

TO FIX OR NOT TO FIX? THAT IS THE QUESTION.....?

What an important question it is during this period of interest rate instability. In the past year we have experienced several interest rate increases but thankfully the last meeting by the Reserve Bank resulted in no increase to interest rates. For many borrowers this was a reprieve from the burden of having to pay more on existing loan repayments. But what should we expect interest rates to do in the future? Many of our clients, not to mention Economists and investors are also considering that same question.

Why do interest rates move?

Put simply, interest rates are set by the Reserve Bank of Australia based on the government's monetary policy. In a nutshell interest rates move depending on how the economy is going. Our strong economic outlook at present has meant interest rates have increased and the Reserve Bank wants to reduce the degree of stimulus in the economy at the present time. In other words consumers are still spending up big and this needs to slow down. Obviously when interest rates are low people are more likely to spend money and vice versa. Because Australia's growth forecast is still expected to be strong it is likely there will be more rate rises in the future. So what should you do?

Why fix & is it right for me?

As with any future forecast there is a considerable ele-

ment of the unknown. If the future could be told we would all be enjoying the rewards of knowing what to expect. Therefore it is a 'gamble' a borrower must consider whether or not to fix their loan. It may well be a good option to fix your loan now should the variable interest rates continue to rise. Then again if you're not sure about rates a better option may be to take an each way bet by only fixing part of your loan? By splitting your loan - one portion on a variable interest rate and the remainder amount on a fixed rate term you can still enjoy the best of both worlds!

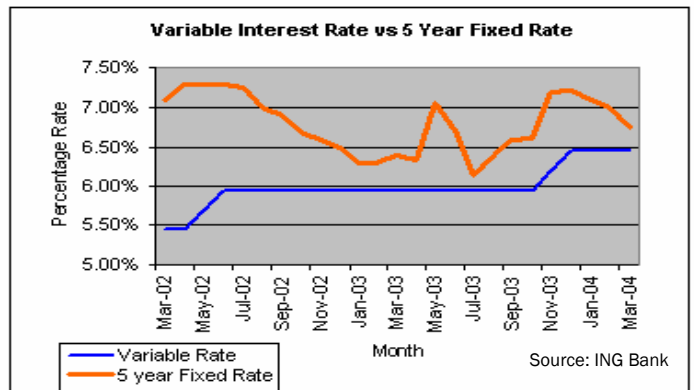
Should you choose to fix your loan remember we will shop around for you. There is still plenty of competition in the marketplace for fixed rates and the difference between fixed rates may be as much as 0.75 percentage points. Although this appears minor it could save you considerable money over the period of your loan.

Creating Security

When you fix your loan you are locking your loan into a set interest rate for an elected period of time, generally between 1-5 years. This allows you to insure yourself against future variable rate movements regardless of whether interest rates rise or fall. Your interest rate stays the same which means that your minimum required repayment will stay the same. In short a fixed rate loan allows you to budget for a set regular repayment each month providing you with a certain amount of security.

In comparison, if you have a variable rate loan you pay the loan amount equivalent to whatever the variable interest rate is at the time. So if rates go up so does your loan repayment. When variable interest rates are high you may find it

AF Newsletter



an added burden to repay your loan and it may lead to cash flow pressures.

The Price of Security

Over the last couple of years fixed rates have been at a premium compared to that of variable rates. The difference between variable and fixed rates at any one time is determined by market expectations and has varied by up to 1.5% over the last two years as indicated in the graph above.

The other consideration about fixing your loan is that it can take away some of the flexibility you may have previously enjoyed. Predominantly, fixed rate loans will often limit the amount of additional repayments. Each fixed loan is different, we will consider all of your needs before offering the most suitable fixed loan to you. The other restriction to consider on fixed rates is that there are penalties involved should you wish to payout your

loan while it is fixed. In a nutshell if interest rates have gone down since you fixed and you wish to repay your loan additional penalties called "fixed rate break costs" may apply and could prove quite expensive.

Security vs Flexibility

What should I do?

Consider the type of borrower you are and what you hope to gain from your loan. Ask yourself some questions. See box below. If you have answered yes to most of the questions below then a fixed rate loan may suit you.

We can help you decide which home loan product is the most suitable to your needs. Ultimately though the decision is yours. After all you are the person who knows yourself best!

References:

www.infochoice.com.au

www.rba.gov.au

STOP PRESS

The State Revenue Office of Victoria has announced it will be abolishing Mortgage Stamp Duty as of 1st July 2004.
See overleaf for more details.

