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INTEREST RATES AND THE ECONOMY

The Future of our Cash Rate and Sharemarket?

Borrowers can breathe a sigh of relief as the Reserve Bank of Australia (RBA) has decided to leave the Official Cash Rate at 6.25% for the month of April. This is contrary to some analysts' predictions, who anticipated a 0.25% rise as evidenced in the rapid ascendancy of short-term money market products such as the 30 Day and 90 Day Bank Bill (right). It seems the RBA may be waiting for first quarter inflationary data to support the implementation of further contractionary monetary policy.

One major Australian lending institution predicted a 50% chance of an April rate rise based on our futures market, with a 70% probability in May and a 90% chance in June (based on current statistics as at 2 April 2007).

The RBA has reviewed previous rate rises and have pitted short term economic growth to be in the vicinity of 2.75% per annum. While this is well within its target range of 2-3% they

QUOTE OF THE MONTH

"Fall seven times, stand up eight."

- Japanese Proverb

will most likely decide to implement a monetary policy adjustment as a defensive precaution.

It seems that the same parameters are playing their role when it comes to such growth. Namely, these include strong resource prices, the recent rise of the All Ordinaries (above 6,000 points), high business confidence and sturdy domestic employment.

Moving forward, water and electricity are scheduled to be revised upwards in terms of pricing, which could suggest an increase in the cost of production which may also exert some degree of upward inflationary pressure. Furthermore, currency movements and the relative strength of the Australian dollar may increase farming losses due to a decrease in demand from international purchasers, which could be passed onto consumers in the form of higher consumable prices.

Business practitioners are also expecting strong business growth

Market Data/Statistics

Table with 2 columns: Metric and Value. Includes Official Cash Rate (6.25%), U.S. Fed. Funds (5.25%), 90-Day Bill Rate (6.53%), 5 Year Bond Rate (5.96%), All Ordinaries (Aus) (6,183), Dow Jones (U.S.) (12,612).

As at 17 April 2007

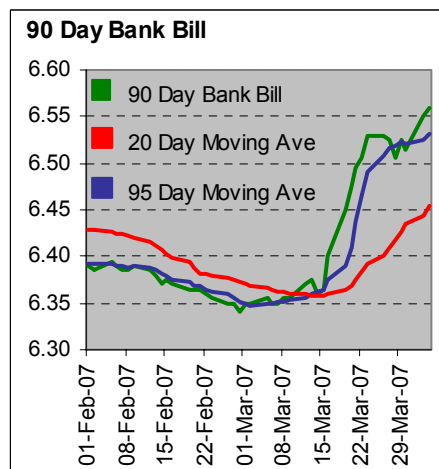
"some of the factors pushing up prices last year remain in place"

- RBA

throughout this year which was evidenced in TEC's Confidence Survey (which noted that business professionals expected business profitability and sales/revenue to increase in 2007).

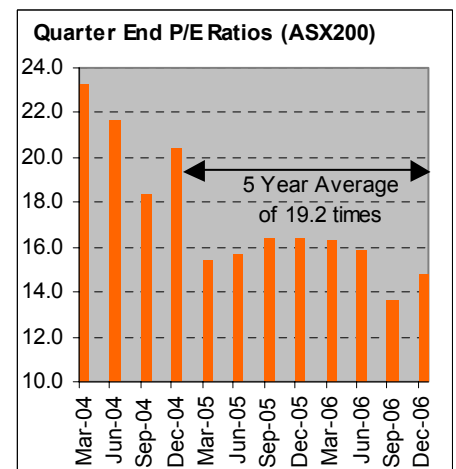
Our strong economy is scheduled to continue with many experts expecting positive economic growth for the next three (3) years to 2010.

90 Day Bank Bill



Forewarning: The sharp rise in 90 Day Bank Bills indicates that market professions foresee a RBA Cash Rate Rise (look for the short term average in red rising above the long term moving average in blue).

Quarter End P/E Ratios (ASX 200)



Value? In March 2002 the ASX200 was 3,400 points with an average P/E Ratio of 27 times earnings. Now it's approximately 6,000 points with an average P/E of 14 times. Could this represent long term investor value?

