# THE BLACK ROCK DIGEST

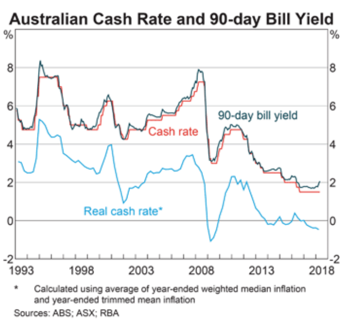
FLAKUS & ASSOCIATES

Issue 51 Winter Edition June 2018

**Paul Flakus**
Australian Credit License No : 379603
**Founder, Flakus & Associates**
**Unit 5, 120 Talinga Road,**
**Cheltenham VIC 3192**
**T 1300 FLAKUS**
**F 03 - 9583 0142**
**M 0417 567 747**
**www.flakus.com.au**

## HIGHLIGHTS






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

## PAUL'S OUTLOOK FOR THE REMAINDER OF 2018

What can we expect for the second half of 2018?

- ★ Further tightening of lender's credit assessment criteria
- ★ Competitive fixed interest rate terms
- ★ Owner-occupied home loans interest rate to remain at present levels with banks offering competitive discounted interest rates, and subject to their current lending criteria
- ★ Reserve bank to retain Cash Rate at present levels
- ★ Residential property to remain at present levels, of which reports are indicating a slowdown and even reduction in property values and prices in Sydney and Melbourne
- ★ Minimal wages growth

## COMPREHENSIVE CREDIT REPORTING (CCR)

**Effective 1st July 2018**

**What is CCR?**

Comprehensive Credit Reporting provides lenders with access to both the positive and negative credit reports of applicants to allow them to make a more balanced assessment of their credit history.

From 1st July 2018, major banks with more than $100 billion in total residential assets and their subsidiaries will be required to supply 50 percent of their CCR data to credit reporting bodies, increasing to 100 percent by July 2019.

**A Clear Picture**

Hopefully, this will enable applicants who demonstrate good credit behaviour such as prompt debt payments, to be reflected on their credit score. Australia switching to the CCR system will bring us in line with other countries such as UK and US. Recently in the US there has been notice of a lender providing a lower interest rate for applicants with a solid CCR statuses.

*continued on Page 2*

## Is Finance Still Harder to Secure Now?

Over the last 12 months we saw the banks constantly and dramatically change their lending criteria for all types of 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. 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.

In addition, 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 .

*continued on Page 3*

# BUSINESS FINANCE CRITERIA HAS TIGHTENED IN TODAY'S CLIMATE

Business finance criteria in today's climate has tightened. The bank's risk appetite is also dependent on which industry the loans would support. Banks are constantly assessing their "risk" in various industries and if transaction is undesirable in that industry, then they would "pass on the transaction".

As a result, banks are very selective. An example would be the banks' extreme caution in lending to property developers, specialised securities (i.e. service stations, franchises) and other non-core businesses.

Key questions to ask to when seeking business finance include :-

- Are taxes, superannuation and other statutory payments paid to date?
- Have financial accounts (i.e. balance sheets and profit-and-loss been finalised? (Lenders require a minimum of 2 years of latest financials to assess any business funding).
- Are there any Interim Management Accounts?
- What is the purpose of the finance? i.e. working capital, capital expenditure or debt consolidation?

An experienced finance broker can analyse the financials and requirements to work closely with accountants to structure the funds required. Funds type can then be 'matched' to client's needs.

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

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

Whilst major banks are offering competitive pricing for commercial property loans, they often wish to manage the business relationship. This could be an advantage for some clients. However, there are specialist commercial property financiers who assess the transaction on its merits and do not require an ongoing banking relationship.

When seeking a Commercial Property Loan, borrowers should be aware of 'notional term' and 'standard term'. Some banks use the 15-year standard term to calculate loan payments while committing to an actual term of 1 to 5 years. The loan is amortised over a 15-year term, yet the commitment is only for 5 years.

