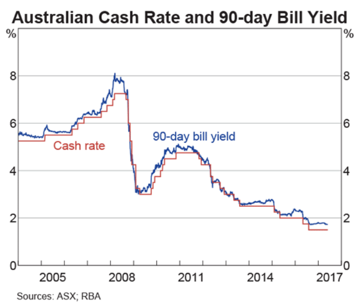
THE BLACK ROCK DIGEST

FLAKUS & ASSOCIATES

Issue 48 Winter Edition June 2017

Paul Flakus
Australian Credit License No : 379603
Founder, Flakus & Associates
Unit 5, 120 Talinga Road,
Cheltenham VIC 3192
T 03 - 9598 9222
F 03 - 9598 9777
www.flakus.com.au

HIGHLIGHTS



Finance for homes now one of the lowest in 60 years

NEW CHANGES FOR INTEREST ONLY LENDING

We have seen over recent months that all lenders are reviewing their products for borrowers wishing to purchase residential properties and seeking Interest Only Loans.

This has occurred to curb "heightened risk" in the housing market. The Australian Prudential Regulation Authority (APRA) has advised all lenders to tighten their criteria surrounding Interest Only Loans on owner occupied and investor properties. According to APRA, the increased scrutiny is in response to an increase in heightened risks reflected in rising house prices, passive income growth and rising household expenses.

Also, APRA has instructed banks that no more than 30% of new housing can be interest only. ASIC intends to monitor this by increasing its surveillance of lenders and mortgage brokers to ensure the continuation of responsible lending. Therefore, lenders have been placing limits on Interest Only Loans for lending to valuation ratios above 80%. Recently, some lenders have reduced their Interest Only Loans from 90% to a maximum of 80% of total purchase price. In addition to this, lenders have now reduced the previous interest only period to 5 years.

However, a finance / mortgage broker could connect an interest only home loan for their client for the following valid reasons :-

continued on page two

RBA Cash Rate as opposed to Lender's Interest Rates

It is often interpreted that lenders align their interest rates against the Reserve Bank Cash Rate. The Reserve bank Cash Rate is regarded as the Interbank Lending Rate.

To simplify, the RBA rate, also referred to as the Discount Rate, is the rate of interest which the 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 in question. It has changed over time in some countries as the mechanism used to manage the Discount Rate.

Whenever a bank has a shortage of funds, they can typically borrow from the central bank based on the monetary policy of the country. Although recent reports indicate the banks will raise Mortgage Interest Rates, it is quite clear that the RBA Cash Rate bears minimal comparison to the Lenders Mortgage Rate.

The major banks hold approximately 80% of the Residential Mortgage Market and therefore, it could be assumed that they have a greater control of market mortgage rates. This has brought about alternatives to seeking home loan lending through the major banks and that is now evident with an increasing number of residential loans being provided by mortgage originators and managers.

As a progressive and innovative provider, Flakus and Associates has access to these alternative funders.

BUSINESS FINANCE CRITERIA HAS TIGHTENED IN TODAY'S CLIMATE

Some key questions to ask when seeking business finance as opposed to commercial property finance include :-

1. Are all taxes, superannuation and other statutory payments paid to date?
2. Have financial accounts, including balance sheet and profit and loss statements been finalised for the previous year? (Note that lenders require a minimum of 2 years of the most recent financials in order to assess any business funding application)
3. Are there any outstanding Interim Management Accounts?

For commercial property finance, some key questions to consider when purchasing include :-

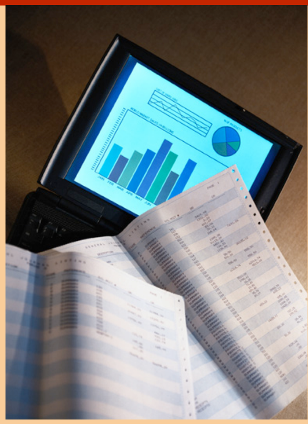
1. What is the rental income?
2. What are the terms of the current or proposed lease?
3. Is there any need for repairs and/or major works?
4. What is the entity of the purchaser, whether company, individual, trust or SMSF?

Whilst the major banks are offering competitive pricing for commercial property loans, they often wish to manage the entire business relationship. This could be an advantage to some clients.

However, there are a number of specialist commercial property financiers that assess the transaction on its merits and do not require an ongoing banking relationship.

When seeking a Commercial Property Loan, a borrower should be aware of the term "notional term" and the standard term. Some banks use the 15 year standard term to calculate the loan payments, while committing to an actual term of 1 to 5 years. In doing so, the loan is amortised over a 15 year term, yet the commitment is only for 5 years. On expiry of the 5 year term, the borrower has to re-apply or re-finance. Some lenders do this as the cost of their capital is lower for shorter commitments and they can deliver a lower "headline" rate of interest. Specialist commercial lenders can offer loan terms from 15 to 30 years on commercial property and various other loan products to suit the borrower's requirements.

If you need guidance to secure a business or commercial property loan today, please talk to us to find out what you options are, and how we can best assist you.