The RBA may look to increase rates to curb over-excessive growth shortly and, if this fails to limit economic production, may lift rates even higher later in the year. However, the economy is always difficult to decipher as inputs change regularly.

**Evan Tepper, MCP Group**

## MCP CYCLING TEAM

We now have sufficient numbers to kick off the MCP Cycling Team and are about to place an order to fit the team out with MCP Group cycling outfits. While we have sixteen starters, we are looking to add to the team on a continuing basis. As a result, anybody who is interested in anything from social to serious cycling, should contact Bill Humphries on (03) 9620 2001.



## QUESTIONS & 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](mailto:enquiries@mcpgroup.com.au)).

### LEGAL

#### What is the "Cooling Off" Period?

In accordance with s31 of the Sale of Land Act, you may terminate the contract within three (3) business days assuming none of the following exceptions apply:

- The property was purchased at or within three (3) business days before or after a publicly listed auction;
- The property is used mainly for industrial or commercial purposes;
- The Purchaser received independent legal advice from a solicitor before signing the contract;

- The property is more than 20 hectares in size and is used mainly for farming;
- The purchaser has signed a similar contract for the same property; or
- The purchaser is an estate agent or a body corporate.

### FINANCE

***My monthly interest repayments are always different. Why aren't they the same each month?***

Interest is calculated daily and charged monthly. Each month has anywhere from 28 to 31 days, therefore the variation in the number of days will explain the difference in monthly interest. February should be every borrower's favourite month.



## CONTRACT LAW EXPLAINED

Contract Law primarily deals with the formation of Contracts and the enforcement of Contracts. One definition of a Contract is a set of promises for the breach of which the law gives a remedy.

### AGREEMENT (OFFER AND ACCEPTANCE)

An agreement is the transformation of negotiations into a deal. The negotiation process is not a Contract but may form part of a Contract. Essential ingredients of a Contract are an offer and acceptance. An offer may be revoked prior to it being accepted.

### CONSIDERATION

Consideration involves a notion of exchange. There are rules about what constitutes an exchange and what might be exchanged to amount to good consideration. While consideration is usually in the form of money, it can also be the doing of an act or the omission of an act. The exception is a Deed, which is a formal document made under seal. If a promise happens under Deed, no consideration is necessary.

### CONDITIONS

A Contract may be conditional on various occurrences either before or after entering into the Contract. A

condition precedent may be defined as an external event which must occur before a Contract comes into existence or before performance under an existing Contract is required. A condition subsequent has the opposite effect in that it is an external event which, if it does or

does not take place, allows the Contract to continue or brings the Contract to an end.

### CERTAINTY

In order to be binding, a Contract must be sufficiently complete and certain. Generally, certainty must surround the essential terms which include the identity of the parties, the principle undertakings/obligations, subject matter and price.

### INTENTION TO CREATE LEGAL REALTIONS

In ordinary commercial contracts, there is a strong presumption that there is an intention to create a legal relationship. Though possible to rebut the presumption, it is difficult to do so. In domestic and family arrangements there is a weaker presumption of such an intention, and this presumption is easier to displace.

### MISLEADING OR DECEPTIVE CONDUCT

A party to a Contract must not be misleading or deceptive in their conduct and statements. The law provides remedies against such behaviour including a claim for damages. Parties or their agents must only make truthful statements or representations during the negotiation stage inducing a party to sign a Contract. Failing to disclose information or disclosing inaccurate information may result in a Purchaser seeking a range of remedies, including some under the Federal Trade Practices Act or the relevant State or Territory's Fair Trading Act. Penalties can be severe.

### VOIDABLE CONTRACTS

Contracts may be voidable (meaning allowed to be set aside by a party) if one party has taken advantage of a position of ascendancy over the other. Duress involves either physical threats or unacceptable commercial pressure so as to procure agreement. Undue influence involves the use of a position of power or influence over another. Unconscionable bargaining

involves one party taking advantage of the other party's particular vulnerability or lack of understanding such that it would be unconscionable to take the benefit of the Contract.

