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INTEREST RATES AND THE ECONOMY

WHERE TO NEXT: THE SHARE-MARKET AND INTEREST RATES

At the March meeting the Reserve Bank of Australia (RBA) left the Official Cash Rate unchanged at 6.25%.

The main influences on that decision were domestic inflation levels and the demand for Australian resources. The sharemarket, which until a week ago was setting new records daily, has fallen 6.5% in the week to 6 March 2007. The fall off in markets was prompted by an 8% fall in the Chinese market in one day.

Investor sentiment has done an about face in a matter of days, by the time you read this the market may have recovered. There is no doubt that the investor's hunger for risk has reduced and 2007 may prove to be a much more volatile period for investors than was anticipated by many market com-

QUOTE OF THE MONTH

"In business, if you can't measure it, don't do it!"

- Bruce Armstrong

mentators. Within portfolios MCP Financial has maintained a conservative asset allocation for the last twelve months in anticipation of a correction.

A correction in the stock market coupled with a reduction in commodity prices may have an impact on interest rates at the next Reserve Bank meeting. However, it does not necessarily follow that interest rates will fall as any fall in commodity prices takes a long time to filter through to manufactured goods. The increase in resources over the last year has actually led to a delayed increase in the CPI (Consumer Price Index). In turn the increase in the CPI could result in wages adjusted accordingly, as the purchasing power of non-mining employees is eroded. The RBA may feel it fitting to lift the cash rate to reduce business investment and reduce output, lift the unemployment rate to sustainable long term levels and reduce inflation.

The fall in the sharemarket, if sus-

Market Data/Statistics

Table with 2 columns: Metric and Value. Rows include Official Cash Rate (6.25%), U.S. Fed. Funds (5.25%), 90-Day Bill Rate (6.35%), 5 Year Bond Rate (5.81%), and All Ordinaries (Aus) (5749.9).

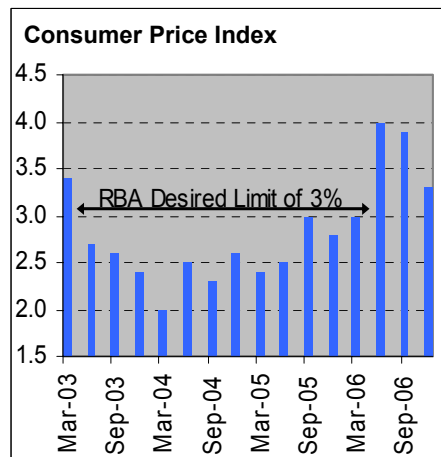
As at 7 March 07

"This (resource prices) has all fostered a generally very expansionary set of conditions in Western Australia in particular, though the effects have spread around the country."

- Glenn Stevens (RBA)

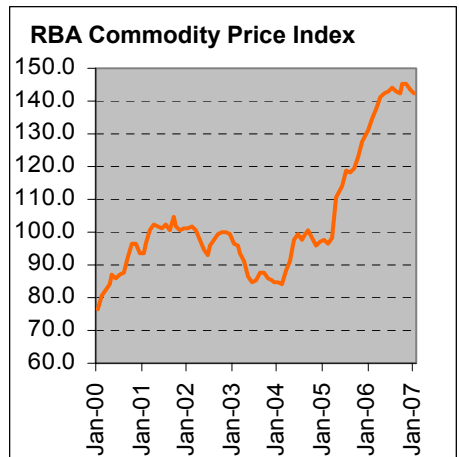
tained, may erode consumer confidence and reduce inflation pressure in the economy. Hence, there are a number of factors that will influence the RBA at the next board meeting and at this stage we

Consumer Price Index



Consumer Price Index (CPI): The CPI has been above the RBA's target range of 2-3% for the past three (3) quarters. However, these figures include volatile items, including resources and raw materials.

RBA Index of Commodity Prices



Commodities: Commodity prices have recently eased which has alleviated, to some extent, inflationary pressures. Whether this continues in the short to medium term may dictate future Cash Rate movements.

anticipate rates will be left unchanged.



Materials and Business Profits:

Our robust resources industry has ensured business profits remain strong, which has been positive news for our labour market.

As for the share market, fundamentals have not changed, the Australian economy remains strong and company valuations remain within the range of long-term averages.

