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HIGHLIGHTS

- The Year So Far
- Estates and Wills
- Commercial Real Estate Finance - Considering Purchasing a Commercial Property?
- Business Finance - Director Penalty Notices
- Borrower's Living Expenses - Case Study, Borrowing Power, Fixed vs Variable Rates
- Residential Care : Reform in Aged Care
- How Flakus & Associates Can Help You
- Professional Services

THE YEAR SO FAR

From May 2022 until March 2023, we have seen the RBA cash rate rise from 0.35% to the current level of 3.60%. In addition, recent commentary indicates that the Reserve Bank may pause the Cash Rate after a record breaking series of hikes.

The Interbank Overnight Cash Rate (Cash Rate) is the Reserve Bank Board's operational target for monetary policy. The cash rate is the interest rate on unsecured overnight loans between banks. The Cash Rate is calculated as the weighted average of the interest rate at which overnight unsecured funds are transacted in the domestic interbank market (the cash market).

We are now experiencing a huge fanfare at the lead-up to the first Tuesday each month when the RBA meets and announces any change to the Cash Rate.

Financial institutions have also increased their Variable and Fixed Rates accordingly to reflect the Cash Rate increases. As most borrowers would know, their mortgage rates have increased to well beyond the Cash Rate. One could surmise that the lenders are improving their Net Interest Margins for more profit.

Banks are constantly reviewing their loan products and recently, several banks now offer 'simple home loan products' with interest rates tied to security values. An example would be if a borrower seeks a loan at 70% of the purchase price or security value or lower, the variable rate would be different to a loan of one which is higher i.e. 80% to 90%.

It is worth noting that there is a large number of home loan products available in the marketplace. Whilst media hype is centred around increased home loan rates and 'shopping around for the best deal', it is advisable to discuss with your finance broker to understand fully the cost of the deal. Also, your finance broker can determine if you, the borrower, meets the lender's serviceability criteria.

With increases in the RBA Cash Rate, the lenders 'assessment criteria' has changed. This increase in 'assessment interest rate' has affected the amount borrowers can seek.

The Australian Prudential Regulation Authority (APRA) has announced the 3% serviceability buffer for home loans will remain citing 'potential for further interest rate rises, high inflation and risks in the labour market'. Make this essential.

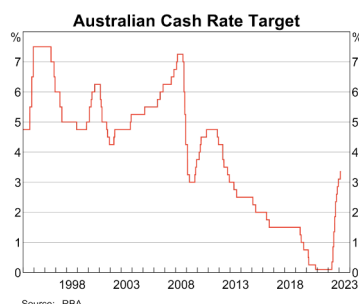
ESTATE AND WILLS

Dying intestate (without a will) will create huge problem for the next-of-kin.

With more borrowers seeking debt whether young or middle-aged, it is worthwhile that they consider preparing a Will. Whilst this may be considered as a 'to do later job', borrowers need to consider the fall-out of not doing it in the event of a mishap, and what impact this will have on the family.

When preparing a Will, make sure that your Accountant, Lawyer and Executors all receive a copy of the Will. Also, borrowers should always have Powers of Attorney executed and in a place for further peace of mind .

Contact Paul today to discuss your Will as Paul has associates who can assist in this regard.



COMMERCIAL REAL ESTATE FINANCE

Considering purchasing a commercial property?

This is still a growing type of investment for owner-occupiers, investors and those with a Self Managed Superfund.

Recently, residential investors began reviewing their residential asset portfolios. I have several clients who had sold their residential assets in favour of commercial and/or warehouse assets.

In my recent discussions with them, the main contributing factors for selling their assets include :-

- Reduced Investment return after taking into consideration :- Interest, Strata Corp, Insurances, Land tax, Rates
- New tenancy laws (more favourable for the tenant)
- Increased maintenance and repair costs
- Reduced valuations

Investors with a commercial property which focuses on retail and/or hospitality should be wary of proposed tenants. Especially in hospitality, as more often is the case, the tenant exits the premises leaving the equipment (tables, chairs etc) that are generally worthless and possibly with rent in arrears.

Whilst finance for a commercial property for a Superfund Asset may be daunting, **Flakus and Associates** has access to several funders who fund for SMSF for commercial property at competitive rates and reasonable fees. Most commercial loan terms range from 15- to 30-years, and lending on the commercial property sits between 60% to 80% of valuation of purchase price or security value.

Another consideration is that taking out a commercial loan with a major bank usually involves the borrower needing to transfer all their business banking and relationships to that institution which can be extremely onerous and not flexible.

Contact Paul to discuss your current or any future commercial finance requirements you may be considering.

BUSINESS FINANCE

Director Penalty Notices (DPN)

A DPN is a demand that makes the director of the business personally liable for outstanding tax amounts. This means that The ATO has extensive powers that range from imposition of garnishee orders to wind-up and insolvency actions. Take note that The ATO is also using third party credit recovery companies.

What Action should be taken when receiving a DPN? This is time sensitive and when received, the Director should immediately review the ATO claim with the ATO and their accountant. Importantly, **COMMUNICATE**.