## DAMAGES

Damages is a legal remedy and the

other two are equitable remedies. Equitable remedies are discretionary which is one limitation attached to specific performance and injunction. The starting position in relation to Contract Damages is that they are Compensatory-Damages. That is, they are supposed to place the innocent party in the same position that s/he would have been had the Contract been properly performed.

Parties to a Contract may limit this right or agree in advance on an amount recoverable. There are many limitations on this basic principle which include issues of causation and remoteness.

## CONCLUSION

Entering into a Contract involves risk. It is strongly recommended business advisers including accountants and lawyers are involved in the process, to ensure rights and obligations are respectively protected and honoured.

**Shane Frost, MCP Legal**

### Asset Protection Report - Available Services

We can provide you with an Asset Protection Report for \$900.00 plus GST. The purpose of an Asset Protection Report is to review your existing personal and business structures, your existing assets and liabilities and your risk profile, and to provide a written report reviewing your position, providing asset protection advice, and setting out our recommendations for how you may better protect your assets. Please contact Shane Frost for further information on 03 9620 2001 or [s.frost@mcpgroup.com.au](mailto:s.frost@mcpgroup.com.au)



### BEWARE OF HIGH RETURNS ON FIXED INTEREST INVEST-

Through the second half of last year a lot of media time was given to the collapse of Westpoint and deservedly so, as Westpoint is the biggest corporate collapse in Australia since HIH.

Westpoint was in the property development game with investors' funds used to finance development through high yielding unsecured securities. Most investors were largely unsophisticated and did not see the correlation between a potentially higher return and the highly likely loss of capital. The financial cost of the collapse is estimated at around \$1b. Many of the funds lost were retirement savings that may never be recouped.

Of late another group, Fincorp, was placed in voluntary administration on the 23 March 2007. Fincorp operated in a similar fashion to Westpoint and



**Too Risky?** In most cases, the higher the return for an investment, the higher its underlying risk level. Risk may refer a fluctuation in returns or, in some cases, the overall loss of capital.

funded property development, which could mean that \$300m of investors' funds are at risk. The investment was marketed as secure, backed by property and targeted older investors.

Both collapses impact retirees more than anyone, and will have profound implications on personal lives for many years to come. The legal arguments over responsibility will be played out for years.

The key lessons are as follows:-

1. Never invest secure savings in investments that pay an interest rate greater than the prevailing bank interest rate without completely understanding the business in which you are investing; and
2. If you understand the investment and it makes sense from a risk/return perspective then you can invest the funds as long as you are prepared to lose your capital.

The old saying "if it looks too good to be true it probably is" completely describes the sad tales of Westpoint and Fincorp.

**John Ross, MCP Financial**



### EQUITY RELEASE PLANS

With Australia's ageing population, declining birthrates and increasing living costs, MCP Finance again focuses its attention on Equity Release Plans. The market has grown significantly during this decade, with a substantial amount of players offering products to elderly consumers.

Demand for Equity Release Plans is now climbing toward a half billion dollar per year industry, with Mortgage Brokers providing the industry with 43% of its volume in 2006 compared to 17% in 2004.

Three types of plans available which we have reviewed this month include:-

#### 1. Reverse Mortgages

A lender advances against the borrower(s) property. Interest payments capitalise and the debt is repayable on the death of the borrower(s) or where the property is sold and loan portability is not available. The lender takes security by way of a 1st Registered Mortgage. This is the more popular form of Equity Release.

#### 2. Home Reversion Plan

This allows a property owner(s) to receive a lump sum or regular payment in return for a share of the value of their home (at a reduced market value). This is not a loan and no inter-

est is incurred. Upon sale of the property or death of the owner(s) the provider receives the stated share of the sale proceeds. The provider can offer this type of plan under two models, 'Sale and Lease' or 'Sale and Mortgage'.

### **3. Shares Appreciation / Equity Mortgage**



This is a relatively new concept in the Australian market. The financier lends funds to the consumer on the basis it receives a return of the future appreciation of the property (equity gain) upon sale. Generally, the lender gives up the right to charge part or all of the interest on the loan. The lender takes security by way of 1st Registered Mortgage.



