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Hello and welcome to our mid-year newsletter. In this issue we take a deeper look into the topics that affect both our personal and business clients. Steve attended NQ Field Days in Townsville, our good friends at Clear waters financial planners talk about the topic no one wants to talk about and a date claimer for 2nd July to attend a Transport & Civil Engineering breakfast forum to be held in Rockhampton in conjunction with our business partners Mack Volvo, we have already confirmed Andrew Kemp, associate director global markets at ANZ and will have another two speakers from the industry attending as well..

As winter is upon us, we all expect the real estate market to cool down before the spring time bump - or will it...? We look at car dealer finance and the pitfalls to be aware of. . We also look at the Property Securities Act and how a company that owned an asset had to give up the asset and lost $1.4m. We also discuss our ability to finance assets that we may not have been able to assist in recent years. We also look in some detail to the Asia Effect to our real estate values and a quick look at how the real estate market is tracking at the halfway mark to 2014.

We also examine Mortgage Lenders Insurance and Insurance Premium Funding in our product focus.

In the meantime, of course we are always here to answer your lending questions.

Until next quarter.

- North Queensland Field Days - Townsville
- The topic no one wants to talk about
- Car Dealers are throwing around cheap finance rates in the lead up to the end of the financial year to move stock. But are they all that they are cracked up to be?
- A company owned an asset and lost $1.4M. Are you at risk?
- Business Finance - Access to finance for Additional Equipment Types
- Product Focus - Insurance premiums are most businesses largest annual payable expense – but there is a way to spread the cost.
- State of market in Capital Cities
- The Rise and Rise of the Foreign Investor
- Product Focus: LMI (Lenders Mortgage Insurance)

North Queensland Field Days - Townsville

On the 16/17th May 2014 Steve attended the NQ Field Days held in Townsville recently with longstanding clients RAEV Engineering Agencies www.raev.com.au . Principal Lou Renard had his most recent acquisition for his hire fleet on display, a New Sandvik QH331 Cone Crusher (pictured) , this machine is aimed at the operator requiring a compact, high quality mobile Cone Crusher. In addition to an extensive fleet of Crushing and Screening equipment for hire RAEV are distributors of the Precisionscreen and Sandvik Mid Range screening and crushing equipment, based in Central Queensland they also have a branch in Townsville and recently appointed Brandon Hillhouse to service North Queensland.


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The Topic No One Wants To Talk About

By John Mackenzie, Clear Waters Financial Planning

This topic has many business/property owners with their heads in the sand. Whether we like it or not this topic will be addressed either by you or through a third party on your behalf.

I am talking about the transition of your business asset. Will it be transitioned by you or for you?

My question is who would you rather manage the transition of your business asset?

Without a proper succession plan all your hard earned business skills and assets that have taken decades to establish (not to mention the blood sweat and tears) will be in the hands of a third party and could be disrupted or even destroyed by inappropriate management of the transition process.

As business owners we have a responsibility to ensure that the good work that we have put in for so long continues to benefit all concerned, especially our families and those that we would like to benefit from our hard toil.

At the mention of the topic of succession, many cringe and lose interest; it is all too hard!

The truth needs to be faced: you will not be able to manage your assets for ever and the conversation has to be held about what is going to happen to this asset when we are no longer able to manage it.

Transition will happen. It is your choice as to whether the process includes or excludes you.

Clear Waters Financial Planning has the ability to facilitate the essential conversation about succession planning and assist you in planning solutions, allowing you to be the driver of the future of your business.

The topic needs to be faced sooner rather than later. The first step is an open and honest communication to highlight the various issues. Should you wish to go further we have the expertise required to formulate and then implement a succession plan.

We invite you to contact our business partners Esdale Sinclair and Associates to arrange an initial meeting - without obligation - to talk about your succession planning.

Car Dealers are throwing around cheap finance rates in the lead up to the end of the financial year to move stock. But are they all that they are cracked up to be?

If you have agreed to buy a vehicle from a dealer you will often be introduced to the Finance and Insurance Manager who can handle the finance “on the spot’. And to make it even easier they have a special low rate offer on at the moment. But is dealer finance all it is cracked up to be?

