



FINANCE | COMMERCIAL LEGAL | BUSINESS STRUCTURES

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MCP GROUP NEWS

FRANCHISING PACKAGE

Once again, we would like to outline the benefits associated with our franchising package.

We understand that buying, selling or renewing a franchise can be a difficult and time consuming process, requiring several professional bodies to undertake and manage all legal, financial and structuring requirements on your behalf. Our firm can provide the above services in a timely and professional manner with a high degree of synergy.

Under our franchising package we are able to review your franchising contract, negotiate settlement, structure trusts and joint venture agreements, advise of your legal obligations as a business owner, implement asset protection measures and find a suitable product for your business in terms of rate and fees.

QUOTE OF THE MONTH

"When you have only two coins left in the world, buy a loaf of bread with one and a flower with the other."

- Chinese Proverb

CURRENT MARKET DATA

As at 25 October 2005

Official Cash Rate: 5.50% p.a.
U.S. Fed. Funds Rate: 3.81% p.a.

90 Bank Bill Rate: 5.65% p.a.
10-Yr Bonds (Aus): 5.335% p.a.

All Ordinaries: 4317.3
Aust. Dollar (US Cents): 74.84

Source: Australian Financial Review (25 Oct 05)

The package adds value, as we are able to provide a coordinated communication and delivery of services as one team which may, in some cases, lead to cost savings. There is also the comfort of dealing with a team that prides itself on its relationships and reputation with qualified and ethical professionals.

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 via email at enquiries@mcpgroup.com.au.

FINANCE

What is the benefit of organising our finance through a mortgage broker. Aren't all banks the same?

Many banking customers view all financiers to be generic in nature which, by implication, means that they believe all banks offer the same products at very similar rates, have similar serviceability assessment procedures and charge account keeping fees at the same rate as their peers. However, this is not the case.

Some financiers assess serviceability (ability to repay the borrowed funds) at different rates than other banks.

There is also a discrepancy in what different financiers will allow as security, income, and what the underlying loan is allowed to be used for.

There is also a question of banking fees, both monthly account keeping fees, loan establishment fees (application fees) and deferred establishment fees (penalty fees payable if you repay your loan within a short timeframe of establishment).

Through the use of a mortgage broker you are able to utilise banking policy to your advantage and gain the best rate and structure specific to your financial situation.

LEGAL

The vendor was almost a week late to settle. What expenses can I claim against the vendor for the late settlement of the property? I feel that I had suffered several forms of inconvenience, both financial and otherwise. Do I have any rights?

You are entitled to claim for reasonable expenses such as rent and storage, although you would have been required to mitigate all expenses incurred by you in the time of inconvenience (e.g. you would not receive a rebate on a lavish hotel).

INTEREST RATE ANALYSIS

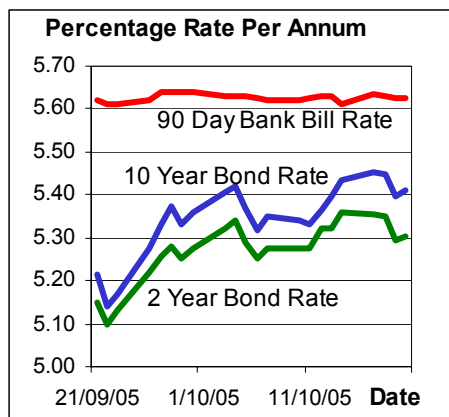
The Reserve Bank of Australia has, after much deliberation, decided to leave the official cash rate at 5.50% p.a. for the month of October.

Petrol and oil prices have continued to be a widely debated issue, although the increases have had little effect on the price of consumer goods, at least in the short-term. In a recent statement to the parliamentary committee, Ian Macfarlane (governor of the Reserve Bank of Australia) has

stated that, "Oil prices do not appear to have added to inflation or inflationary expectations, and so have not required a policy response (such as an interest rate increase/decrease)."

Furthermore, long-term interest rates remain relatively low, not only in Australia, but also the remainder of the world. This indicates there is an excess supply of world savings, rather than a deficit. According to several industry experts, the world economy is set to continue to be strong for the remainder of this year as well as 2006.

INTEREST RATE MOVEMENTS



While long-term rates still remain low, there has been a substantial jump in these rates over the past month.

Domestically, our national consumption has decreased considerably due to the recent softening in housing prices. In periods where there is a high level of property price growth, households increase their spending faster than their income due to the increase in their net assets ('wealth effect').

Conclusively, there seems to be no immediate reason to increase local interest rates, despite the strength of the international economy. This is because our domestic expenditure has fallen (due to softening housing prices), alleviating the need to make policy adjustments to curb expenditure that spawns from international and business growth.

