

# THE BLACK ROCK DIGEST



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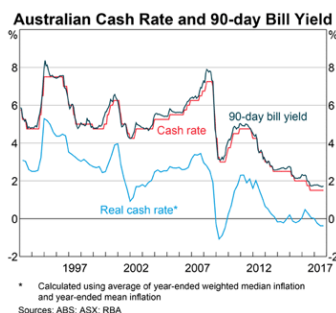
MERRY CHRISTMAS  
and Happy New Year



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## HIGHLIGHTS

- Paul's Outlook for 2018
- Testimonial - Carol Vale
- Is Finance Harder to Obtain Now?
- Historical Standard Variable Home Loan Interest Rates Last 30 Years
- Business Finance Criteria Has Tightened in Today's Climate
- Business Insurance - Are you Covered?
- What Can The Borrower Do To Achieve A Favourable Result?
- Tax Rates 2016-2017
- Quotes & Wise Sayings
- Professional Services



**Finance for homes now one of the lowest in 60 years**

## PAUL'S OUTLOOK FOR 2018

- ★ Possible further tightening of lender's credit assessment criteria
- ★ Competitive fixed interest rate terms
- ★ Owner-occupied home loans interest rate to remain at present levels
- ★ Reserve bank to retain Cash Rate at present levels
- ★ Residential property to remain at present levels
- ★ Minimal wages growth

## TESTIMONIAL | Carol Vale

It was important for us to have a broker we could trust who can help us find the best financial solution. As this was our first investment property we knew we needed someone with experience who will not just "sell us a home loan" but will do the 'hard yards' of researching especially as the purchase was in Queensland.

A friend had met Paul through a business network and recommended him. We have not been disappointed in all our interactions with him. Paul works in a relaxed and professional manner. He takes the time to get a thorough understanding of our interests and listened to what we were trying to achieve. He patiently explained why a certain product would be best suited to our needs and covered all the bases. Paul also has a great sense of humour and is delightful to work with!

Paul is very experienced, has a wealth of knowledge and is connected to a wide network of partners. He introduced us to a conveyancer in Queensland who acted on our behalf. He responds in a timely manner with minimum of fuss and always achieved a great result for us. Paul thinks outside the square and is solution focused. He follows through and kept us informed to ensure it was all smooth sailing. Even after the settlement, he checked and attended to all final documentation. We just can't recommend him highly enough.

## Is Finance Harder to Obtain Now?

This year, we have seen banks dramatically change their criteria for lending. The Australian Prudential Regulation Authority (APRA) has advised all lenders to tighten their criteria surrounding Interest-Only Loans on owner-occupied and investor properties. This is in response to an increase in heightened risks reflected in rising house prices, passive income growth and inflating household expenses.

APRA has also instructed banks that no more than 30% of new housing can be Interest-Only. ASIC intends to monitor this by increasing surveillance of lenders and mortgage brokers to ensure responsible lending. We have also seen lenders adjust their overall lending criteria, with factors known as "the Serviceability or Assessment Guidelines". Many applicants who would have previously been eligible for lending are now failing to meet the criteria, primarily due to lenders now assessing residential loans at an "Assessment Rate" of 7.25%, irrespective of any discounts applied.

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**BUSINESS FINANCE CRITERIA HAS TIGHTENED IN TODAY'S CLIMATE**

Requirements for business finance in today's climate has tightened.

Key questions to ask when seeking Business Finance include :-

1. Are all taxes, superannuation and other statutory payments paid to date?
2. Have financial accounts, including balance sheets and profit-and-loss been finalized for the previous year? Lenders now require a minimum of 2 years of recent financials to assess any business funding.
3. Are there any interim Management Accounts?
4. What is the purpose of the finance? i.e. working capital, capital expenditure, debt consolidation.

An experienced finance broker will analyse the financials and your requirements and work closely with your accountants to structure the funds required. Importantly, the funds should match the needs.

For Commercial Property Finance, some key questions to consider :-

1. What is the rental income?
2. What are the terms of the current or proposed lease?
3. Is there any need for repairs or major works?
4. What is the entity of the purchaser, i.e. Company, Individual, Trust or SMSF?

Whilst major banks are offering competitive pricing for commercial property loans, they often wish to manage the entire business relationship themselves.

This could be an advantage for some clients. However, there are specialist Commercial Property Financiers who can assess the transaction on its merits and which do not require an ongoing banking relationship.

When seeking a Commercial Property Loan you should be aware of the term "notional term" and

'standard term'. Some banks use the 15-year standard term to calculate loan repayments, 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 years, you have to re-apply or re-finance. Some lenders do this as the cost of their capital is lower for shorter commitments and so 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 other various loan products to suit your requirements.

