THE BLACK ROCK DIGEST

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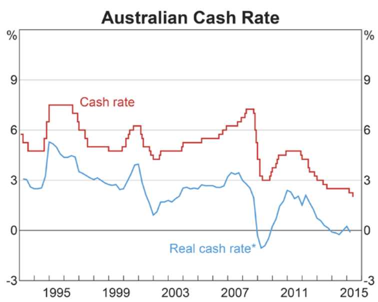
Paul Flakus
Australian Credit License No : 379603
Founder, Flakus & Associates
Suite 1 (Ground Floor), 115-117
Bluff Road, Black Rock VIC 3193
T 03 - 9598 9222
F 03 - 9598 9777
www.flakus.com.au

HIGHLIGHTS



* Calculated using average of weighted median and trimmed mean inflation
Sources: ABS; RBA

Finance for homes now one of the lowest in 60 years

LENDERS TIGHTENING CREDIT

With Australian interest rates at an all time record low (currently the RBA cash rate is 2.0 per cent), recent guidelines released by the Australian Prudential Regulation Authority (APRA)*, new borrowers may see a tightening of credit being released by lenders.

This is being brought about by changes to the serviceability models used by lending institutions where we will see more focus on household expenses during the application process.

The rationale behind this change is due to speculation of a housing bubble in Sydney and Melbourne; global concerns from bank regulators on the way banks assess risks, and our current appetite to take on more credit.

So, how might this affect you?

If you are seeking finance, the institution will use a borrowing range of between 7.2 and 8.0 per cent when undertaking their assessment and will want to explore not just your general living expenses but additional expenses under categories such as:

- Education tuition costs
- Childcare
- Entertainment costs (i.e. Foxtel, Casino, Sporting Memberships);
- Interests or Hobbies; and
- Household Management and Maintenance (i.e. cleaner, pool cleaner etc.).

In my opinion, this is a prudent approach as each household's expenses differ and each individual situation should be taken into consideration.

Further examples of credit tightening will include policy changes for residential loans for investment purposes where lenders are now reducing their maximum loan ratio on investment loans to 90 per cent.

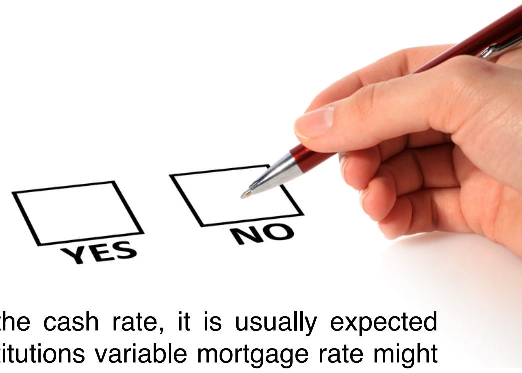
So, how can you minimise the effect?

When looking to borrow, ensure that your initial calculations are done using the same borrowing range of between 7.2 and 8.0 per cent which will allow for fluctuations or changes to your own circumstances.

Additionally, look at your general living expenses including those additional expenses that the lending institution may want to know about and determine if they are a need or a want. Can you live without it thereby allowing you to meet your lending goal?

** APRA is the governing body for all banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies and most members of the superannuation industry.*

Understanding RBA Cash Rate vs. Mortgage Rate



Do you understand the difference between the RBA Cash Rate and your Mortgage Rate and how this affects your mortgage?

Each month, the Reserve Bank of Australia (RBA) holds a meeting to discuss a number of financial issues relevant to Australia. One of these items is whether the cash rate will change.

The **cash rate** in broad terms is the rate, which financial institutions pay to borrow or charge to lend funds in the money market overnight. However, the RBA has a much more defined view and sees the cash rate as an operational target of the implementation of monetary policy. Each day the RBA measures the rate paid or charged by banks to borrow from or lend funds to other banks overnight on an unsecured basis. The RBA calls this the interbank overnight rate and this has been published by the RBA each day since June 1998.

Currently the cash rate is 2.0 per cent.

The mortgage rate is the rate charged by your lending institution and determines how much interest you will pay on the amount you have borrowed.

If the RBA reduces the cash rate, it is usually expected that each lending institutions variable mortgage rate might reduce. However, they do not have to reduce it or reduce it to the full rate of the RBA reduction.

For example, if the cash rate was reduced by 0.25 per cent, the lending institutions may only reduce their variable rate by the full RBA "cut" or what the lenders believe is a rate cut to their market competitiveness and funding costs.

Additionally the mortgage rate and the cash rate will never be the same. This can be attributed to the cost involved with running a financial institution. Further more, each lender's variable mortgage rate will be different in a bid to cajole your business to them.

There are many great independent sites that can provide further information including www.moneysmart.gov.au

BUSINESS LOAN INSURANCE

Now a vital component for a successful loan

In an increasingly difficult money market, it is getting more and more challenging for business owners to successfully secure a business loan. One of the best proven ways to secure a successful business loan is to ensure that you have business insurance. Logically, a lender is more likely to approve your loan if you have security for the amount loaned, or in the case of insurance, sufficient cover to ensure that the business is secure if something untoward happens to you.

Below is a concise summary of business loans and which suits your purpose.