However, we will have to wait and see what effect recent petrol prices have on inflation over the next couple of months, as well as the level of consumer spending in December where domestic expenditure and consumption peaks.



PROTECTING YOUR ASSETS

When contemplating a property, business or other asset acquisition, asset protection must be an important consideration. You should adopt a plan for a worst case scenario. Here we address some common issues relevant to protecting assets.

Protecting Assets - When purchasing an asset such as a business or property it is vital to:

- Wherever possible ensure personal and business assets are not at risk from creditors.
- Ensure that injections into an asset purchase, generally in the form of loans, are secured over the assets of the business venture or the property.
- Determine the most appropriate structure to hold the asset in conjunction with lawyers and accountants.
- Where possible avoid the provision of spouse/personal/director guarantees, which expose personal assets.
- Ensure the above measures are relevantly documented.



Protecting your personal and business assets is an imperative issue concerning business owners. Where possible, avoid the use of spouse, director or personal guarantees when applying for a business loan.

Is Insurance Enough? – Insurance is a vital ingredient of asset protection as a safeguard for circumstances where a person may suffer financial loss. However, many insurance policies may be inadequate to provide individuals exposed to trading and professional risk with adequate protection. While it's vital to seek coverage from the appropriate policy, insurance policies preclude cover where a person has done something outside the scope or in contravention of the insurance policy. If this is the case, you may be liable to find funds above what an insurance policy will provide, or in total if the policy is found to not apply. Seeking specialist insurance advice is important.

The Family Home - Transfer to Spouse Less At Risk – A common asset protection strategy when in a stable long term relationship is for the partner of the person exposed to risk holding all assets in their name. This is only effective where the spouse holding the assets is not exposed to any risk themselves.

Discretionary or Family Trusts – Trusts, where property is held by a trustee for the benefit of others (i.e. beneficiary(ies)), can be effective entities to hold and protect assets, including property. Generally, a beneficiary of a discretionary trust does not have any right to the assets of the trust until the Trustee exercises their discretion to distribute the income or capital of the trust to a beneficiary stipulated in the Trust Deed. Accordingly, the property and other assets of the trust are not usually exposed to creditors. If a trust is established for the purpose of asset protection, it should not generally operate a business or engage in any other trading or risk related activity.

Capital Gains Tax ("CGT") Implications of Transferring Property or Other Assets to a Partner - Generally this will apply, however you can ignore a capital gain or capital loss made from a CGT event relating to a dwelling that was your principal place of residence. This can change, however, depending on how you came to own it and what you have done with it, e.g. if you rented it out. If you acquired your rental property or plant used in relation to your rental property after 19 September 1985, CGT may apply when you dispose of the property.



THE ADVANTAGES AND DISADVANTAGES OF INCORPORATING A COMPANY

A Company is a legal entity set up and owned by shareholders and managed by directors. Once created, it is an entity in its own right, and so operates like a natural person, pays tax, and can sue and be sued in its own right.

It is governed by a set of rules which are called a constitution (or replaceable rules) under the Corporations Law of Australia.

The Australian Securities and Investments Commission (ASIC) is the federal government body which administers Company Law.

One primary advantage of establishing a company is the fact that a company director or officer is generally not liable for trade debts and other company liabilities unless they personally guarantee the debt.

Please contact our office if you have any further queries.

Starting a Company: The Advantages and Disadvantage	
Adv	The tax rate for Companies is 30%, while the top rate for individuals is 47% (plus Medicare levy).
Adv	A Company Director or officer is generally not liable for trade debts and other Company liabilities unless they personally guarantee the debt.
Adv	A Shareholder's liability is limited to the paid value of their share.
Adv	Creditors cannot gain access to Shareholder assets.
Adv	Individuals can carry on a business without exposing all their personal assets to the risk of the business failing.
Adv	A Company has continual existence.
Adv	Transfer of ownership is simply done by transferring shares in the Company to someone else (or business can be sold out of the Company).
Disadv	Regulation (provided one acts honestly, reasonably and takes advice, the potential for liability is low).
Disadv	Time to administer (this may be undertaken by accountant).
Disadv	Costs (annual fee payable to ASIC, accounting fees for Tax Returns).
Disadv	Privacy (public can search ASIC company records).

The advantages of establishing a company are very extensive. These include a company director's limited liability and the potential reduction of tax (compared to personal taxation rates).

Accountants should be consulted in relation to all matters of taxation.

State Stamp Duty Implications – Partner -There is no stamp duty chargeable in respect of a transfer of property between those in a marital or genuine de facto relationship in Victoria. Trust - Stamp duty may apply where there is a subsequent transfer to a trust, notwithstanding it may be controlled by the transferor, if the beneficial ownership of the assets change.