So how are the dealers offering reduced Interest rate finance?

Typically these finance arrangements are over selected vehicles with a set term and a set balloon value (payment due at the end of the term). To obtain this reduced interest rate usually a factory incentive is paid by the supplier to the financier who can then promote the lower interest rate.

In this article we are providing some items to consider before you enter into one of these offers.

Firstly let's use the following assumption that can be applied to other terms and offers

The financier is offering finance over a 48 months term with a balloon of 50% (payable at the end of the term based on the amount financed) and the interest rate quoted is 2.5% (comparison rate)

Questions to consider:

- How often do you change over your Car?
  - If you change over your car every 36 months then does the finance term being offered suit you?
  - What are the penalties if you want to pay out your finance early?. Usually if you want to exit these finance structures early the payout can be very high

- What Balloon payments should you have at the end of the term?
  - Is the Balloon value roughly what the value of the car will be at the end of the term? Loan repayments are lower if the balloon value is higher but at the end of the loan term you'll need to find more money to pay out the loan. In some cases this can be more than the value of the car at the end of the term. Is the offer of 50% relevant for the vehicle you are purchasing?

- What do your repayments include?
  - It's not uncommon to have finance offers including costs like servicing, insurance and maintenance. Your repayments might include these costs however you will be paying increased fees and interest on the total amount that is financed.

- Extended warranties
  - Due to generally low margins on the sale of vehicles car dealers will offer you a variety of "add-ons". The reason they do this is to increase the margins earned.

Typically these are expensive and include things like extended warranties and insurance. Be sure you understand exactly what your loan or finance agreement payment covers and the costs.
   - Ask yourself do you need an extended warranty and will you get any benefit? They are a way of the dealer adding to the cost of the car without possibly any benefit to you.

So what are the key things to watch out for based on the above?

- Obtain finance for the term that you want that suits the term that you usually change over your vehicle
- Ensure your final payment is roughly the value that the vehicle will be at the end of the term. You don't want to be in a position where you need to find additional money at the end of the term
- Ensure you understand how your repayments are structured and do you really need any extended warranties, insurance and services built into the repayments?
- Don't sign with a Finance and Insurance Manager at a car dealer unless you fully understand what you are signing

Speak to us. We can review what repayments you are being quoted and provide various options. With externally approved finance you may be able to negotiate a lower cash price on the vehicle

A company owned an asset and lost $1.4M. Are you at risk?

In previous editions of this newsletter we have been mentioning the Property Securities Act ("PPS"). Now we have another example last month of where an owner of equipment has lost possession of their equipment and $1.4m for not registering their interest on the PPS Register ("PPSR") for $16

What is the PPSR?
The PPSR is the register where details of security interests in property can be registered and searched. It is administered by the Australian Financial Security Authority (AFSA), which says 'personal property' includes goods as well as intangible property and, in the case of business, may include inventory, shares, and plant and machinery.

How a client lost their asset
If you hire your asset to a third party on a handshake (or formal arrangement) and you are not correctly registered on the PPSR, if a receiver/liquidator is appointed to the third party they can take possession of the asset, sell it and keep the proceeds. You think I am kidding, right?

A recent court case last month proves the above, as reported by Andrew McLellan of EDX Australia, a specialist in the area of PPS. The case is Spiers Earthworks Pty Ltd - WA Supreme Court judgment, April 16, 2014.

"The receiver obtained a court order not only confirming that he was entitled to retain and sell the assets in his possession, but that Spiers Earthworks had to return all the assets that they had repossessed prior to the receiver being appointed," he reported.

"Collecting your assets prior to the appointment of a receiver will not save you. Only correct PPSR registration can achieve this.

"The agreement commenced in 2010. The company that hired the assets had receivers appointed over it on July 24, 2013. Spiers Earthworks did not bother registering on the PPSR. Considerable legal fees were then spent by Spiers justifying why it didn't need to register.