INSURANCE	WHO IT'S FOR	DESCRIPTION
Term Life	People with debts, financially dependent family or a business	Pays lump sum if you die or diagnosed with terminal disease.
Income protection	Employees, self employed, contractors	Pays replacement income up to 75% of regular salary if you suffer illness or injury within insurer's definitions. Not applicable if you quit or are fired or made redundant.
Trauma	People who require life insurance	Pays lump sum if you are diagnosed with a condition such as cancer, stroke or heart attack.
Total & permanent disability	Employees, self employed, contractors	Pays lump sum (usually) if you incapacitated and unlikely to be able to work ever again.
Business continuity	Self employed, business owners	Pays monthly benefit if unable to work. Payments aimed to keep buiness going ie rent, loan repayments.

If you are looking to diversify your investment portfolio, contact Paul today

PURCHASING A PROPERTY OFF THE PLAN

10 Key Things to Remember Before You Sign the Contract

Although purchasing a property off the plan (OTP) can be a sound way to invest, there are 10 key things that can greatly optimize the profitability of your investment.

Key No 1 : Finding Value
Be smart and get an independent valuation of the property before buying. Check data from companies like Australian Property Monitors, RP Data and SQM Research.

Key No 2 : What to Look For
Study key factors that determine the value of property such as location, bedroom size, balconies, parking, natural light, storage and use of spaces. Know how the vicinity will be developed in the near future.

Key No 3 : Research
Research before you buy. Be prepared for opportunities and threats that are outside your control.

Key No 4 : Seek Advice
Seek legal advice on the contract. There may be details in the contract that can work against you in the event circumstances change or if there are delays.

Key No 5 : Settlement Risk
There is usually a gap between the buying and the settlement of an OTP property. During this time circumstances may change that may adversely impact the settlement conditions such as valuation. Investors need to be aware of this and prepare to meet any resource shortfall should it occur.

Key No 6 : Approval of finance
Never buy a property impulsively unless you have organized the necessary finance. Never over leverage and learn how different loans work and what's the best one for you.

Key No 7 : Settling Up
Always negotiate a reasonable timeframe for settlement before you commit to the purchase. Penalty payments apply if you are unable to settle within the time set.

Key No 8 : Credit History
Limiting the number of times you apply for finance helps your credit history. Keeping a positive cash flow and paying your bills on time helps too.

Key No 9 : Space and Inclusions
Scrutinize the marketing collateral and ensure that you cover all the details. Pay attention to the scale and integrity of the spaces represented.

Key No 10 : Savings
Buying OTP benefits investors by way of a large stamp-duty saving. Remember to check 'indicative' depreciation schedule to get further deductions for building and fixtures.

Before you purchase an Off The Plan (OTP) property, contact Paul today on (03) 9598 9222 to find out more about the pros and cons.

What is a Housing Bubble?

We continue to hear the term "housing bubble" and many of the finance analysts are pointing to either Melbourne of Sydney or both being in a bubble.

Part of the problem with a housing bubble is that we don't actually know if it is a bubble until it actually pops. There are indicators and we can speculate but until it actually occurs, we don't actually know if either of these markets are truly in a "housing bubble".

So, let's clear up some of the confusion!

What is a housing bubble? A housing bubble is where there has been a period of continued growth that has become unsustainable. Suddenly, prices for real estate become more that what people are willing to pay and then prices drop. This is the bubble popping.

So, why is there suspicion of a housing bubble?

Many analysts, APRA, and the RBA are seeing strong indicators in both the Sydney and Melbourne markets due to:

- More people wanting to purchase property and taking on debt;
- Record low interest rates (current cash rate is 2.0 per cent);
- Lots of investors in the market (both domestic and international); and
- Significant rise in cost of real estate.

What impact will there be if a bubble pops?

If a bubble does pop, it may be due to a correction or a large reduction in the pricing of real estate. Only then, can we determine what impact it will have on that market.

Previous housing bubbles have seen price corrections impacting personal wealth and affecting when people are able to retire but also resulted in a lack of affordable housing and job losses.

It is important when there is speculation about housing bubbles to ensure that you are balancing your risk and not over stretching your capability to pay debts should your financial situation change.

TAX RATES 2014 - 2015

Taxable income	Tax on this income
$0 - $18,200	Nil
$18,201 - $37,000	19c for each $1 above $18,200
$37,001 - $80,000	$3,572 plus 32.5c for each $1 above $37,000
$80,001 - $180,000	$17,547 plus 37c for each $1 above $80,000
Over $180,000	$54,547 plus 47c 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 from

Superannuation Contribution Limits

Age	Concessional	Non-Concessional
Under 49	$30,000	$180,000 or $540,000 over 3 years
49 - 65 yrs	$35,000	$180,000 or $540,000 over 3 years
65+ yrs	$35,000	$180,000**

** Subject to work test of minimum 40 hours in 30 days

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	Philip Tyquin, Hermann & Associates	Tel : 03 9589 3521
Law and Legal Services	Amanda Black, Quayles Law Agents	Tel : 9670 9000
Insurance Services	Dennis Drew, T.P. Gleeson Insurance Brokers	Tel : 03 9882 6600 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

HELPING THE COMMUNITY

Sandringham College

Paul Flakus also sponsors students at Sandringham Secondary College to enhance educational opportunities and their life experiences.

Quotes & Wise Sayings

A wise person should have money in their head, but not in their heart.

Jonathan Swift

An investment in knowledge pays the best interest.

Benjamin Franklin

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