But investor sentiment has changed. We believe investors are in for a rocky ride for the remainder of the financial year with solid fundamentals ensuring that buyers will return when they see they are being sufficiently rewarded for the increased risk.

John Ross, MCP Financial

MCP GROUP NEWS

MCP GROUP SPONSORS THE BUSINESS 3000 PROGRAM

MCP Group is pleased to be a sponsor of the Business 3000 program. Its purpose is to promote the excellence and innovation of businesses located in the City of Melbourne and:

- The opportunity to hear high profile business leaders share their business and investment philosophy and success strategies;
- To provide local Melbourne businesses with a forum to showcase their business and investment success and innovation;
- To create an environment to network, meet like-minded business people, share ideas and discuss current issues;
- To strengthen the links between Council, the business and the investment community.

For more information about Business

3000 or to register for their programs visit <http://www.b3000.org.au>.

MCP CYCLING TEAM

MCP has recently established a "social" cycling team to participate in a range of organised rides in Victoria. Often, these rides are arranged by Bicycle Victoria and include events such as Ride to Work Day and Around the Bay. Some of the rides are conducted as fund – raisers for well known causes.

We are seeking recruits to join the MCP team and welcome all cyclists from the social to the "serious". There is no joining fee – we simply require you to register as a member of the team and be prepared to wear the MCP team jersey which will be provided free of charge. Please contact Bill Humphries on (03) 9620 2001 if you are interested.

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

What is the difference between a Conditional and an Unconditional Contract of Sale?

An Unconditional Contract of Sale is one which is legally binding with no "out" clauses. Both the Vendor and the Purchaser have entered into a legally binding contract to buy and sell the property and are bound by the terms and conditions of the contract. Generally, a deposit would have been paid by the Purchaser unless other arrangements have been agreed upon such as a deposit bond.

A conditional Contract of Sale is one where the Vendor has committed to selling, and the Buyer has committed to buying upon certain conditions being met. These may include:

- Satisfactory Building Inspection;
- Finance Approval; and/or
- A review of the Contract of Sale by a legal practitioner.

MCP Legal are able to review contracts and provide conveyancing ser-

VICES. Contracts are reviewed at no cost to our customers if they use our conveyancing services, which represents a potential cost saving of \$250 plus GST.

FINANCIAL PLANNING

What factors influence personal insurance premiums?

There are several factors which can influence the price paid for insurance cover (referred to as the premium). It is important not to select an insurance product solely because "it is cheap", but rather because it suits your personal circumstances.

We advise that the following criteria may influence personal premiums:

- Gender: Males are adjudged to be a highest risk of incurring/initiating a Death claim, while females are considered as a higher risk of making a Total and Permanent Disablement Claim.
- The definition of Disablement (e.g. Own Occupation compared to Any Occupation).
- The amount of cover requested.
- The benefit payment period.
- The underlying health of the applicant.

The above list is not comprehensive, and does not indicate the full range of elements used to calculate a personal insurance premium. Please contact David Mac Manus or John Ross on (03) 9620 2001 for more information.



LEGAL ASPECTS OF DEBT COLLECTION

DEMANDS

If a party has overdue debts, creditors (the persons owed the money) may take that party to Court to recover their debts. Creditors will generally send a letter demanding payment of the debt or they will sue. A letter of demand is not a Court Document. However, failing to pay may result in legal proceedings. If legal proceedings are commenced, read the document carefully and work out what time you have to respond. If served with Court documents such as a Statement of Claim, seek legal advice.

LEGAL PROCEEDINGS

It is difficult to predict with any accuracy, the stages of the civil procedure through which a matter may run, though the following is likely:

- Draw, File and Serve Writ and Statement of Claim (which Court will depend on the amount owing);
- Draw, File and Serve Defence to Claim and any possible Counter Claim;
- Request for Further and Better Particulars of Claim and/or Defence;
- Answer any Request for Further and Better Particulars of Claim and/or Defence;
- Request for Discovery each parties' Documents;
- Preparation of Affidavit of Documents and subsequently produce and inspect Documents;
- Preparation for and attendance at Pre-Hearing Conference (before a Court Registrar and a usual opportunity to settle the matter);
- Any further Interlocutory as ordered or required;
- Preparation for and attendance at Hearing.

It may be that the matter does not run through all these stages. On the other hand it may be that further or alternative procedural steps may be taken, or alternatively, the Defendant may not contest the claim. Once an order has been made in a Plaintiff's favour, it is up to the creditor to initiate enforcement proceedings against the debtor. The Court does not enforce the debt on your behalf.

