total FINANCE corporation

FINANCE UPDATE **May 2009**

What's Really Happening Out There In The World of Finance?

Everyone is guessing what will play out in the financial market in the next 1, 2 or 5 years. How bad will the recession hit and how long will it take to recover? More importantly how will it affect you? This is something that over the past 6 to 12 months even the smartest economists and futurists were not willing to stick their necks out and have a guess. Well it looks like maybe the dust is starting to settle and the predictors have come out to play again in a little ray of sunshine.

I've been listening and reading the Bank economist's forecasts, these are the people in the bank who set the bank's interest rates especially the fixed rates and they are finally being brave enough to give their view on how they see the economy over the next few years.

They predict the RBA will continue to reduce the Cash Rate down to possibly as much as 2% by the end of 2009 early 2010. This will be to combat the rising unemployment which is predicted to get into the mid to high 7% range. Then they see recovery in 2010 albeit slow however this will push the cash rate up possibly by 1% at the end of 2010. They predict the housing market to remain flat on average with some sectors falling and some may even grow. Same for the share market. Overall recovery will be slow which could probably be a good thing.

If the RBA reduce the cash rate down to say 2%, there is no guarantee the banks will pass this on to you as a borrower as they have hinted in the media. They are still trying to recover loss of earnings from the higher cost of funds and they still need to deliver profits and dividends to their shareholders to continue selling shares to help their share price increase and keep them in business. And you the borrower are the profit centre for the bank.

A good indicator of what interests are doing is from our vehicle, plant and equipment finance rates which are set weekly and are fixed for 3 to 5 years. These took a sharp rise in mid April 2009 with the housing fixed rates for 3 to 5 years increasing the week after. This indicates the economists I mentioned above are seeing that interest rates will rise over that period.

The good news is... 6.70% for Cars & Equipment Loans.

The good news is that we have a lender offering a base rate of 6.70%, (about 1% or better than other lenders), for car finance for businesses over $20,000 or business equipment over $100,000 for the month of May 2009. Combine this with the Government's Investment Allowance **now 50%** for small businesses with a turnover of less than $2Mpa available until 31st December 2009 and it makes now a great time to buy new equipment and vehicles for your business and let us arrange your finance. Give me a call and I will explain in more detail how the Government's Investment Allowance works or please talk to your accountant for the facts.

Total Finance Corporation Pty Ltd PO Box 183 Nundah Qld 4012 Ph 07 32669101 Fax 07 3266 9046 email: info@total-finance.com.au

Should I fix my loan?

With plant & equipment loans we are dealing in fixed rates all the time so you don't have a choice in setting or fixing your rate as you have to take the rate offered that week at settlement. With housing loans you can rate lock today's rate for a fee that will guarantee you get that rate at settlement which could be in 30 to 60 days if you are purchasing or refinancing. If you just want to fix your existing loan this may be just a phone call to your bank to have them do that there and then. This will depend on your loan product if you can fix or not and may mean switching the loan to a different product to be able to fix which could incur a fee. Remember Fixed loans are usually less flexible, usually, with no redraw during the fixed period and limited or no extra repayments can be made. To get around this you may be able to fix a portion of your loan and leave another portion on variable that you can make extra payments into with available redraw. Once again this will vary depending on product and bank.

The big question always is should I fix or should I leave my loan on variable. The ideal time to fix would have been a month ago however there are still some good rates out there. At the time of writing, the current 3 year fixed rates range from 5.6% to 7% and 5 year fixed rates range from 6% to 7.4%. Now if you are currently on a variable rate in the low 5% then you have to make the judgement of if I fix now what do interest rates have to increase by and when before I am in front. At the end of the fixed rate term your loan reverts to the standard variable rate at the time. For example if you lock your rate in today at 5.6% and in 3 years time at the end of the fixed rate period your loan reverts to the standard variable rate of the day, say 8% then your mortgage repayment will go up by 26%. With actual figures a $500,000 loan your loan repayments for the first 3 years will be $2,870 reverting to $3,613 an increase of $743/month. A $300,000 loan your loan repayments for the first 3 years will be $1,722 reverting to $2,168 an increase of $446/month.

The cause of the Sub -Prime debacle in the US which triggered the whole global financial meltdown and then the economic down turn was fixed rate loans set at very low, even subsidised, rates that when they reverted to the standard variable rate 3 to 5 years on the borrowers couldn't afford to make the new loan repayments and handed their house keys back to the bank. Now I'm not suggesting this could happen here as our lending practises are vastly different to the US however if you have budgeted on your regular repayments and then they go up by $400 to $700 per month then it would put a big dint in your cash flow if you're not prepared for it.

In the end we can all speculate on how the markets and business cycle will affect you and your business but you won't have any control over it. You are best looking after the things you can control, ride the roller coaster through the bottom and look forward to the ride up the hill again.

Total Finance Corporation Pty Ltd PO Box 183 Nundah Qld 4012 Ph 07 32669101 Fax 07 3266 9046 email: info@total-finance.com.au