**Reverse Mortgage?** Reverse Mortgages can be used for a variety of purposes including golf holidays, investment, gifting or general household improvements.

In all cases, consumers are required to receive financial and legal advice. It is also encouraged that consumers involve the beneficiaries of their estate in their decision, to ensure their expectations are well managed and to avoid future legal appeals.

MCP has previously assisted borrowers with Equity Release Plans and encourage you to refer any clients our way for assistance. Please call Jade Webster or Adam Maciejewski with any queries on (03) 9620 2001.

**Adam Maciejewski, MCP Finance**

## **FINANCIER NEWS**

### **ING BANK (RESIDENTIAL)**

ING Bank have introduced a Reduced Equity Fee (REF) to replace traditional Lenders Mortgage Insurance (LMI) on their product suite. It applies to Loan to Value Ratios (LVR's) between 80% and 100%. Strict eligibility criteria applies (Full Documentation and a clear credit history etc). ING claim the REF will be cheaper than LMI, and like LMI it can be capitalised onto the loan amount up to but not exceeding 100% of property value for owner occupiers and 95% for investors.

All lending between 80% and a 85% LVR (\$1m loan maximum) attracts a flat fee of \$399 which will be waived until 15 June 2007. This will represent a significant saving to the borrower. Borrowings over 85% attract a scaled fee. MCP Group predicts other lenders may follow suit in the short term as the market is crowded with lenders seeking business share.

### **MORTGAGE MART (RESIDENTIAL)**

This Brisbane based Mortgage Manager offers a PAYG No Doc loan that is an asset lend product tailored for PAYG earners. A rate of 8.15% p.a. applies with no ongoing fees. The applicant is required to complete a statement of affordability. Maximum lending is 70% with Mortgage Insurance payable (maximum loan to value ratio is 70% or 73% where Mortgage Insurance is capitalised).

### **WESTPAC BANK (RESIDENTIAL)**

Westpac will lend up to 85% without Lenders Mortgage Insurance (LMI) with pricing 0.40% below the Standard Variable Rate. Fixed rates are not allowed under this product. MCP Finance has also been able to negotiate a further discount of 0.30% for our clients under this product.

## **Equity Release News**

Mortgage brokers are soon to distribute an equity finance product after its debut in the Australian market (by the Adelaide Bank).

The equity finance mortgage is a 25 year product with no cumulative interest or periodic repayments, and can be repaid at any time by the borrower (however, early repayment fees may be charged).

Brokers in eastern states can gain access to the equity finance product through selected aggregators.

## INDICATIVE INTEREST RATE SCHEDULE - AS AT 12 APR 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%	7.45%	7.45%	7.45%	7.45%	0.625%	0.20%
	CBA	7.37%	7.47%	7.56%	7.47%	7.45%	7.45%	7.45%	7.45%	0.70%	0.25%
	NAB	7.37%	8.07%	7.37%	7.57%	7.39%	7.39%	7.39%	7.39%	0.60%	N/A
	Westpac	7.37%	7.52%	7.49%	7.47%	7.35%	7.45%	7.45%	7.45%	0.60%	0.25%
OTHER LENDERS	AMP Bank	7.42%	7.52%	7.48%	7.63%	7.45%	7.44%	7.34%	7.34%	0.50%	0.25%
	Adelaide Bank	8.07%	8.17%	7.54%	8.17%	7.45%	7.45%	7.45%	7.45%	0.60%	0.25%
	BankWest	7.40%	7.60%	7.40%	7.99%	7.45%	7.45%	7.45%	7.45%	0.50%	0.25%
	Citibank	7.71%	7.73%	7.37%	7.71%	7.34%	7.45%	7.34%	7.45%	0.65%	0.25%
	HSBC Bank	7.70%	7.70%	7.44%	7.70%	7.45%	7.45%	7.35%	7.35%	0.60%	0.25%
	ING Bank	7.40%	7.99%	7.40%	7.99%	7.29%	7.29%	7.39%	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%	7.35%	7.35%	7.35%	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.