Recent Scenario - When one of our clients approached us a few years ago about becoming a Company Director we set up a structure to protect his assets, which included various properties. When the company went into liquidation last year with our client's signature on several Directors' Guarantees the

assets were beyond the reach of creditors. The protective structure deterred creditors from taking further action against our client personally.

Conclusion - Aspects of asset protection and taxation must be considered when purchasing any asset such as a property or business. Further, asset protection should be reviewed regularly. 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. Onerous Directors and Trustee Duties may also be relevant depending on your preferred structure.

“FACTORING” EXPLAINED

A type of commercial funding that is not universally understood is debtor financing facilities.

There are varying models, but typically a financier will “purchase” a company's invoices and immediately make available between 70-90% of their value in cash. This has the obvious benefit of providing immediate cashflow now, as opposed to waiting for a standard collection period of say 50-60 days. The security for the facility typically includes a registered mortgage debenture over the company and an assignment over the debt.

Historically, these types of facilities have been very expensive, and whilst they are more competitive today, the cost is usually equivalent to or higher than an unsecured overdraft facility.

So, when should these types of facilities be considered? The answer is predominately for businesses in a growth phase, and certainly where tangible security is not available. For example, they may need to acquire additional inventories to facilitate growth. In our view, these should not be seen as longer term funding facilities. Once the business activities are more formally established an opportunity may exist to review alternative funding options.

ANZ BUSINESS PARTNER AND PRACTICE CAPITAL LOANS

The ANZ Bank is pleased to announce the launch of their Business Partner and Practice Loans. These offerings are new and innovative products designed to assist accounting and financial practices with business growth and succession agreements. Other uses of the lending facility may include the purchase of capital assets or business equity, personal banking solutions or general business growth.

The ANZ Practice Capital Loan may be used by partnerships and incorporated entities to purchase other entities, loan books, capital items or funding for general working capital purposes. However, the loan

may not be used to purchase practices that have been in operation for less than 12 months. Interest only periods are available although a maximum of seven (7) year principal and interest terms are allowed. A loan to value ratio of 50% applies, which may be extended to 65% if certain criteria are met (a minimum level EBITDA and/or working capital).

The benefits of the loan include the simplicity of borrowing against the value of a practice, the fact that partners will be unable to release personal assets that are securing business debt and the peace of mind that your firm can potentially fund future growth.



The ANZ Bank's Practice Capital Loan may be used to fund the acquisition of other entities, loan books or capital equipment.

Alternatively, the ANZ Bank's Partner Capital Loan is a facility that allows partners to purchase or refinance their portion of business equity. Once again, a loan to value ratio of 50% is generally available. A higher ratio depends on trigger variables such as EBITDA (earnings before interest, taxation, depreciation and amortisation) margins and working capital reserves. Minimum gross fees of \$300,000 are allowed per partner.

The benefits of these facilities is the ability to fund the expansion of a business which may provide an attractive incentive for new partners. Wealth creation may also be maximised by leveraging the practice's value, rather than personal assets.

The loans will be assessed on a three tier basis with a heavy reliance on cash flow forecasts. Please contact Bill Humphries or Adam Maciejewski for further information.

FINANCIER NEWS

ANZ BANK

From 14 September 2005, the ANZ Bank has initiated several loan policies relating to negative gearing benefits and lenders mortgage insurance premiums, which may be beneficial for some loan applicants. Negative gearing refers to a situation where the interest repayments of an investment loan exceed the income receivable from the underlying investment. The cost of funds versus the income differential (e.g. rent, dividends or interest) is subtracted from your gross income under the ANZ Bank's new servicing guidelines, thereby increasing your borrowing potential.

Another policy variation from the ANZ Bank is their allocation of lending discounts based on aggregate loan borrowings for lending that exceeds \$250,000 (this was formerly \$500,000). This is contrary to their former policy arrangement, whereby the lending discounts were based on individual loan sizes (if total borrowings were below \$500,000). They have also introduced family guarantees, allowing immediate relatives to act as a guarantor on applicant's behalf. Other relatives will be considered on a case-by-case basis.

WESTPAC (COMMERCIAL)

Debtor management and working capital planning are important issues for most businesses. Westpac Commercial have developed an Invoice Finance product to alleviate the working capital constraints faced by some businesses. Business owners can lend up to 80% of the value of their debtors within 24 hours of application.



Seasonally dependent businesses such as ice cream wholesalers (above) may find Westpac's debtor finance facility extremely useful for working capital purposes.

