THE BLACK ROCK DIGEST

FLAKUS & ASSOCIATES

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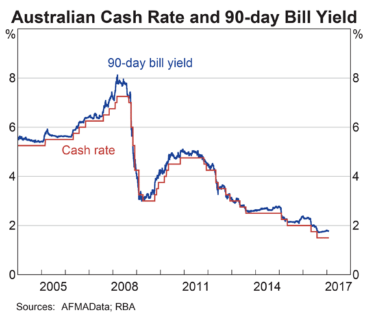
HIGHLIGHTS



Finance for homes now one of the lowest in 60 years

HIGHER INTEREST RATES FOR PROPERTY INVESTORS AND SUSPENSION OF INVESTOR LOANS

As recently advertised and widely communicated, borrowers in the investment property market have recently been faced with an increase in interest rates ranging from 0.12% to 0.45% over the past few months.

In addition, some financial institutions are no longer accepting loan applications for Investment Lending on a standalone basis.

This could have resulted from concerns about some lenders breaching the Australian Prudential Regulation Authority (APRA) 10% speed limit which is calculated on a continual monthly basis.

In addition to the "suspension" of Investment Property Loans, lenders have also increased the interest rates on Interest Only loans as opposed to Principal and Interest loans.

We have also begun to see major banks adjusting their "packaged" discounts for borrowers. Previously, banks were very competitive in giving interest rate discounts of up to 1.35% for borrowers of owner-occupied and investment properties. This has now been scaled back. Investors would no longer be offered "very competitive and aggressive" interest rate discounts that an owner-occupier borrower would be offerred.

Apart from interest rate discounts, banks have dramatically fine-tuned their credit criteria for investor lending with some banks scaling back to 80% with tighter serviceability tests. Some factors regarding serviceability may include rental income reduction from 80% to 70%, not taking into account the effects of negative gearing.

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RBA Cash Rate as opposed to Lender's Interest Rates

It is often interpreted that lenders align their interest rates against the Reserve Bank's Cash Rate. The Reserve Bank's Cash Rate is often regarded as the Interbank lending rate.

To simplify, the RBA rate, also referred to as the discount rate, is the rate of interest which a central bank charges on the loans and advances to a commercial bank. The bank rate is known by a number of different terms depending on the country and has changed over time in some countries as the mechanism used to manage the rate has also changed.

Whenever a bank has a shortage of funds, they can typically borrow from the central bank based on the monetary policy of the country.

COMMERCIAL / BUSINESS FUNDING

Whilst lenders are still promoting their commercial and business lending to the small to medium business segments, the criteria for business lending is becoming more and more tedious and takes a lengthy time to assess. With regards to commercial property transactions, major lenders are also keen to provide funding, but again, the process has become increasingly more tedious and at times even cumbersome.

Besides the major lenders, there are now a number of specialist commercial property funders who are able to provide a quality service with competitive costings that are comparable with the majors. These funders are generally categorised as a "set and forget" transaction.

If you are keen to explore your possibilities, please contact Paul on (03) 9598 9222 today.

NEW SUPERANNUATION LAWS

The recent big news is that the federal government has dumped the $500,000 cap on after tax contributions.

In brief, the new deal effective after 1st July 2017 will be that you will be able to make after tax contributions of $100,000 per year (rather than $180,000).

If you have more to put into super in a particular year, you can "bring forward" up to 3 years worth of these contributions, albeit $300,000 over 3 years rather than the current $540,000 ($180,000 X 3).

You should consult your financial adviser or accountant, or visit the ATO website for full details.

VEDA / CREDIT SCORE

Recently, there has been much discussion surrounding personal credit scores and credit checks.

It should be made known that if you are seeking credit via online applications or via direct contact with a bank, a credit check is conducted and your enquiry is recorded.

The more "hits" are registered on your Veda Credit file, the higher the possibility of your score being reduced. The majority of lenders scrutinise an applicant's credit file and would note if an applicant has been seeking finance. This may have an effect on their decision making. In short, this generally raises "alarm bells".

A professional finance broker can help you conduct a credit check prior to any finance submissions and where necessary, help you to address any issues prior to submissions of applications.

Please note that as from July 2017, the Australian Tax office (ATO) will now record any tax liabilities in excess of $10,000 on the applicant's credit file.

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Some lenders are now removing the "negative gearing" effect on their serviceability calculators.

For example, applicants who operate their investment properties at a loss (where the income of the investment property does not exceed the costs), the related taxable benefit will no longer be included in some lenders calculation for serviceability of the loan.

Finally, as the banks often review their riskier property Investment Lending Loans, these are now compelled to attract a higher capital buffer.

Therefore, with the new capital criteria requirements for banks, (as of 1st July 2016) it can be assumed that property investor loans will carry even higher interest rates (as was the case some 30 years ago).

The recent interest rate rises for property investors, coupled with strong property prices, especially in the major capital cities, may now place a question mark around the return on investment (ROI) in this category.

IS AGE AN IMPEDIMENT TO OBTAINING A RESIDENTIAL OR INVESTMENT LOAN???

With the recent and ongoing demand for purchasing property, older potential borrowers may be facing new hurdles and challenges.

