



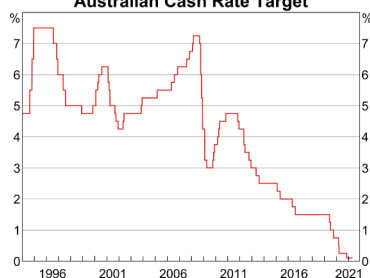
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## HIGHLIGHTS

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- What is Lenders Mortgage Insurance (LMI)?
- Commercial Real Estate Finance
- Estate Wills
- Self-Managed Superfund (SMSF) Read Before You Decide
- Home Loan Interest Rates Descending Even Lower
- Specialist Lending Home Loans
- Surge in Reverse Mortgages
- How Flakus & Associates Can Help You
- Professional Services

Australian Cash Rate Target



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

## THE YEAR SO FAR

What a dramatic change we've all been through over these past twelve months thanks to Covid-19 arriving on our shores.

The finance sector has been dramatically overturned by the effects of COVID-19. With the Federal Government's stimulus packages and financial institutions coming to the aid of borrowers, the landscape has certainly changed.

The Reserve Bank of Australia (RBA) has kept the bank's interchange rate at a record low of 0.25% and the commentary that was released by the RBA stated the intention to not increase the 'cash rate' over the next few years, therefore retaining the Cash Rate at the current low level. Whilst lending institutions are still lending, the lending criteria and policies have often changed over the past 12 months and are constantly under review.

## What is Lenders Mortgage Insurance (known as LMI)

LMI was introduced by the Federal Government in 1965 to transfer the risk from the lenders to the insurers.

Without a 20% deposit, home buyers are usually required to take out LMI. Self-employed borrowers and non-residents may need to avail themselves to LMI to secure their loans, with the lenders deciding on this via a case-by-case basis.

LMI is required if borrowers are seeking a residential loan in excess of 80% and the cost to the borrower can be hefty. Many borrowers mistakenly believe that LMI is designed to protect them if they default on their loan, thereby enabling them to retain their house. However, in reality, it actually protects the lender if the borrower defaults on their loan.

LMI is usually arranged by the lender during the loan approval process. The cost is agreed upon between the lender and the insurer, and this cost is borne by the borrower. This is then added to the loan as a one-off fee, and is included in the borrower's loan repayments. This essentially means that the borrower pays interest on the LMI premium. The rate of the LMI premium increases significantly at certain borrowing thresholds.

More young buyers are caging their parents for assistance. This has become increasingly prevalent over the past year as rising property prices pushed the amount of deposit required beyond the reach of many buyers. Usually, the bank of mum-and-dad "gifts" funds to get the loan under 80%, thereby avoiding LMI.

There are numerous pitfalls with this approach and all parties need to be fully aware before accepting parental assistance.

In some cases, lenders have reintroduced parental guarantees up to 15% of the purchase cost to assist their children into entering the real estate property market for owner-occupied properties without the need for LMI. The total loan, which is split into 2 loans, is then assessed on the borrower's capacity to repay the total combined loan. Borrowers need to be aware of the implications of this.

**For further information regarding LMI or if you have any questions about this scenario and how it applies to you, please do not hesitate to contact Paul on 0417 567 747 today.**

## COMMERCIAL REAL ESTATE FINANCE

### Considering purchasing a commercial property?

Commercial Real Estate Finance is a growing type of investment for owner-occupiers, investors and those with a Self-Managed Superfund (SMSF).

Whilst commercial mortgages may appear to be similar to residential mortgages, they do require more specialized criteria and limits. Most commercial loan terms range from 15 years to 30 years and lending on the commercial property value is between 60% to 80%.

Rates on commercial property loans are currently very competitive and lenders are eager to fund clients wishing to purchase and/or refinance commercial properties (which could be factory/warehouses, commercial property or similar).

Taking a commercial loan from a major bank usually involves the borrower transferring all their business banking relationship to that institution, which can be extremely onerous. Major financial institutions also tend to focus on the financial health of the business, rather than just the mortgagor, thereby requiring additional financial statements to assess the transaction. Whilst the banks are using the catch cry, "We are open for business and accepting new to bank clients", it all comes back to their appetite for the business and the applicant's credit worthiness.