SUMMONS FOR ORAL EXAMINATION

This procedure involves the creditor issuing a summons against the debtor to attend Court and answer questions under Oath as to their financial state regarding income, assets and expenses. This summons may be issued against an individual or a company and is conducted in Court. On the day of the examination, the creditor may ask additional questions to those set out in the prescribed questionnaire. If the debtor fails to appear, a warrant may be issued for his arrest. Upon review of the answers, the creditor can decide which is the most suitable enforcement methods to obtain payment.

WAYS WHICH DEBT CAN BE RECOVERED

1. Attachment of Earnings Application

If the debtor is employed, you can make an application to the Court to "garnishee" the debtor's wages. If the employer will not willingly provide the creditor with this information the creditor may need to issue a witness summons. The Registrar will make a decision as to how much the creditor will receive from the debtors' pay. It should be noted that 80% of a person's income is protected and 20% is the maximum amount able to be garnisheed. Once a decision has been made, the debtor's employer must be notified. If successful, the Creditor must inform the debtor's employer.

2. Warrant to Seize Property

A creditor can apply to the Court to issue a Warrant to Seize the debtor's property. The creditor must have a current address of the debtor. This is a viable option if they suspect that the debtor possesses the financial ability to pay by lump sum or has seizable goods. If the Sheriff is successful in seizing goods, the issuing and enforcement fee will also be recovered.

3. Application for an Installment Order

This is an application which can be made by either the judgment creditor or the judgment debtor. Installment orders allow you to pay off a debt in set amounts at set intervals.

4. Bankruptcy

Bankruptcy is a legal process in which a party is declared to be unable to pay his debts as they fall due. It involves handing over control of assets to a bankruptcy trustee. The trustee decides which (if any) of your assets can be sold to pay your debts. There are two (2) ways you can be made bankrupt. Either on your own request (debtors petition) or on the application of a creditor (creditors petition). Bankruptcy means the debt collector is no longer free to pursue the debt in the usual manner. Once a debtor becomes bankrupt the debt must be proved. Any payment will be in accordance with a scheme for the administration of the debtor's estate as set out in the Bankruptcy Act.

STATUTE BARRED

The Limitations of Actions Act 1958 imposes a six (6) year limitation pe-

riod on bringing legal action in relation to a contract in Victoria. Debtors have an absolute defence to legal action brought to recover a debt which is six (6) or more years old.

HARASSMENT OR COERCION IN DEBT COLLECTION

Section 60 of the Trade Practices Act and relevant States based legislation prohibits physical force, undue harassment or coercion, in connection with debt collection. This seeks to eliminate unreasonably frequent telephone calls and/or telephone calls late at night or early in the morning, deceptive tactics, including misrepresentations about the consequences of non-payment or the debt recovery process, and use of abusive or threatening language.

SHANE FROST, MCP LEGAL



AGED CARE SERVICES

When a family member needs a higher level of care than can be provided through home care, professional care may be required. The prospect of moving to an aged care facility can be traumatic on the whole family as in addition to the prospect of being forced to sell the family home, there is the subsequent loss of independence. Selecting the appropriate aged care facility is therefore very difficult and on top of the emotional impact there are financial implications.

MCP Financial believe that financial decisions regarding aged care require specialist financial advice. This article summarises what is a complicated process and we recommend that if you require further information you discuss with David Mac Manus of our office.

The first stage in the process is that the Aged Care Assessment Team (ACAT) is required to carry out an assessment on the applicant (referred by GP). ACAT will determine the level of care required, being for Low Level Care (hostel) or High Level Care (nursing home).

Financially, this is where the complicated process begins (especially for Low Level Care). The applicant to a Hostel (Low Level Care) will be assessed by a staff member (from financial controller to CEO) of the facility. The amount of the Accommodation Bond payable is determined at this time. Low Level Care facilities require an Accommodation Bond, where High Level Care facilities charge accommodation fees.

The Hostel will deduct monthly amounts, called retention amounts, from the bond. The Government sets a maximum retention amount per month for up to 5 years. The balance of the bond is refunded to the resident or the estate on leaving the hostel (for example transferring to high level care if appropriate). An accommodation bond is 100% asset test exempt from a Centrelink point of view.