Questions?	Yes	No
Do I want access to redraw?		<input checked="" type="checkbox"/>
Is it important for me to know how much my repayments	<input checked="" type="checkbox"/>	
Am I on a tight budget?	<input checked="" type="checkbox"/>	
Do I think interest rates are going to go up?	<input checked="" type="checkbox"/>	
Do I rely on investment/ rental income to service my loan?	<input checked="" type="checkbox"/>	

BUSINESS OWNERS

May 2004

ARE YOU BEING SERVED? ...

www.acceptancefinance.com.au

Visit our Website

- To get the latest interest rates
- Work out loan repayments
- Meet the AF team
- Learn about our products
- Download forms
- Find out about market news
- Read some of our client testimonials

"We are constantly working on your behalf to get you the most cost-effective & suitable product available"

Unfortunately for many people who run their own business, especially a small business, it seems that the last person who wants to help you is your Bank? And yet one of the most important aspects for succeeding in business is to have your finances in order. Positive cash-flow, finance for growth and development, simple and smooth operating transactional facilities are just some elements you need to have right to ensure a profitable, stress-free (sometimes!) business.

That's where Acceptance Finance can help you. Our primary role as finance broker is to identify your business needs and match those business banking needs to the products available in the marketplace. Our other role is to alleviate the stress and

frustration of dealing with the Banks. We are constantly working on your behalf to get you the most cost-effective and suitable product available.

Did you know?

- You can use a **Letter of Credit/ Trade Finance** to purchase your overseas stock & it won't impact on your cash-flow until relative debtors are collected?
- You may be able to use your debtors to borrow funds by utilising a **Debtor Finance Facility**?
- Using **Commercial Bills** for your next development can save you money with market interest rates?
- We can arrange a competitive **Commercial fixed or variable interest rate** loan if you are looking at using a commercial facility to borrow

funds?

That's just some of the products available from our various Commercial lenders. Having the right product in place can help you achieve your business goals. Acceptance Finance welcomes the opportunity to review your current commercial facilities at no cost to you. Our commercial consultant Grant Haag has over 30 years experience in commercial lending and he's committed to assisting you in your business.

Give Grant a call on 9854 3565 or alternatively call our office on 9854 3500 to speak to a Consultant. You can also visit our website www.acceptancefinance.com.au



LEASING

End of Financial Year is Near!

Have you thought about your tax-planning?

Are you considering purchasing assets pre-June 30 to take advantage of potential tax benefits?

Talk to your Accountant or Financial Advisor before it's too late.

Alternatively, you can arrange a pre-approval with us.

Give us a call on 9854 3500

We can arrange:-

- Motor vehicle leases
- Plant & equipment leases
- Commercial Hire Purchases
- Chattel Mortgages

NO MORE GOVERNMENT STAMP DUTY

The State Revenue Office of Victoria announced that from 1 July 2004, duty on mortgages will be abolished. Settlements that occur on or after 1 July 2004, on mortgages applied for before that date will also be exempt from duty.

What is the saving?

For eg. Property valued = \$350,000
Loan amount = \$280,000

Your costs:

Govt. mortgage stamp duty	\$ 1,084
Govt s/duty on transfer	\$ 16,660
Registration of mortgage	\$ 118
Transfer of Land Act Fee	\$ 951

No longer applicable after 1 July '04

The amount of Government stamp duty will depend on your loan amount. The above figures are given as a guide only.

This decision also impacts on Chattel Mortgages. The Chattel Mortgage product enjoyed resurgence in equipment finance as a result of the GST as it allows a business to claim the GST upfront rather than over the term of the loan contract. This is only applicable to businesses using accrual accounting. Cash based accounting businesses can still use a Commercial Hire Purchase to claim their GST monthly. Check with your Accountant or visit the ATO website.

Give us a call if you would like to know more.

Any ideas?

E-mail

any ideas on what you would like to see included in our Client Update to

kmay@acceptancefinance.com.au



If you do not wish to receive future newsletters please tick this box. & return to us. →

YOUR FEEDBACK

We value the information we receive from you via our feedback letters.

This information helps us keep our standards at a premium and judging from

our feedback letters we appear to be on track. Here are some positive comments we have received from some of you.

"Great service thanks..."

Mrs R.- Mont Albert

"I have nothing but praise for Sally,

she's friendly, informative & helpful"

Ms Y. - Footscray

"It's a pleasure to deal with you"

Mrs C.- Narre Warren

"The service I receive is always outstanding."

Mr M. & Mrs H.— Ashburton

Fax: (03) 9852 7333 Mail: PO Box 7005, Hawthorn Nth Vic 3122 or E-mail: kmay@acceptancefinance.com.au

Name: _____

Address: _____

Suite 15, 13-25 Church Street, Hawthorn Vic 3122 Telephone 03 9854 3500 Fax 03 9852 7333 Email enquiry@acceptancefinance.com.au Website www.acceptancefinance.com.au

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.