

Got Religion?

A burglar broke into a house one night. He shined his flashlight around, looking for valuables. When he picked up a CD player to place in his sack, a strange, disembodied voice echoed from the dark saying, "Jesus is watching you." He nearly jumped out of his skin, clicked his flashlight off, and froze. When he heard nothing more after a bit, he shook his head and continued. Just as he pulled the stereo out so he could disconnect the wires, clear as a bell he heard, "Jesus is watching you." Freaked out, he shined his light around frantically, looking for the source of the voice. Finally, in the corner of the room, his flashlight beam came to rest on a parrot. "Did you say that?" He hissed at the parrot. "Yep," the parrot confessed, then squawked, "I'm just trying to warn you." The burglar relaxed. "Warn me, huh? Who in the world are you?" "Moses," replied the bird. "Moses?" the burglar laughed. "What kind of people would name a bird Moses?" "The same kind of people that would name a Rottweiler Jesus."



Staff Update

We would like to officially welcome the following new staff to the Acceptance Finance team :



Leanne Dragani - Finance Consultant

Leanne joined Acceptance Finance in January 2008. She has spent over 6 years in the mortgage sector, with the majority of her experience being gained in administrative and client services roles. Leanne's focus at Acceptance Finance is to assist our clients from the initial loan application stage all the way through to settlement. She understands that all clients' needs vary and as such, she will recommend the best possible product to ensure a client's financial goals are met. Leanne completed her Diploma of Financial Services in 2007.



Jonathan Cornish - Client Services (Mortgages)

Jonathan joined Acceptance Finance in November 2007 after having gained vast experience working in the finance and property investment industries for 3 years. He has studied various aspects of banking and finance in the past and enjoys increasing his knowledge of economic news and issues. Jonathan hopes to bring peace of mind to every client he works with, as he guides each mortgage from application through to settlement.



Emma McIlfratrick - Client Services

Emma joined the Acceptance Finance team in October 2007. A valued member of the Client Services team, she is the "face of Acceptance Finance" who will greet you upon your arrival at our office. With her bubbly personality, warm smile and can-do attitude, Emma will guide you to the most appropriate staff member who can look after your needs. Emma hopes to follow in her father Colin's footsteps and one day become a successful Finance Consultant as well.

Congratulations to Gillian Farrell, the winner of our Client Feedback Survey Competition for the March 2008 Quarter. Gillian will receive an ipod Nano valued at \$200

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 : enquiry@acceptancefinance.com.au**

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Superannuation Funds and Borrowing

Superannuation funds can now borrow to buy investment assets! Fantastic! We should all rush into this with our ears pinned back! Well this is what the press and "product promoters" would have us believe.

The opportunity appears to be very attractive, particularly for Self Managed Superannuation Funds, who are often locked out of purchasing substantial assets such as property because of their limited resources.

It is important however, to understand who can take advantage of this opportunity and it is more important to determine who should.

Who can take advantage?

Late last year the then Government amended the Superannuation Law to widen the ability for funds to borrow to acquire investment assets.

The amendment was made to clarify that funds could invest in 'instalment

warrants' which have embedded borrowings. However, the amendment appears to go further than just dealing with instalment warrants and may allow arrangements like the following:

- A simple trust is created with the fund member, or an entity controlled by the fund member, as trustee.
- The fund then borrows from any lender that will provide a non-recourse loan. The 'non-recourse' nature of the loan could potentially be achieved by:
 - the fund contributing a significant deposit so that the lender is willing to limit its power of recourse, or
 - a related party providing the lender with a guarantee for the loan, or
 - a related party being the lender.
- The fund buys the asset, say a property, using its own resources and the borrowing.
- This fund enters into a simple

arrangement with the trust for the trust to have legal ownership of an asset on behalf of the fund and allow the fund a beneficial interest in the asset.

- The fund collects the rent, pays the interest, and pays down capital of the debt to the extent it wants or needs.
- The fund ultimately pays out the debt and takes legal ownership of the property from the trust, or sells the property.

This provision looks unusual as it significantly dilutes the borrowing restrictions in the Superannuation Law, which, up to this change have been very restrictive. However, the current Government, while in opposition, supported this legislation through a Senate review and voted for the legislation when it passed through Parliament. It seems unlikely that they will change their view now.

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Why do I Need a Solicitor when Purchasing a Property?

I am often asked about the standard nature of conveyancing matters, why should a person use a solicitor instead of a conveyancing company and what is the difference between the two? This is a good opportunity for me to discuss in this issue of our favourite newsletter.

I look at the old adage that one can always seek a cheaper price but does that always come with a better or broader service? Let's talk apples with apples. I am purchasing a property worth \$500,000.00. The State Government charge me \$25,660.00 stamp duty, then there are bank fees, agency fees (if applicable), land tax, insurance and other costs. These costs pale into insignificance when one considers that if the transfer of that title is not done correctly, the whole transaction becomes a nightmare. Consider the case of the Royal Melbourne Golf Club, who purchased a parcel of land, only to find that they paid for the wrong block. Consider the case of a purchaser who buys a block off a plan of subdivision not yet registered and the block changes shape because the council requires a portion of the land.