We have access to mainstream commercial lenders and specialist commercial funders (mainly non-banks) as they have friendlier eligibility requirements, fewer loan covenants, longer loan terms and can lend up to 75% of the commercial property valuation. Plus, they also lend to Self-Managed Super Funds which major financial institutions have all resigned from several years ago. Some of the second tier lenders also have loan products such as lite-doc, lease-doc and self-declared income for commercial applicants which provide a broader range of finance options for the borrower.

**Contact Paul on 0417 567 747 to discuss your current commercial loan or any future commercial finance requirements you may be considering.**

## ESTATE WILLS

As part of a finance brokers needs analysis, the subject of Wills, Estate Planning and Powers of Attorney are a crucial topic to be raised in initial discussions.

Often, prospective borrowers do not have a will in place, or if they do, it could be out of date, especially if their personal situation or circumstances have changed since the previous Will.

It is too often noted that younger borrowers, whether single, married or in de facto relationships, often do not have a Will or Power of Attorney in place.

An example recently was that of a couple who had a home (solely in the husband's name), and the husband sadly passed away, leaving his spouse in the property and as a joint borrower in the loan.

However, as the husband did not have a Will or any Life Insurance, the lender could foreclose on the property as the spouse was unable to have the property transferred into her name.

Whilst Wills and Powers of Attorney could be the last matter on people's minds, it is an important issue, as endeavouring to proceed with the Estate could become a nightmare. Therefore, this is an important component that can save significant stress and angst further down the line if circumstances change abruptly.

**If you are looking for help or guidance with preparing wills and/or estate planning, Flakus and Associates has access to a number of professionals who specialise in those areas who can help.**

## SELF MANAGED SUPER FUND Read before you decide

Before setting up a Self-Managed Super Fund (SMSF), you need to consider the risks and responsibilities in the long-term operation of a SMSF.

Establishing and running a SMSF comes with a commitment for the trustee(s) to be aware of and continually improve their knowledge about all aspects of their fund. This responsibility rests with all trustee(s) who must sign off on every document.

If you get it wrong, there are significant consequences if you fall foul of the ATO with penalties as high as \$50,000.

For example, one of the most common mistakes committed by the trustee(s) of SMSF is the Sole-Purpose test - specifically in the separation of in-house assets and borrowings - better known as limited recourse borrowing arrangements.

This is just one of the many challenges SMSF trustee(s) face. Therefore, it is recommended that the trustee(s) become fully conversant with how to run their SMSF and seek advice from their independent adviser(s) or the ATO (web site).

**Contact Paul today if you have any questions regarding the pros and cons of setting up a SMSF**

## HOME LOAN INTEREST RATES DESCENDING EVEN LOWER

With the RBA cash rate still at a record 0.25% as at 1<sup>st</sup> September 2020, lenders are now offering variable interest rates at very competitive levels. Some lenders are even offering generous “cash backs” for existing borrowers to get them to switch lenders.

In recent media publications, some variable interest rates are under 2% presently. Lenders are now tiering their interest rates according to the loan size and loan-to-security ratio (LVR) For example, if an applicant borrows up to 60% of the value of the property, the interest rate would be different to that of a borrower seeking a loan of 80% or higher.

Lenders will now also price competitively if the borrower makes principal-and-interest repayments as opposed to interest-only. Recently Fixed Interest Rates for a 4-year and 5-year term have increased as lenders are anticipating that official interest rates set by the Reserve Bank will be higher by this time frame. Whilst funds are now at low interest rates, the finance application is still subject to the lender’s stringent credit criteria.

**If you are considering refinancing or purchasing a new property for investment or owner-occupied purposes, contact Paul today to discuss your options.**

## SPECIALIST LENDING HOME LOANS

Previously known as Non-Conforming loans, they are aimed at applicants who are regarded as high risk due to their inconsistent income streams or those who may have a poor credit history and/or facing personal setbacks, such as small business failure in the past, divorce or a relationship breakdown. Essentially, these applicants automatically become classified as a high-risk or a non-conforming borrower.

Specialist Lending is no different to traditional lending through the major banks. It’s all about ascertaining what has happened in the borrower’s circumstances and gauging whether the borrower is now in a better financial position. Some specialist lenders’ products are similar in that they also offer offset accounts (subject to them holding an ADI), choice of repayment frequency and type, as well as free access to re-draw facilities.

