

# Focus On Finance April 2006

## MYTHBUSTERS - 100% FINANCE ?

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ISSUE

### 100% Finance - Is it as appealing as it sounds?

You've heard the advertisements – “No deposit required”, “We'll pay the rent for you”, “Move into your brand new home today.” As with most things in life, if it sounds too good to be true, it usually is.

Yes, you can finance 100% of the purchase price. However, you will still need to part with some of your hard earned money to do so. How much money you part with will depend largely on the home loan you choose.

Let's compare three of the most competitive “100% finance” products in the home loan market. These comparisons assume you are purchasing a property worth \$300,000, are a first home buyer and are entitled to the First Home Owners Grant.

SORRY KIDS,  
WE NEED  
THAT  
INHERITANCE  
NOW

100% Finance Home Loan Options	Lender 1	Lender 2	Lender 3
Maximum Loan Amount %	100%	100%	100%
Loan Amount	\$300,000	\$300,000	\$300,000
Interest Rate	7.32% pa	6.65% pa	7.09% pa
Ongoing Fees	\$8 per month	\$10 per month	Nil
Mortgage Insurance Premium / Cost	2.07% / \$6,210	2.5% / \$7,500	2.71% / \$8,999
Application Fee	\$600-\$700	\$600-\$750	\$949
3% Genuine Savings Required	Yes	No	Yes
Interest Cost Per Annum	\$21,960	\$19,950	\$21,270

THE COST OF  
INFLATED  
RESIDUAL  
VALUES

### Funds Required By Client To Set Up Loan

Stamp Duty	\$14,578	\$14,578	\$14,578
Mortgage Insurance & Application Fee	\$6,810	\$8,100	\$9,948
Less First Home Owner Grant	-\$10,000	-\$10,000	-\$10,000
<b>Total Funds Required</b>	<b>\$11,388</b>	<b>\$12,678</b>	<b>\$14,526</b>

The above comparison shows you how important it is to consider all your options with regards to the product you choose. While technically you don't need a “deposit”, you will still need to contribute funds towards any property purchase. Stamp Duty, Mortgage Insurance premiums and application fees still need to be taken into consideration. Choosing the right 100% finance home loan can literally save you thousands of dollars.

If you are considering applying for a loan which offers to finance 100% of the purchase price, please don't hesitate to speak to one of our Finance Consultants, who can explain all of the available options to you.

MEET THE  
TEAM

## SORRY KIDS, WE NEED THAT INHERITANCE NOW

A LITTLE strapped for cash? Paid off your home? Then why not treat it as an ATM and withdraw some funds?

That's what a growing list of companies who offer the over-55s a product known as a reverse mortgage want you to do.

And it's not a bad idea, provided you get out a magnifying glass for that fine print.

But let's back up a little.

A reverse mortgage allows you to access the equity that is tied up in your home through a loan that carries no repayments in your lifetime but is recouped from your estate. You retain full ownership of the house.

It is an inevitable product evolution for a society that is asset-rich and cash-poor. While it has been massive for decades in the UK and the United States, a new report from Datamonitor says our fledgling reverse mortgage market is already worth \$647 million, having doubled in size in 2005.

From a standing start roughly two years ago there are now 15 providers - including CBA, St George Bank, Bank West, Macquarie and ABN AMRO - offering 29 products.

It is possible to withdraw as little as 0.01 per cent of the value of your house, provided this is at least \$20,000, and as much as 50 per cent, up to a ceiling of \$500,000. Some providers, however, grant loans for just \$10,000 and others will go to \$1 million.

The older you are, the more you can withdraw (because, rather macabrely, the less time the loan will have to roll up). For example, the maximum a 65-year-old can withdraw is 28 per cent, while a 90-year-old can withdraw 45 per cent.

So what nasties may be lurking in the fine print?

First - and most important - the chance you may be thrown out of your house.

If it is mathematically possible for your debt to become greater than the value of your house (a financial adviser can tell you this), then you need to make absolutely sure that the lender will stump up for this loss - and that you will be allowed to continue living in the house.

Look for a "no negative equity" guarantee, something all members of the provider association SEQUAL must have.

Second, think carefully about whether you want to gamble that a variable interest rate will stay relatively low or would prefer to pay a little more now to have the certainty of a fixed rate. Blue-stone, ABN AMRO, OFM Investment Group and Resi all offer fixed rates.

Third, check what flexibility you retain. Can you repay the loan before you die if, say, you win the lottery? And would you be allowed to move house?

Finally, examine the fees and charges. There may be not just an application fee but also a monthly charge, which will accelerate the growth of the loan. What's more, your property might need to have regular valuations, for which the bill could be a couple of hundred dollars.

Beyond the contract, it is vital to check how the loan will affect any pension payments. A lump sum could mean these are lost, while a regular income stream - offered by some providers - may not.