Nursing Homes do not generally charge an Accommodation Bond (in some instances Approved Additional High Level Care Providers may). Nursing homes impose an accommodation charge instead. There are some exceptions \ alternative rules to the imposition of an accommodation charge notably people with less than a certain amount of assessable assets.

In addition to these charges there is a daily care fee and an income tested daily care fee. These fees are complex to calculate and Centrelink Exemption rules can significantly reduce these. Please speak to Centrelink directly or contact David Mac Manus at our office on 9620 2001.

David Mac Manus, MCP Financial

SUPERANNUATION BILL PASSES THROUGH SENATE

The proposed changes to the Superannuation Industry have now been passed through our Senate, and will be effective from 1 July 2007. Some of these changes, as previously outlined in our September Newsletter, include the following:

- No tax on superannuation withdrawals after age sixty (60), whether by lump sum or aged pension;
- Superannuation not to be included in taxable income;
- Reasonable Benefit Limits (RBL's) to be abolished;

- No maximum limit on the amount you can withdraw by annual pension; and
- The previous age based contribution scales are to be replaced by a \$50,000 maximum cap for all taxpayers with transitional provisions for taxpayers over 50 years of age.



See you at the beach: The new Superannuation changes are designed to induce working employees to save for retirement.

The honorable Peter Dutton, Assistant Treasurer, recently quoted that the changes, "improve incentives to work, save and increase retirement incomes". These changes have been highly desired throughout the retirement planning industry and may be further evidence that the Australian Government is concerned about sourcing funds for the payment of pensions for our ageing demographic.

Please contact John Ross on (03) 9620 2001 at our office if you have any further queries.



PACKAGING: WHY IT MAKES SENSE

Data taken from a recent survey suggests a majority (85%) of established loans are done so below the Standard Variable Rate. This suggests that the other 15% of mortgagors may be paying too much. This article aims to provide a brief overview of banking packages, including all benefits together with a working example.

WHAT IS A BANKING PACKAGE?

A banking package is generally offered to customers who use three or more of the bank's financial products. Normally, these consist of a mortgage loan, a credit card and a transaction account. The package aims to provide a discounted approach to retail banking, as it offers a suite of loan discounts and fee waivers to customers who consolidate their banking arrangements with the lending institution in question, albeit for a nominal fee (i.e. \$340 to \$475 per annum).

WHO'S ELIGIBLE TO RECEIVE A BANKING PACKAGE?

Eligibility requirements for packages are quite elementary. For example, there are no occupational and income requirements or extensive long-term contracts which need to be agreed upon. The only conditions include a minimum level of borrowings (\$150,000.00 per annum) and the payment of the annual package fee.

ADVANTAGES

A banking package offers many advantages. These vary from lender to lender but may be comprised of the following:

- Discounts off the standard variable rate on most lending products;
- No ongoing fees (mortgage and transaction accounts);
- Unlimited withdrawals from underlying savings account with no additional fees;
- One free negotiation of your package per year;
- No valuation fees;
- Waiver of the annual credit card fee (excluding rewards programs);
- No split fees;
- Insurance premium discounts;
- 100% offset account; and
- Investment benefits such as additional interest on term deposits.

DISADVANTAGES

One of the disadvantages of an annual package is the fact that it may be too complicated for individuals

who wish to keep their banking arrangements simple. We believe that packages are a great way to save, but do not suit everyone.

PACKAGED VERSUS NON-PACKAGED LENDING - AN EXAMPLE

	<u>NON</u> <u>PACKAGED</u>	<u>PACKAGED</u>
<u>Loan Expenses</u>		
Annual Package Fee	\$ -	\$ 300.00
Application Fee	\$ 600.00	\$ -
Account Fees (Standard Home Loan)	\$ 96.00	\$ -
Account Fees (Line of Credit)	\$ 144.00	\$ -
Valuation Fee for Additional Security	\$ 150.00	\$ -
Account Keeping Fee (Savings Account)	\$ 60.00	\$ -
Annual Credit Card Fee (Exc. Rewards)	\$ 30.00	\$ -
Additional Withdrawal Fees	\$ 80.00	\$ -
Interest	\$ 24,210.00	\$ 22,410.00
Total	\$ 25,370.00	\$ 22,710.00
<u>Less Savings</u>		
Offset Account (\$5,000 Revolving Bal.)	\$ -	\$ 484.20
Total (Year 1)	\$ 25,370.00	\$ 22,225.80

Packaging Makes Sense: If you're paying the Standard Variable Rate you may be paying too much. In the above example, the mortgagor saves over **\$3,140** in the first year of their loan in interest and banking charges.