FINTECH LENDERS

Defining Fintech Lenders :

Fintech Lenders provide a technology-based rather than a legacy-focused financial solution to address the customers' financial issues and needs.

With the evolution of technology and ICT, new players are emerging in the market and Australia is one of the fastest growing countries in the online lending market.

Essentially, this is a short form of financing cash flow on an unsecured basis which is repaid over a fixed, short period that Flakus and Associates has access to today.

continued from front page

a. Self-employed borrowers often request Interest Only repayments to cater for their varying month to month income streams. This flexibility in loan repayments allows them to make lump sum payments when their income levels are high.
b. Astute borrowers will often request interest only payments to preserve their cash flow for other investment options e.g. investing back into their business, home renovations, equities and other hefty investments.
c. First home buyers often convert their first homes into investment properties when either upgrading or relocating as an outcome of employment.
d. Borrowers can be conservative and may prefer to maintain cash buffers for emergencies and hence opt for interest only.

Finally, when a finance/mortgage broker is assessing the borrower's needs, especially if an interest only period is requested, a full needs analysis must be undertaken to ensure that the borrower's capacity to service any borrowings are not jeopardised.

It is important to note that when lenders assess a residential loan and the customer requests an interest only period, the lender will assess the loan based on the term after the interest only period.

For example, if a 30 year loan is requested with an interest only period of 5 years, the lender will assess loan repayments based on a 25 year principal and interest term. (This may effect the overall serviceability of the borrower in question).

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

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

With the recent ongoing appetite for purchasing property, older potential borrowers will be facing new hurdles. Some older age group borrowers re-enter the property market after they going through a divorce, a failed business venture, lost employment or other unforeseen circumstances. Therefore, their ability to borrow money in the new financial climate is scrutinised.

Whilst 'age' should not be an OBSTACLE, some lenders do consider the borrower's age an impediment to paying out the loan on or before retirement.

The main questions that need to be asked by mature aged borrowers 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 the usual income streams?
3. What is the borrower's superannuation holding at the time of retirement? The point to note is that funds in Superannuation should not be a main contributor for clearing a home loan. They are for financing an ongoing retirement lifestyle, not as funds for paying out a loans.
4. Are there any additional funds to be received during the term of the loan? These funds may come from an inheritance, an overseas super nest egg or a property that could be sold and funds realised.

Flakus & Associates has extensive experience and a proven track record to help mature age borrowers.

Call Paul today to find out how we can assist you.

BORROWING FOR DEBT CONSOLIDATIONS

Whilst lenders express an "appetite" for new loan business, Debt Consolidation Loans are on the increase.

Key points to note when seeking a debt consolidation loan include :-

1. If credit cards are included with the loan, most lenders would accept up to 4 credit cards. Non-major specialist lenders may 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 a refinance of existing facilities, including consumer debts (i.e. credit cards, personal loans and store cards), lenders would require the following as a minimum :-

- 3 months credit/store cards statements
- 6 months of existing loan statements
- ATO Portals (if self-employed)
- 6 months of daily transactional accounts, showing salary credits etc

With older borrowers, lenders will look for a clear Exit Strategy to ensure that the loan would be cleared before retirement age and not cause any financial hardship to the borrower. Generally, the strategy includes a new loan placed onto a Principal and Interest Repayment.

If you need guidance to secure a Debt Consolidation Loan, please talk to us to find out what you options are, and how we can best assist you.

NEW SUPERANNUATION LAWS

The federal government has dumped the $500,000 cap on after tax contributions.

From 1st July 2017, you will be able to make after tax contributions of $100,000 per year (rather than $180,000). To put more into super in a particular year, you can "bring forward" up to 3 years worth of contributions ($300,000 over 3 years rather than the current $540,000). Consult your financial advisor or visit the government website for full details.

CREDIT REPORT & SCORE

If you are seeking credit via online applications or direct contact with a bank, a credit check is conducted. Even your enquiry is recorded.

The more "hits" or credit enquiries are recorded on your Credit file, the higher the possibility of your score being reduced. Most lenders scrutinise an applicant's credit file and if an applicant has been seeking finance regularly, this might raise "alarm bells". A professional finance broker should conduct a credit check prior to any finance submissions to address any issues . From July 2017, the ATO may record any tax liabilities in excess of $10,000 on the applicant's credit file.

HENDERSON POVERTY INDEX

Known as HPI, this relates to general living expenses that lenders utilize when assessing loan serviceability. As a minimum, lenders utilize the following :-

- **Single applicant**
  $1,540 per month

- **Married/defacto**
  $2,235 per month

For each dependent up to 18 years old, add $575. These figures do not include other expenses such as school or 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

"Beware of little expenses. A small leak will sink a great ship."

Benjamin Franklin

"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

"Our incomes are like our shoes; if too small, they gall and pinch us; if too large, they cause us to stumble and to trip."

John Locke

Paul Flakus
Australian Credit License No : 379603
Founder, Flakus & Associates
Unit 5, 120 Talinga Road,
Cheltenham VIC 3192
T 03 - 9598 9222
F 03 - 9598 9777
www.flakus.com.au