, as the mortgage would accrue if this were to occur.



All-In-One Problems? Features are only good if they are helpful. MCP Financial allocates products to meet our customers' needs.