On expiry, the borrower has to re-apply or re-finance. Some lenders do this as the cost of capital is lower for shorter commitments and they can deliver a lower 'headline' rate of interest. Specialist commercial lenders offer loan terms from 15 to 30 years on commercial property and other loan products to suit borrowers' requirements.

**If you need help to secure a business or commercial property loan please talk to Paul today.**

*continued from front page*

**What are the benefits for Consumers?**

For consumers and small businesses, CCR ensures a more accurate credit score or rating. Presently, we see that the more enquiries are made on a borrower's credit file, their score reduces and increases the risk for a lender to become wary of a possible "fail" due to a lower credit score. CCR should also benefit people with a short credit history or a thin credit file. The inclusion of positive information will allow consumers and businesses to develop a credit history in a shorter period of time. In turn, this will allow lenders to establish a better view of the business' ability to repay in a shorter time frame.

**The Importance of CCR**

A credit score is the "number" given to consumers and business entities by financial institutions that helps determine creditworthiness.

The initial credit score for a consumer is 1200 and the more times a consumer applies for any type of finance, whether availed or not, reduces the score. There have been many instances where consumers apply for credit "On Line", and did not take the finance, only to find out that their credit score has been affected by the application or enquiry.

Not only do you need to pay your bills, but bills need to be paid by the due date. If you are 14 days late with a credit payment, it will be recorded for 2 years. If you miss a bill payment altogether, after 60 days, that may be recorded as a "Default" on your credit file and will remain on the credit file for 5 years (if the default is more than $150).

Australians' credit reports, and now credit scores, used to be something of that people were hazily conscious of. Now that is about to change as your credit report will become your CV (vitae curriculum) that will shape your financial destiny. Your credit score needs to be A-grade or it may become an obstacle for you to achieve your financial goals and security.

**If you have any concerns or questions about CCR, Paul has key associates that can assist you to find out more and rectify your situation if it is negative. Call us today.**

*continued from front page*

2018 started with NO CHANGES to the lenders' guidelines, although further tightening may be pending, given the rise of "living costs" for families. Slow wage growth and rises of essential services (electricity, fuel, gas, private health care and education) are placing additional pressure on family household budgets.

In the last quarter lenders adjusted their overall lending criteria with the "Serviceability or Assessment Guidelines". Lenders now process all residential loans at an "Assessment rate" of 7.25%, irregardless of any discounts applied.

Whilst 2018 kicked off with lenders marketing their home loans at very attractive interest rates, it all comes back to meeting the lenders' current credit assessment criteria, As we are still in an extremely low Interest Rate Cycle, standard variable rates remain at 5.25% for the most major banks. This low interest rate cannot last for ever. Reports indicate that the lenders continue to review their variable and fixed interest rates, especially for investment borrowers.

Investors with previous Interest-Only Loans coming to an end of the "Interest Only period" are now realizing that they are facing the prospect of increased monthly payments which cover principal and interest over the remainder of their loan term. A recent report from the Governor of the Reserve Bank of Australia indicated caution and concern for such borrowers where their inability to reduce debt levels on Principal and Interest places the borrower's repayment capacity in jeopardy.

Investors are subject to stricter lending guidelines. Negative gearing effectiveness varies from lender to lender, and clearance of debts must be within acceptable time frames. Most lenders now require very detailed exit strategies from mature borrowers (above 45 years old) to ensure that the proposed debt can be cleared on or prior to retirement. In light of this, investor borrowers seeking to extend their Interest-Only Loans for further interest only periods will be subject to tighter assessment criteria.

**If you are keen to explore and discuss your loan possibilities please contact Paul today 1300 FLAKUS**

## ASSET RICH, CASH POOR - CRUCIAL CHOICES TO MAKE

Given that we now have longer life expectancies, higher costs of living and the recent property boom, many retirees are discovering themselves to be asset-rich and cash-poor.