Businesses that are rapidly increasing their sales and debtors, seasonal and weather dependent companies, expanding businesses and businesses who seek to utilise their creditors' early repayment schemes will benefit most from the Invoice Finance Product.

Please contact our office if you require any further information. Our team of commercial finance specialists would be more than happy to assist with any queries that you may have.

WESTPAC (RESIDENTIAL)

Westpac Residential offers a very competitive fixed Low Documentation Home Loan that starts at the rate of 6.49% p.a. The loan has an \$8 ongoing fee and a \$600 establishment fee. Lenders mortgage insurance is required for all lending at a loan to value ratio 60-80%.

An exit cost of \$150 per title applies and economic break fees may also apply for all fixed loan borrowings.

BANKWEST (COMMERCIAL)

BankWest have recently announced a stellar offer for small business and general commercial lending.

For a limited time they will cover switching costs up to a maximum of \$1,000 for all loans above \$250,000. Additionally, BankWest are also advertising their extremely competitive introductory rates. They will offer a 12-month introductory rate of 6.5% p.a. for small business loans that are secured by residential property. Their standard 12-month introductory commercial loan (secured by commercial property) is priced at 7.1% p.a. reverting to the standard variable commercial rate thereafter.

COMMONWEALTH BANK (RESIDENTIAL)

The Commonwealth Bank offers an attractive professionals package, particularly for borrowers who seek to mitigate the risk of adverse interest rate movements by fixing a portion of their borrowings. Under their professionals package, borrower will receive a 0.15% p.a. discount off the advertised fixed rates and will also be eligible to receive a discount of up to 0.7% p.a. for selected variable rate products.

ST GEORGE BANK

The St George Bank have offered to waive the establishment fee for a selection of their residential mortgage products including their Fixed Rate, Introductory, Standard Rate, St George Essential, Loyalty Variable and Portfolio Loan products.

To qualify for the loan the applicant must borrow at least \$150,000. The special offer is estimated to save potential applicants up to \$700 in establishment fees.

MACQUARIE MORTGAGES

Macquarie Mortgages have a very competitive low documentation loan offering which is called the 'Macquarie Mortgages Express' range. These loans have a rate which is reduced over the first three years of the loan, assuming that the borrower has displayed a sufficient level of banking conduct (e.g. repayments have been made on time etc).

ING BANK (COMMERCIAL)

The ING Bank's 'Freeze on Fees' special offer applies to all commercial loans between \$150,000 and \$2 million until the end of the 2005 calendar year. Similar to the standard practice, the application fee should be collected prior to the issuance of the formal letter of offer. However, it will be rebated shortly after settlement.

FORECASTING INTEREST RATES - IS IT WORTHWHILE?

There are various methods used to determine the future movements of share prices, housing rates, bond yields and a host of other investments or assets, both physical (gold and commodities) and intangible (stock options) in nature.

Banks, research houses and government bodies have developed sophisticated methods for asset price forecasting, some which often require copious amounts of information and the use of sophisticated software packages.

One method involves using graphical representations of price movements to determine the support and resistance price levels of the financial asset (technical analysis) while other forms of forecasting involve a

comprehensive analysis of the broader economic environment to determine the future movement of the asset price (bottom up fundamental analysis). Some financial bodies have even gone to the extreme lengths of employing psychics as a means of forecasting the future level of interest rates.

However, despite the vast suite of the forecasting methods available, economists and industry experts have had a historically difficult time of predicting the future levels of interest rates and financial asset prices.

When there is a consideration of the number of factors that determine the level of supply, and conversely the demand for Australian funds, it is understandable that inaccurate economic projections may occur every now and then.

For example, the demand for our cash depends on a wide range of factors including consumer confidence, resource prices, net migration, political decisions such as trade tariffs, weather patterns, demographical factors, productive efficiencies and so forth, not only in Australia but also abroad due to the premise of globalisation and export trade. As a result, forecasting interest rates becomes an extremely delicate process.

In a study published by Kevin Stephenson pertaining to the United States' money market (Journal of Investing, Volume 6, Issue 2) there is insurmountable empirical evidence to suggest that economists have trouble forecasting future interest rates, irrespective whether the underlying rate is short, or long term in nature.

The study (conducted from 1981 to the mid 1990's) found that only thirteen out of the forty-four economists selected the correct level of long-term interest rates correctly more than 50% of the time. Alternatively, short-term interest rates were a little easier to forecast, with economist predicting the correct direction of short-term interest rates more than 65% of the time.

Despite some of the shortcomings faced by economic analysts, they continue to provide an important function for financial markets, investment houses and the business community, including the ability to

warn businesses of future market conditions which may not be favourable. This may allow them to make amendments to their budgets and plan for short-term working capital requirements.