SCENARIO

The above scenario evidences a mortgagor who seeks to borrow \$300,000, comprised of a \$100,000 line of credit and a \$200,000 standard mortgage loan. Two properties are to be used as security. The rate used to calculate interest is the Standard Variable Rate of 8.07% per annum. As borrowings exceed \$250,000 the mortgagor is entitled to receive a 0.6% discount off the Standard Variable Loan [\$300,000 x 7.47% = \$22,410]. The interest saved on the offset account is based on a revolving balance of

\$5,000 [e.g. \$5,000 x 8.07% = \$484.20 per annum].

CONCLUSION

Banking packages, if utilized correctly, can save money and time. If you are paying the Standard Variable Rate you may be paying too much. MCP Group are able to conduct an obligation free review of your mortgage. Please contact Jade Webster or Adam Maciejewski for further information.

FINANCIER NEWS

WESTPAC BANK OFFERS A USER FRIENDLY DEBTOR FINANCE PRODUCT

The Invoice Financing market has grown exponentially over the last five years. Once, a product viewed as "cumbersome and expensive" is now

gaining business acceptance as a form of mainstream funding, little different from the traditional bank overdraft.

One of the financiers to provide an efficient way to transform a company's debtor balance into working capital is the Westpac Bank.

The way Westpac's Invoicing Finance Facility operates is quite simple. The business owner maintains their ties with the debtor, who directs their funds into a nominated Westpac Bank account. Upon the payment of the outstanding debt, the business owner receives the remaining 20% of the funds available, as the business owner/representative has sold 80% of the debtor's balance in cash upon the initial sale of their products/services to their client.

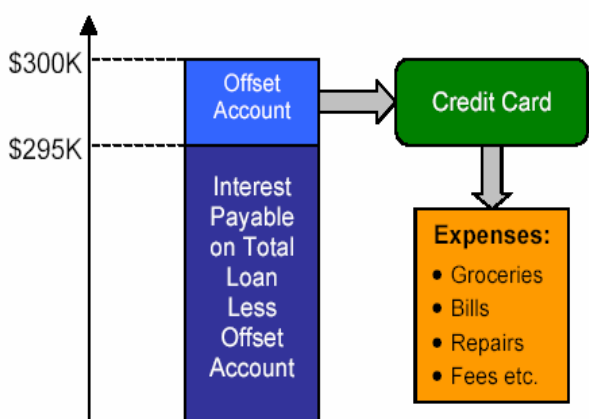
The Westpac Bank facilitates the service online, alleviating the requirement to undergo lengthy administrative processes. Debtor Finance allows a business owner to transform their credit sales into cash which is particularly attractive as it turns a short term financial asset into working capital.

The benefits of Westpac's online system include:

- Confidentiality – Debtors are not aware of facility and Westpac Bank do not conduct regular business audits;
- Simplicity - Invoices are entered online, saving paperwork and record keeping;
- Efficiency - A quick way to transform debtors into cash (normally less than one working day);
- Tracking Ability - Detailed records are maintained on the online system and are easy to view and access;
- Procedural Ease - As all invoices are entered online; and
- Flexibility - Multiple users can be granted access to the online system.

If you'd like to know more about Westpac Invoice Finance please speak to Bill Humphries or David McCleery on (03) 9620 2001.

MAXIMISING YOUR OFFSET ACCOUNT USING YOUR CREDIT CARD



Paying expenses with the use of your interest free days on your credit card will maintain your offset account balance, thereby reducing the interest payable on your primary mortgage. Sweeping the credit card debt with your offset account before the expiry of the interest free days may be a smart way to save.

INDICATIVE INTEREST RATE SCHEDULE - AS AT 7 MAR 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%	7.35%	7.35%	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%	7.19%	7.25%	0.60%	0.25%
OTHER LENDERS	AMP Bank	7.42%	7.52%	7.48%	7.63%	7.35%	7.35%	7.18%	7.24%	0.50%	0.25%
	Adelaide Bank	8.07%	8.17%	7.54%	8.17%	7.35%	7.35%	7.35%	7.30%	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%	7.29%	7.29%	7.29%	7.29%	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.