"Spiers explored two new defences to justify why it did not need to register. The first defence was that the receiver would be acquiring the assets for nil value, which was not on just terms. It also explored the defence of how the PPSR interacts with state laws. Both defences were knocked back by the judge. In simple terms, there is no sensible alternative to correct registration on the PPSR.

"Spiers is just one more example where the owner of valuable hire equipment has lost assets to an insolvency practitioner. The lesson to be learnt is that you need to register and you need to register correctly. Seeking expert PPSR advice to get the registration performed correctly will be far cheaper than paying solicitors to argue a potentially losing case with an insolvency practitioner.

"In Spiers' case, they now have to pay both their legal fees and the legal fees of the receiver. In addition, they have lost assets with a value of more than $1,400,000. This is in contrast to correctly registering for $16 on the PPSR."

So what can you do to protect assets?

- Understand the PPS and ensure your interest is correctly registered on the PPSR.
- Seek advice from your accountant or legal adviser
- Use a company such as EDX Australia www.edxppsr.com.au

And finally make sure you talk with us. The website www.ppsr.gov.au also provides additional information about the PPSR.

Business Finance - Access to finance for Additional Equipment Types

We now have access to a financier that will finance those transactions that typically we have not had access too such as:

- GPS units in trucks (even those trucks under finance to other financiers)
- Telephone systems, security systems, point of sale, printing systems, office equipment, commercial equipment for restaurants and other equipment the Banks will generally not consider.

Therefore if you have something from the above list or an item that you want to see if you can finance please contact us.

Product Focus - Insurance premiums are most businesses largest annual payable expense - but there is a way to spread the cost.

How does it work?

This is a simple and effective method of paying for your annual business insurance premiums, but on a monthly payment basis. We have access to funders that can pay your premiums to insurers upfront and charge you a monthly amount to repay the loan. This includes a fixed rate credit charge. It's just like accessing an additional line of credit outside of your current banking lines.

And it's simple:

- No cumbersome loan documents
- Simple application process
- Only minimal business details required
- All organised by us on your behalf
- Repay via direct debit or credit card

Pay by the month and you benefit from:

- Improved cash flow through no large upfront payments
- Additional line of credit without security
- Low, fixed interest rate
- No on-going service fees

All eyes on the state of the market in Australian capital cities

According to the Australian Bureau of Statistics (ABS), our capital cities are filling up fast. In real estate terms, that means that demand for property - both to buy and to rent - is increasing in Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart, Canberra and Darwin.

Last year, Perth, Darwin, Melbourne and Brisbane were the biggest movers. Sydney, as usual, was a powerhouse. However if current trends continue, Melbourne is set to overtake the Emerald city to be Australia's biggest city by 2053.

The Asian market in particular has their eyes firmly set on real estate in capital cities. According to Credit Suisse, their appetite for capital city real estate is expected to hit $44 billion in the years ahead. (For more information, read the article in this newsletter, 'The Rise and Rise of the Foreign Investor').

Rise in dwelling approvals
These new residents need a place to live - and so, more property needs to be developed. Fortunately, dwelling approvals have risen in all capital cities - figures show a nationwide surge in dwelling approvals across most states, up 20 per cent on the same time last year. But, demand is still exceeding supply.

What does this mean for you?
If you're looking to invest in property, there's never been a better time. Interest rates are at an all-time low, prices stabilise over the winter months and demand for property in capital cities will continue to grow.

It is estimated that 73 % of Australians will live in capital cities by 2053 and, in simple supply and demand terms, this means the housing market in capital cities will continue to boom. And so, investing in a capital city property - even if it's not your own city - should be considered as a long-term investment strategy.

Which city to invest in?
There's a lot to consider - the average property prices, population growth and economic status of each of the capital cities need to be taken into consideration.
Sydney is still the most expensive city to purchase in, where median house prices are $793,000. Hobart is the most affordable, with a median house value of $139,053. However, vacancy rates in Sydney are extremely low, meaning that an investment property - particularly in a popular area - will always be in demand.

The bottom line - get professional advice
With markets changing on a daily basis, the best strategy would be to seek professional advice when you're ready to invest. Based on the amount you have to invest and your goals, they will outline the choices and help you decide which one is right for you.