Some older age group borrowers may seek to re-enter the property market after they have been through a divorce, had a failed business venture, lost employment or other adverse circumstances. This may impact their ability to borrow money as the new and more stringent criteria in the new financial climate is applied.

Whilst 'age' should not be regarded as an OBSTACLE, some lenders <u>do</u> consider age as be an impediment in paying out the loan on or before retirement.

The main questions that would need to be explored by older and mature-age borrowers seeking a loan include :-

1. What equity in being injected into the purchase?
2. What is the Borrower's clear exit strategy on or before retirement? Can the borrower pay out the loan from his/her projected income streams?
3. What is the Borrower's superannuation holding at the time of retirement? The point to note is that funds in super should not be used as the main contributor to service a home loan. Funds in Super are aimed to support an ongoing retirement lifestyle, not for paying out a home loan.
4. Are there any additional funds to be received during the term of the loan? This might include an inheritance, an overseas-based super nest egg or a property that could be sold.

If you need guidance to secure a residential or investment loan as a mature age borrower, please talk to us today to find out what you options are.

BORROWING FOR DEBT CONSOLIDATIONS

Recently, I have been involved in numerous finance deals for debt consolidation and re-financing of existing loans. Whilst lenders express an "appetite" for new loans, Debt Consolidation Loans are also on the increase .

Here are some salient points to note when seeking a Debt Consolidation Loan :-

1. If credit cards are included in the loan, most lenders would only accept up to 4 credit cards. Non-major specialist lenders however, would accept up to 6.
2. What are the savings for the applicant should a Debt Consolidation Loan be approved, and will the savings be applied to the new loan?

When seeking to refinance existing facilities, including consumer debts (i.e. credit cards, personal loans and store cards), lenders would require as a minimum the following :-

1. 3 months record of credit card(s) / store card statements
2. 6 months record of existing loan statements
3. ATO portals access (if self employed)
4. 6 months record of daily transactional accounts, showing salary credits and financial activities etc

With older borrowers, lenders again will look at a clear 'Exit Strategy' to ensure that the loan will be cleared within the retirement age frame, and not cause any hardship to the borrower. In most cases, a new loan would be placed onto a Principal and Interest repayment to consolidate the debts.

HENDERSON POVERTY INDEX

This is also known as the HPI and it is related to general living expenses that lenders assess when evaluating serviceability.

As a general minimum, lenders use the following benchmark :-

Single applicant
$1,540 per month

Married/defacto
$2,235 per month

Add to each dependant $575 up to 18 years of age (if still a dependant).

The above does not include other expense items such as school fees, child care fees, child support and other discretionary expenses.

TAX RATES 2016 - 2017

Taxable income	Tax on this income
$0 - $18,200	Nil
$18,201 - $37,000	19c for each $1 above $18,200
$37,001 - $87,000	$3,572 plus 32.5c for each $1 above $37,000
$87,001 - $180,000	$19,822 plus 37c for each $1 above $87,000
Over $180,000	$54,232 plus 45c for each $1 above $180,000

Income includes :
Salary & wages, commissions, bonuses, tips & gratuities, jury attendance fees, Centrelink payments, payouts from sickness & accident insurance policies, investment income

Medicare levy surcharge (2013-14 / 2014-15 / 2015-16 / 2016-17)

	Taxable income		Rate of surcharge
	Individual	Family	
Tier 0	Up to $90,000	Up to 180,000	0%
Tier 1	$90,001 - $105,000	$180,001 - $210,000	1%
Tier 2	$105,001 - $140,000	$210,001 - $280,000	1.25%
Tier 3	$140,001 and above	$280,001 and above	1.50%

Goods & Services Tax (GST) 10%

Annual turnover threshold for registration is **$75,000**.
For non-profit organisations, the threshold for registration is **$150,000.**

PROFESSIONAL SERVICES

Services Required	Paul Recommends	Contact Details
Tax and Accounting	Craig J. Allen, Craig Allen & Associates	Tel : 93 9589 4599
Quantity Surveyors	Bradley Beer, Director BMT Tax Depreciation	Tel : 03 9654 2233 Mob : 0413 271 777
Accounting Services	Michelle Frey Hermann & Associates	Tel : 03 9589 3521
Law and Legal Services	Amanda Black, Quayles Law Agents	Tel : 9670 9000
	Joanne Simmonds LLB, Director Beaumaris Law Legal Practitioners	Tel : 03 9589 3205
Insurance Services	Dennis Drew, HWA Insurance Brokers	Tel : 03 9559 3317 Mob : 0414 460 709
Design and marketing communications services	David Cheah, Strategist Abacus Mind	Mob : 0403 97 99 86
Property Conveyancing services	Colleen Buck Cheltenham Conveyancing Services	Tel : 03 9585 6222 Mob : 0416 246 617
Financial Planning, Superannuation and Risk Products	Ian Henry, Ian Henry Financial Services	Tel : 03 9521 0303 Mob : 0408 571 757

Quotes & Wise Sayings

"Wealth can only be accumulated by the earnings of industry and the savings of frugality."

John Tyler

"Pray a little more, work a little harder, save, wait, be patient and, most of all, live within our means. It's not spending ourselves into prosperity or taxing ourselves into prosperity."

Mike Huckabee

"A sustainable world means working together to create prosperity for all."

Jacqueline Novogratz

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