Last but not least, break the news gently to your kids - after all, it is their inheritance you will be spending. Given how much money you have no doubt forked out for them over the years, however, they should support you every step of the way.

Source : Sydney Morning Herald

## MEET THE TEAM



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## THE COST OF “INFLATED” RESIDUAL VALUES

Have you ever considered the real cost of inflated residual values when arranging your lease transaction?

The vehicle finance market has been inundated with advertising over the past six months marketing special buy-back finance schemes offering leasing products at discounted rates and to buy back the vehicle at no cost to the client for the residual value owing. Sounds straight forward enough.

But.....

Cleverly hidden in these so called buy-back contracts are a labyrinth of rules and regulations governing kilometers per annum, penalty fees for exceeding annual kilometer limits and no guaranteed buy-back!

Do you want to be left with a 65% outstanding residual value on a five year old vehicle?

As you can see, the residual value amount is one of the most important components of a lease transaction and often comes second to its much famed sister – the interest rate!

Let's concentrate on the residual value for a change. **Firstly, what is a residual value?** In the most simple terms, it is the lump sum payable on expiry of the finance contract term. (For Commercial Hire Purchase transactions, this is known as the Balloon payment).

Therefore, if you leased a vehicle for \$30,000 for three years with a 50% residual value you would still owe \$15,000 at the end of the contract.

And herein lies the invaluable lesson. Will the inflated residual value equal the value of my vehicle at the end of the term? An experienced Finance Consultant will apply a residual value based on realistic market estimates of the vehicle value at the end of the finance contract as well as taking into account Australian Taxation Office guidelines for minimum residual values.

**For example**

- ❑ If you wanted to refinance the residual value at the end of the term, and the vehicles market value is less than the residual value, you may not be able to finance the full amount, therefore you would have to find the difference.
- ❑ Keep in mind that a \$30,000 vehicle on a 36 month contract with a 50% residual value will have an interest cost of \$5,013. As a comparison, a finance contract over a 48 month term with no residual value will have interest of \$4,569, even though the term is 12 months longer. Removing the residual value will save you \$444!



The alarm bells will go off when you consider comparing the contract payout figures at the end of 24 months. With the residual value the payout figure at the end of 24 months will be \$20,718 in comparison to the contract with no residual value where the payout figure at the end of 24 months would be \$16,430.

Do your homework – seriously consider what kind of finance arrangement you want and the future plans for your vehicle. You'll soon find out that the residual value can be the most influencing factor in your lease transaction.

If you have any queries or would like to discuss your options with regards to residual values, please don't hesitate to contact any of our Finance Consultants on 9854 3500.

## MEET THE TEAM



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VEHICLE & EQUIPMENT LEASING

## CLIENT TESTIMONIALS

### Opened our eyes

"Acceptance Finance have opened our eyes to a myriad of new opportunities. Their industry knowledge and experience were vital to us re-structuring our personal finances that has allowed us to secure long term investment properties with little or no sacrifice in lifestyle. Acceptance Finance provide friendly and courteous attention to every detail and sensible financial advice to their many clients. We could not recommend them more highly."

Sincerely,  
Warren and Leith Costello

### Part of our team

"We have had three separate sets of refinancing and in each case Acceptance Finance were our first choice. (a) a fast re-structure of loans necessitated through the closing of our business (b) with an improved financial situation we obtained new loans with better terms for our properties in Melbourne and Bondi; and (c) identifying a investment opportunity to purchase a block of flats, Acceptance Finance were able to obtain for us a very competitive mortgage rate. We regard Acceptance Finance as "part of our team".

Ann Bartley & Chris Burnett



### Saving our company time and money

"Australian Arrow Pty Ltd is one of the leading automotive component manufacturers in Australia with over 700 employees and a large fleet of Novated Lease vehicles.

We have been associated with Acceptance Finance for many years, and with a vehicle fleet that is constantly changing, Acceptance Finance provides a fast, professional and personalised service.

This allows our employees to arrange the financing of their vehicles with the confidence that they have received accurate and informed information in regards to their leasing options.

Acceptance Finance makes every effort to know our business and provides Australian Arrow with a range of comprehensive services that satisfy our employees which saves our company time and money."

Richard Woods  
Australian Arrow Pty Ltd

## THANK YOU

We would like to take this opportunity to say thank you to you, our valued client. Our business has grown primarily by existing clients like you referring others to us. We are committed to providing exceptional service to all our clients and you can be assured we will do all we can to provide that level of service to anyone who is referred to us.

If you recently referred a friend, relative or colleague to us, you may have noticed some Gold Class movie tickets appear in your letter box. It's just our way of saying "thank you - we appreciate your confidence in us".



While every care has been exercised and the recommendations and other statements herein are based on information believed to be accurate and reliable, no Liability (unless required by Law) can be accepted for any error or omission including negligence however caused.

If you do not wish to receive this newsletter in future, please email :  
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**COMMERCIAL & DEVELOPMENT LOANS**