Then of course you might just need to get some advice about the mortgage documents and guarantees provided by your family or you might just need some advice on the terms and conditions of the business security you are providing, to assist with the purchase. A good Lawyer friend of mine said that a client of his complained that he was being over-serviced, because the Lawyer attended a creditors meeting that was adjourned and his services were then not required. However if the meeting had gone ahead the client would have lost his entitlement to the whole of his outstanding debt.

Most of us have household insurance for the building and the contents. There are many in the community who do not have that cover and when their house burns down they seek compensation from others. It could be the State Government or a Government agency or it could just be the community at large.

So why would I use a Lawyer for what I would class as the most important investment I will make in my lifetime? The answer is to make certain that I am protected in every way. If my Lawyer makes a mistake I am covered. If my Lawyer steals my money I am covered. If I fail to get the right advice and the transaction turns upside down I am covered.

So what am I talking about and how important is this? I can get a conveyancer do the job for a price and that conveyancer will do what I have agreed to pay for and if I want advice about my mortgage or my guarantee I



will have to get a Lawyer in any event. My conveyancer will charge me \$300.00 and my Lawyer may charge me \$1,500.00. I know I do not do my own plumbing or electrical work at home. I am clever enough to understand that a registered/licensed person who is well qualified and can guarantee the work is my choice.

So why do I consider that I should use a cut price conveyancer for my most important transaction. I am sorry to say that I can see no reason to answer that question in a positive way. The costs of a property transaction are the costs; stamp duty, the State Government love you, registration fees on the transfer and the mortgage, your loan fees from the bank and other institutions and then if all works well, a cheap conveyancer. I am a cynic at the best of times when I get involved in discussion about professions and what is charged, but we always get what we pay for. I love my accountant because he does a great job, he is a professional and I am looking to pay his firm a fair industry based price for good work. When we act for people in property that is how we would like to be known - doing a good job for a fair price. I work in the city and my firm distinguishes itself by how we treat our clients in being accessible, charging a fair price and delivering good service. I do use our law clerks under my supervision and this is how we are able to make the system work. I urge everyone to consider the significance of the transaction and then think about the old peanuts for monkey rule. If you are happy with how you do business and have the peace of mind that is all that really counts.

My name is Michael Coldham. I am a Partner at Anderson Rice Lawyers. You may contact me on 03 9672 2666 or email mrc@andrice.com.au

Michael Coldham
Anderson Rice Lawyers



Vehicle Purchasing

Do you want to avoid the stress of finding a car?

Acceptance Finance is pleased to announce that over the years, we have established relationships with specialist vehicle dealerships that can now source the vehicle of your choice. No more vehicle brokers, no dealing with numerous sales persons, no wasting your weekends driving across Melbourne finding a car and no "I'll just have to check that with the boss..."

We will put you in direct contact with the managers of Victoria's largest, specialised and most well established dealerships, to

help find you the right car - whether it's a motor vehicle, van or truck.

For all enquiries regarding this exciting new service, please call our Leasing Manager, Giulia Polizzi on 9854 3556.

Giulia Polizzi
Leasing Manager



Superannuation Funds and Borrowing (continued)

There are still a number of minor technical issues to be clarified. We expect the ATO will issue guidelines shortly. In the meantime, we recommend caution.

Who should take advantage?

One of the significant advantages of gearing the purchase of an investment asset is that the gearing costs are tax deductible. Superannuation funds pay a lower rate of tax than many individuals or companies (superannuation funds can pay no tax if they are paying pensions), so the gearing tax break is less valuable to a superannuation fund than, say, for an individual on top marginal tax rate.

Conversely, income and capital gains earned on the asset are more concessionally taxed in a superannuation fund than to an individual on top marginal tax rate.

Let's assume that an entity borrows to purchase a property using the following assumptions

- **Property cost** **\$1,000,000**
- **Borrow** **80%**
- **Interest rate** **13%**
(allowing for loan being non-recourse)
- **Capital growth** **8%**
(will double the investment value in 10 years)
- **Rent** **4%**
- **Purchase costs** **6%**
- **Sell asset in 10 years time and pay capital gains tax**

If the property is purchased on identical terms by a range of possible investors, the outcome is as follows

Investor	Tax Rate	Rate of Return pa
• Person	46.5%	5.40%
• Company	30%	-1.50%
• Superannuation fund	15%	2.42%
• Superannuation fund paying pension	0%	2.13%

The rate of return is the return on the entity's investment in the property after all costs and taxes. The asset would have to earn 35% more capital gains or 50% more income per annum for the superannuation fund to be a more attractive vehicle to own the asset the individual. Clearly, if you expect the investment to experience significant capital growth, a superannuation fund is more appropriate, but care should be taken in making such an assessment.

Many people will simply be attracted to using their superannuation fund as there is likely to be more readily available monies to make the investment in the fund.

In most cases the question of "should you do it" will be more difficult than "can you do it". In either case you should proceed with care.



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