Investing in property is an important step. So if you don't know the market, turn to someone trustworthy who does.

Foreign buyers are snapping up property in Australia - what does it mean?

The number of overseas buyers - particularly the Chinese market - is growing in the Australian property market. In fact, Australia is now second only to the USA in terms of popularity among Chinese people looking to buy homes overseas.

Indeed, the pace even looks like hotting up even further and the number of Asian investors is predicted to worth around $44 billion in the next few years (up from 24 million over the last seven years).

Credit Suisse equities strategist, Hans Tevfik explains, "A lack of momentum in Chinese property means that the Australian housing market is likely to become even more attractive in the short term."

China down. Australia up
A number of economic data forecasts indicate that the Chinese home market has been sliding downwards for some time while Australian property prices continue to escalate, albeit not as quickly in recent times. Even so, low interest rates ensure demand is still ahead of supply as the flood of eager buyers from Asia continues unabated.

How will that affect Sydney residents? Hans continues, "Residents in Sydney and Melbourne are understanding that the rules of property prices are changing and should expect even more demand for local real estate from Chinese investors as they look for a stable store of wealth. Globally desirable cities, like the major ones in Australia will always be destinations for foreign capital."

The Chinese like to buy, not borrow
According to Florence Chong, writing in The Australian, for the Chinese there's more to this enthusiasm for buying property than wealth creation: "Historically, Chinese people like to own property. There is a cultural attitude to owning your own, not borrowing or leasing it." She surmises that they aren't following a trend - "it's a tradition."

Still a still safe place to invest
Whatever the reasons, there is no doubt that the long-term growth of the Australian property market looks buoyant and will continue to be attractive to buyers both at home and overseas.

Regardless of the economic predictions espoused by politicians, an Aussie home, especially in one of the capital cities, still looks a sound place to put your money.

What can you do when you don't have a big enough deposit to buy a property you love?

Product spotlight on: Lender's Mortgage Insurance
If you need to borrow 80% or more of the value of the property you would like to buy, then you'll probably need to pay what's known as Lender's Mortgage Insurance (LMI).

Essentially, LMI protects the lender if something unfortunately came along that might cause you to default on your home loan, as this may mean the lender is forced to sell the property. And, if it happens to sell at a loss, the lender can make a claim against the lendee for any shortfall.

The main advantage of Lender's Mortgage Insurance

If you simply can't save the required 20% deposit, you will still be able to purchase the property you have your eye on, but you will also have to budget for lender's mortgage insurance to make the deal possible.

It means you can buy the property much earlier (rather than waiting until you had saved the full 20% deposit) or, if you look at it another way, you might be able to buy a better place than otherwise might have been possible.

In other words, you can take advantage of a great deal while it's still on the market. At a price.

What will it cost you?
Before you get too excited, it's important to realise that LMI can be quite expensive: Let's say you were borrowing 95% on your mortgage, based on a home worth $400,000, then you will end up with a premium of $14,000 - not cheap.

If you had 90%, then the premium would drop significantly, to around $ 7000, based on figures supplied QBE LMI, one of the largest providers in Australia.

So, a lot depends on exactly how much deposit you have available.

GST is payable on all LMI premiums and is usually included in the quoted cost by the lender. On top of this, you will have to pay Stamp Duty, depending on local state and government rules.

What else do you need to know?
Lender's mortgage insurance is a one-off fee and, usually, you will be able to capitalise your LMI premium by adding it into your home loan amount and then pay it off as part of your monthly repayments.

You should also be aware that LMI is not transferrable to another loan, so if you choose to re-finance, or re-negotiate into an alternative loan at some point, you will have to pay LMI once more if you need to borrow 80% or more of the total amount.

Finally, it's important to understand that LMI isn't the same as mortgage protection insurance. This is required to ensure your loan repayments are still covered in the event of you not being able maintain them, due to events such as injury or job loss.

Overall
Lender's mortgage insurance increases the number of people they are able to lend to, by decreasing some of the risk of lending the money.

For buyers, it allows them to have more flexibility to buy a property before they have the 20% deposit available, a useful option to be aware of in the highly competitive property market.