AUSTRALIAN ORGAN DONOR REGISTRY

At any one time there may be up to 2,000 people waiting to receive organs or tissues. Some of these people are seriously ill, with the receipt of an organ offering them a second chance at life.

One organ donor can help make a difference to the lives of up to nine other people. It is crucial that the number of organ donors increase to meet the demand for organs.



Each organ donor can make a substantial difference to the lives of several other people. Organ donors help other recipients immensely, often providing them with an increase in the quality of their life.

Families are faced with organ donation issues at a time of immense heartache and personal grief. If the family knows their loved one's wishes regarding organ and tissue donation then the process is a little easier. Such family discussion about the topic is vital, as they remain central to the organ and tissue donation process.

Please contact the Victorian Donor Registry on (03) 9349 2730 if you would like any further information about becoming an organ donor.



MCP
GROUP

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INDICATIVE INTEREST RATE SCHEDULE

A selection of our financiers' most competitive Interest Rates. Rates displayed are generally discounted - and may not apply to your situation. This is a guide only - all rates are indicative only. Comparison Rates are available upon request.

	Variable Rates (Inclusive of Discounts)				Fixed Rates					Commission Rates (%)	
	Featured	L.O.C.	Basic	Low Doc	1 Year	2 Year	3 Years	5 Years	Upfront	Trail	
MAJORS											
ANZ Bank	6.62%	6.62%	6.72%	6.62%	6.85%	6.79%	6.65%	6.79%	0.60%	0.20%	
CBA	6.62%	6.62%	6.81%	6.62%	6.70%	6.64%	6.44%	6.64%	0.70%	0.25%	
NAB	6.62%	6.77%	6.62%	7.32%	6.85%	6.79%	6.47%	6.79%	0.60%	n/a	
Westpac	6.62%	6.77%	6.74%	6.62%	6.85%	6.79%	6.49%	6.79%	0.60%	0.25%	
AMP Bank	6.67%	6.87%	6.76%	7.06%	6.69%	6.69%	6.49%	6.69%	0.50%	0.25%	
Adelaide Bank	6.79%	7.42%	6.79%	7.32%	6.75%	6.75%	6.69%	6.79%	0.60%	0.25%	
BankWest	6.65%	7.35%	6.65%	7.24%	6.75%	6.75%	6.75%	6.85%	0.50%	0.25%	
Citibank	6.62%	6.71%	6.62%	7.25%	6.85%	6.79%	6.69%	6.79%	0.65%	0.25%	
GE Money	N/A	N/A	7.40%	7.50%	Not Available					1.00%	0.50%
HSBC Bank	6.87%	7.03%	6.69%	6.87%	6.85%	6.85%	6.75%	6.85%	0.60%	0.25%	
ING Bank	6.70%	7.30%	6.70%	7.24%	6.49%	6.49%	6.49%	6.74%	0.60%	0.25%	
Macquarie	6.59%	N/A	6.59%	7.55%	7.05%	7.05%	6.85%	6.89%	0.60%	0.25%	
St George	6.62%	6.72%	6.74%	6.62%	7.75%	7.79%	7.79%	7.86%	0.60%	0.25%	
Suburban Management	6.74%	N/A	6.74%	7.24%	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).

COMMERCIAL LENDING

	Variable Base Rates		Fixed Rates				
	Standard	Overdraft/L.O.C.	1 Year	2 Year	3 Years	5 Years	
LENDER							
ANZ Bank*	7.67%	8.60%	7.36%	7.39%	7.41%	7.54%	
ING Bank	7.60%	8.70%	7.55%	7.60%	7.60%	7.65%	
Citibank*	7.70%	8.45%	7.59%	7.59%	*7.49%	7.59%	
BankWest*	7.40%	8.25%	Available Upon Request				
Members Equity	7.49%	N/A	Available Upon Request				
St George	8.30%	8.67%	Available Upon Request				
Westpac*	7.55%	7.95%	6.85%	6.90%	6.97%	7.10%	

* ANZ Bank Commercial Loan Rates (Standard and Overdraft) must be secured by residential property. BankWest Loan Rates are a starting guide only as per BankWest's official website (a buffer may be added to these rates). All rates are based on borrowings of \$500,000.

The displayed Citibank commercial rate applies only to new business. The Citibank three (3) year fixed rate applies only to new businesses.

Comparison Rates may be misleading in some instances (the rates we quote are subject to specific criteria being satisfied). Comparison Rates are provided upon request, tailored to your specific scenario for any number of products. Please contact our office for further information regarding comparison rates.

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