**If you need guidance to secure a business or commercial property loan today please talk to Paul to find out what your best options are and how we can assist you to achieve your business and financial goal(s).**

**BUSINESS INSURANCE - ARE YOU COVERED?**

In today's environment where there is a growing number of self-employed business owners, the main area that is overlooked is Risk or Business Insurance. Some major banks today are requesting that business owners have a credible Risk Insurance in place to support a loan application. Here is a summary of Business Insurance that you should carefully consider, not only from the bank's position, but more importantly for the major owner of the business.

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, 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 business going ie rent, loan repayments.

**Paul has trusted key associates that can assist with this vital component of any business owner or individual. Talk to Paul today to find out more. This insurance may be tax deductible, discuss with your accountant.**

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An example is with applicants on PAYG, solely or jointly. Lenders now consider serviceability of other outstanding loan commitments and adjust the serviceability according to remaining term of external loans. Crucially, if the applicant is seeking an Interest-Only Loan for 5 years, then serviceability is based on the loan being repaid over 25 years.

If the borrower is self-employed, lenders then look at all his/her residential and commercial liabilities.

With the tightening of lenders' policies, if a borrower had a pre-approval previously, and now wish to formalize the approval their lending capacity would have



decreased due to the changes in credit policy.

Lenders have also adjusted their "living costs" calculation, in particular, if the borrower earns more. This criteria is now under constant monitoring as most lenders now require budgets and bank statements to ensure that there are no abnormalities.

Borrowers today though should be happy about the current rates as we

are still in an extremely low Interest Rate Cycle (5.25% for most major banks). Banks are currently 'assessing' an application rate of 7.25%, which was the standard variable interest rate in 2000 and 2007. Before the Global Financial Crisis (GFC), serviceability was near the 10% range. In July 2007 during the GFC, lenders' standard variable home loan rate was averaging 9.35%, which has reduced to current levels.

See above a graph of historical home loan variable rates over the past 30 years which is most informative. [To view the chart for the past 60 years, read this article on our website \[www.flakus.com.au\]\(http://www.flakus.com.au\)](#)

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

## WHAT CAN THE BORROWER DO TO ACHIEVE A FAVOURABLE RESULT?

Focus on these points to prepare for a loan application :-

### 1. Applications

If you are dealing solely with a bank you will be restricted to that bank's products. Engaging a licensed finance/mortgage broker can expand your options and eliminate making your own enquiries, which may potentially affect your credit score.

### 2. Loan Type

Carefully consider the type of loan required. With an Interest-Only Loan your repayments will be assessed on the remaining loan term after the Interest-Only period. Consider splitting the loan into a Fixed and Variable combination.

### 3. Income/ Financial Data

Lenders now require the latest tax returns with assessment notices. If you are self-employed you must complete the most recent tax return. Financials over 18 months old are considered out-of-date.

### 4. Serviceability

Monthly loan repayments are now tightened. Ensure that monthly loan payments can be met at the "assessment rate". Additionally, make sure that your household spending is realistic, especially if there are discretionary expenses. Remember that lenders have calculators that guide them to assess household expenses.

### 5. Savings pattern

If you have a solid savings pattern, this would certainly be favourable as it indicates your ability to save and maintain personal expenditure.

### 6. Property

Recently we have seen lenders scaling back on Off-The-Plan (OTP) purchases and reducing the size of apartments. With OTP, when the time comes to formalize valuation, it is lower than the original price. Borrowers then need to essentially find more funds to complete the sale or opt out of the purchase altogether. Engage an experienced conveyancer or solicitor to ensure that should problems arise you

have a way out. Set a limit and stick to it when purchasing at auction. Consider the services of a Property Advocate. Engage a highly qualified conveyancer to vet contracts before purchasing.

### 7. Credit Score

This is a vital criteria for any lender. Avoid applying for loans directly or indirectly. The more times you apply, the more it affects your credit score and lenders factor this into their assessment. A professional broker will be able to give advice and services to mitigate this.

### 8. Exit Strategy

Mature applicants (over 45) are now required to provide a clear exit strategy for their lending proposal. Loan is to be repaid by retirement and funds in superannuation are not generally accepted as a form of loan clearance.

**To find out more about how to achieve a favourable result with your loan application talk to Paul today.**

**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 Brenton Henry	Tel : 03 9521 0303 Mob : 0408 571 757 0433 923 669

**Quotes & Wise Sayings**

“Money is not the only answer, but it makes a difference.”

Barack Obama

“You are your greatest asset. Put your time, effort and money into training, grooming and encouraging your greatest asset.”

Tom Hopkins

“There is no monopoly on becoming a millionaire. If you’re jealous of those with more money, don’t just sit there and complain - do something to make more money yourself.”

Gina Rinehart



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