Lending principles are also similar to traditional banks, meaning, it boils down to serviceability, security and suitability of the loan product. Generally, their interest rates are also competitive. However, each applicant’s interest rate is appraised against the risk profile of the individual, and the overall loan to security ratio.

Paul is currently assisting more and more clients’ who fit this category because some banks are not able to provide the level of assistance required by these type of borrowers. The current economic climate, and the lack of innovation of products and services in response to changing needs and circumstances have prompted many to seek solutions outside traditional products and services.

**If you fall into this category, or may have needs and requirements that are not able to be fully or satisfactorily fulfilled by your current lender, contact Paul today to discuss your options.**

## SURGE IN REVERSE MORTGAGES

Over the past year I have noticed more matured and elderly people are seeking to access this type of funding. There are 2 options available

### 1. The Pension Loans Scheme (PLS)

PLS is a Federal Government scheme for anyone who has reached pension age to take out a “reverse mortgage” from the government where the balance of the loan is repaid when the property is sold. The property can be either an owner-occupied or investment property which will be used as security. The ability to draw down an income stream up to one-and-a-half times the maximum Age pension plus supplements. No Lump sum payments are given out. However, in the May 2021 Federal Budget, this aspect is being reviewed. Please refer to the Federal Government website for updates.

### 2. Seniors Reverse Mortgage

In Seniors Reverse Mortgage, borrowing is calculated as a percentage of the applicant’s age to the Value of the property as security. The minimum age here is 60, and funds can be in a lump sum or monthly advances. Borrowers are also assessed for their ability to meet Aged Care entry costs.

**For further details on Reverse Mortgages for Seniors, or if you have questions about this option for members of your family, please contact Paul today.**

## HOW FLAKUS & ASSOCIATES CAN HELP YOU

<b>REAL ESTATE VALUATIONS</b>	Thinking of purchasing a property or just wanting to re-assess the value of your property? Engage the services of an experienced, proven and trustworthy property valuer. Our associates provide valuation services for commercial, residential and industrial properties in specialised locations and industries.
<b>COMMERCIAL PROPERTY FINANCE</b>	Available for clients who wish to purchase commercial properties for investment or their own owner-occupied business(es). There are a number of lending options available for this type of security and Paul has access to various mainstream and non-mainstream lenders and options.
<b>SELF MANAGED SUPERFUND LOANS</b>	Lenders in this space is very limited. However, Paul has access to various funders for lending in this sector both for commercial and residential properties.
<b>BUSINESS FINANCE</b>	Includes equipment finance, debtor finance, import finance and cashflow funding. Business finance is still difficult to obtain and moving your business banking from one bank to another can be a ghastly experience and take many months and focus away from your business. Lenders also tend to occasionally review their industry risks and sometimes withdraw facilities if they consider the industry has become too risky. This may present a refinance opportunity so contact Paul today to discuss your options.
<b>EQUIPMENT FINANCE</b>	Includes motor vehicle, trucks, trailers, excavators, caravans, forklifts, office fit-outs, phone systems, audio and any IT equipment, medical equipment, jet skis, helicopter, boats and machinery. This is a highly specialised area and require many years of experience to successfully acquire finance for business clients to purchase equipment. There are various lenders in the market today who are not necessarily mainstream banks who only do Equipment Finance, and thereby able to provide attractive terms and excellent approval turnaround times.

## PROFESSIONAL SERVICES

Services Required	Paul Recommends	Contact Details
Tax and Accounting	Craig J. Allen, Craig Allen & Associates	Tel : 03 9558 7316
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 Black Pty Ltd	Tel : 03 9670 9000
	Joanne Simmonds LLB, Director Beaumaris Law Legal Practitioners	Tel : 03 9589 3205
Insurance Services	Richard Alford, Managing Director HWA Insurance Brokers	Tel : 03 9559 3302 Mob : 0403 338 306
Design and marketing	David Cheah, Abacus Mind	Mob : 0403 979 986
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
Property and Advisory Advocacy	WPB Property Greville Pabst	Tel : 1300 302 581 Mob : 0419 326 361

### Quotes & Wise Sayings

“Libraries will get you through times of no money better than money will get you through times of no libraries.”

*Anne Herbert*

“As much money and life as you could want! The two things most human beings would choose above all - the trouble is, humans do have a knack of choosing precisely those things that are worst for them.”

*JK Rowling*

“Money often costs too much”

*Ralph Waldo Emerson*

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

*Franklin D Roosevelt*



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