Retirees and people over 60 years of age today have a few options moving forward.

**The first option is to downsize**
This has disadvantages as there are costs associated with selling the house, purchasing a new home and other expenses. An estimate of the cost would be close to $100,000, which may incur a huge loss of your capital unless the move is a necessity.

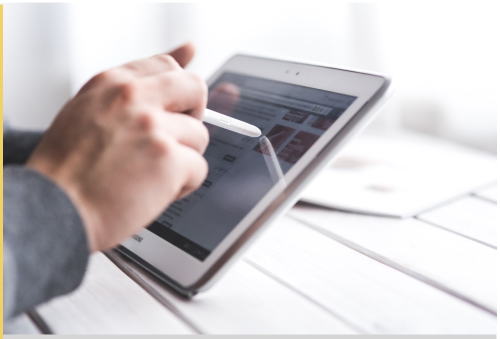
As a result many retirees take the view that they are better off battling on with their present house with the ongoing bills and maintenance costs that come with it.

**The second option is to seek a Reverse Mortgage**
Most major banks have opted out of this lending product largely due to changes in their lending policies and in view of the negative publicity that many have received from the recent Royal Commission.
There are only a few financial institutions that are continuing to provide similar financial solutions for retirees.

Taking out a reverse mortgage involves making significant and crucial decisions. However, once these decisions have been carefully considered and all the pros and cons weighed up, reverse mortgage can be a very viable option for retirees. Some lender products allow for lump sums or periodic payments, to assist with daily living costs.

Although the process seems foreboding, it may well be worth the trouble if it can release you from excessive financial burden and stress, and provide you with a clear and liberating path forward for the rest of your life.

**Paul is accredited with experienced Reverse Mortgage lenders who offer a variety of options to suit the borrower's situation and requirements. Contact Paul today.**



## HENDERSON POVERTY INDEX

Also known as the HPI, this index is related to the general living expenses that lenders utilize when assessing credit serviceability.

As a minimum, lenders utilize the following allowance :-

Single applicant
$1,950 per month

Married / de-facto
$2,750 per month

Plus for each dependent
$675 up to 18 years of age

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 | 1.5% |

### 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,<br>Craig Allen & Associates | Tel : 03 9558 3716 |
| Quantity Surveyors | Bradley Beer, Director<br>BMT Tax Depreciation | Tel : 03 9654 2233<br>Mob : 0413 271 777 |
| Accounting Services | Michelle Frey<br>Hermann & Associates | Tel : 03 9589 3521 |
| Law and Legal Services | Amanda Black,<br>Quayles Law Agents | Tel : 9670 9000 |
| | Joanne Simmonds LLB, Director<br>Beaumaris Law Legal Practitioners | Tel : 03 9589 3205 |
| Insurance Services | Richard Alford, Managing Director<br>HWA Insurance Brokers | Tel : 03 9559 3302<br>Mob : 0403 338 306 |
| Design and marketing communications services | David Cheah, Strategist<br>Abacus Mind | Mob : 0403 97 99 86 |
| Property Conveyancing services | Colleen Buck<br>Cheltenham Conveyancing Services | Tel : 03 9585 6222<br>Mob : 0416 246 617 |
| Financial Planning, Superannuation and Risk Products | Ian Henry<br>Brenton Henry | Tel : 03 9521 0303<br>Mob : 0408 571 757<br>0433 923 669 |

## Quotes & Wise Sayings

"The greatness of man is not in how much wealth he acquires, but in his integrity and his ability to affect those around him positively."

Bob Marley

"A budget tells us what we can't afford, but it doesn't keep us from buying it."

William Feather

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

Benjamin Franklin

**Paul Flakus**
Australian Credit License No : 379603
**Founder, Flakus & Associates**
Unit 5, 120 Talinga Road,
Cheltenham VIC 3192
T 1300 FLAKUS
F 03 - 9583 0142
M 0417 567 747
www.flakus.com.au