Just a bit of background. Mindful of the sudden impact that Covid-19 could cause, The ATO took a lenient approach to the payment of GST, superannuation and PAYG withholding tax from businesses. As a result, many businesses, big and small, have accumulated an outstanding liability to The ATO. Now that the impact and disruption caused by COVID-19 has receded, business and tax as-usual is resuming, and this includes catch-up time for tax arrears.

Flakus and Associates is well-versed in business finance, having successfully assisted clients with obtaining business finance, for purchasing an established business (including franchises), re-financing or restructuring their current business finance needs.

Some loan solutions that **Flakus and Associates** have assisted clients with over the past 12 months include :-

- Payment of ATO arrears
- Purchase of specialised medical equipment
- Finance for commercial office fit-out
- Asset finance for cars, trucks, trailers, horse trucks and IT equipment

Most business owners are far too busy to deal with the banks. Plus, bank business hours aren't convenient. Engaging the services of a professional finance broker with flexible hours certainly enables the finance broker to become the conduit between client and lender, effectively navigating the process so that you can focus on running your business.

Contact Paul to discuss your current business financial position or any future business and equipment finance requirements you may be considering.

BORROWER'S LIVING EXPENSES

Borrowers should be mindful of their Household Monthly Expenses (HMEs). The HME is heavily scrutinised by the lenders and living expenses must be realistic and fall within the HME's parameters.

A Recent Case Study

A young couple in their 20's sought to apply for a home loan. When they were reviewing their transactions, they noticed that their expenses with their current bank were categorised into; Food, Entertainment, Transport, Insurances, Communications, Health etc.

It was also noted that one of the applicants always utilises their 'tap and go' card.

When they completed their living expenses for the finance application, their bank probed their expenses and discovered that they did not match exactly with their bank statements. After discussions with their Bank Home Loan Manager, they decided to withdraw their application with that bank. It became obvious that they needed some experience to guide them through the process so that they dot the i's and cross the t's. They decided to talk to Paul, and are now successful clients of **Flakus and Associates**. Depend on Paul to help put your best financial foot forward when you're thinking about entering the property market.

Borrowing Power

With APRA's continuing 3% buffer for lenders assessment and benchmark and HMEs being adjusted accordingly, we have seen borrowing capacity reduced dramatically from April 2022. Further borrowing capacity is expected to reduce as interest rates continue to rise. Another measurement 'tool' that lenders are now using is the 'Debt To Income ratio' (DTI). This is the ratio of what you wish to borrow versus your annual salary. Potential borrowers will do well to plan ahead and take into considerations all the changes in the marketplace to ensure they end up with a package that suits them.

Fixed Rates versus Variable Rates

With many borrowers soon to have their Low Fixed Rate home loans expiring in the coming 12-18 months, borrowers will be facing an increase of between 3% to 4% from their fixed rate for their repayments. If that is you, it may be worthwhile now to reconsider your finances, especially your personal expenditure, and be prepared to explore the options available. The earlier you plan, the better prepared you will be to face any challenges in the marketplace in the near future.

Recently, banks have also been discreetly increasing their Fixed Rates without all the media hype. From our perspective, lenders will always review their fixed rates just before the next RBA meeting so borrowers will need to think ahead and prepare for all eventualities. With the situation now is so much flux, it pays to be prudent and pro-active.

Contact Paul today to discuss your current home or personal financial position and any future changes to your situation that may impact your financial well-being and peace of mind.

RESIDENTIAL CARE : Reform in Aged Care

The government announced in October 2022 that residential aged care facilities would be moving to a new funding model. This new model is called Australian National Aged Care Classification, or AN-ACC. It is designed to align funding with the costs of delivering care. The care component is based on your AN-ACC classification.

Aged Care and its funding is a complex topic and we strongly recommend that you make contact with an expert in this field if you are a carer or have someone currently in, or going into Aged Care in the near future.

Rodney Horin at Joseph Palmer & Sons (VIC), are Aged Care specialists who would be of great value and assistance in this regard. For those of you that have an interest in understanding the complexities of entering residential aged care you may find Rodney's recent podcast of interest.

For more information, please visit the following websites or visit the QR codes

<https://thesocialblueprint.org.au/tsb-media/>

<https://www.jpalmers.com.au>



HOW FLAKUS & ASSOCIATES CAN HELP YOU

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|-------------------------------------|---|
| REAL ESTATE VALUATIONS | 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. |
| COMMERCIAL PROPERTY FINANCE | 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. |
| SELF MANAGED SUPERFUND LOANS | 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. |
| BUSINESS FINANCE | 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. |
| EQUIPMENT FINANCE | 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, Wills, etc | Keith Hoban or Dita Kaye D & K Legal | Mob : 0497 650 790 |
| | 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 Mob : 0433 923 669 |
| Property and Advisory Advocacy | WPB Property Greville Pabst | Tel : 1300 302 581 Mob : 0419 326 361 |

Quotes & Wise Sayings

“Wealth consists not in having great possessions, but in having few wants.”

Epicetus

“I would rather carry around a plastic bag with five thousand Euro inside, than carry around a Louis Vuitton/Gucci/Prada bag with only one hundred Euro inside!”

C Joybell C

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.”

Paul Samuelson

“The hardest thing in the world to understand is the income tax.”

Albert Einstein

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

Anne Herbert



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