

SOUTHSHORE *News*

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Business finance By Michael Coombes

Reports that banks won't lend are vastly exaggerated



Dramatised media reports of the 'credit squeeze' have created the impression in the minds of many that banks have little money to lend and what's more are extremely reluctant to provide business finance.

The real situation is rather different. The banks have been very successful in raising funds from local and offshore sources and are now sitting on around seven times their usual cash reserves.

This is now causing a problem for the banks as cash sitting in the vault comes at a cost. It is only a matter of time before the banks are forced to lend the money out. After all, they are acutely aware that they need to lend money to make money!

Major banks are very much in the market and are keen to lend - for the right deal!

The major banks have never had it so good. With the demise of many non bank lenders, and with those that have survived being unable to raise money at the same rates as the major banks, the major banks

now account for approximately 90% of all mortgages written in Australia.

Whilst it's pleasing to see the banks have survived the global credit crisis, there is a risk of Australia returning to the bad old days when the banks dominated and consumers suffered from a lack of choice and uncompetitive rates.

It's important that the government restores real competition by bringing in support for non bank lenders.

The most significant change that we have experienced in recent months is the amount of additional information that the banks want in support of a finance application.

For example, it's no longer good enough to provide the previous year's financial statements. You may also have to supply up-to-date interim figures and your most recent BAS statement. Make sure you have this information well in advance and it will probably also help if you supply a detailed CV and a business plan.

Our role as finance brokers is to know the differences between banks and to use this know-how to your advantage. Give us a call and we will gladly meet with you to help identify what financing options are available to you in your business.

SMEs - which are the best performers?

While business conditions for small to medium sized businesses in Australia (SMEs) deteriorated significantly in the December 2008 quarter, there were positive signs from some areas of the country.

According to the NAB's quarterly SME Survey, some states appeared to be weathering the storm better than others.

SMEs in South Australia and to a lesser extent Victoria and Western Australia reported modest, but positive, business conditions. All three of these states recorded conditions above the national average.

Despite conservative returns reported by many, some sectors were doing better than others. The best performing sector among SMEs was accommodation, followed by health, business services and transport.

Is your business performing to maximum efficiency?

In times of economic slowdown it's more important than ever to constantly work on keeping your business performing at maximum efficiency.

In looking at your current situation it's important to know the true costs of your business such as overheads, the break-even point and supplier pricing. Make sure your business is being driven by profit, not revenue.

Identify your most profitable customers and your most profitable products and focus on them. Your marketing effort should be aimed at those who are prepared to pay your price and pay you on time.

Don't be panicked into decisions, particularly when it comes to pricing. Stick to profitable pricing and where possible avoid discounting. Cash flow is vital so regularly monitor your debtors, creditors and stock. Don't let work in progress get out of hand.

In times like this you should have a budget or plan in place covering key areas such as sales and overheads.

Talk to a finance broker to see if you can bring down your borrowing costs. If you are borrowing to grow the business, ensure your profitability will allow you to pay back the debt.

Clear signs of revival in the property market

Partially driven by first home buyers the housing sector of the economy is showing some signs of a revival in buyer demand.

Real estate agents in most parts of the Metro Area, including the Western Suburbs, are reporting increased buyer interest and improved attendances at home opens. And increasingly we are seeing Sold or Under Offer stickers appearing on For Sale signs.

About a quarter of home loans are being taken up by first home buyers and the Housing Industry Association (HIA) has reported an encouraging increase in sales of newly built homes.

The HIA's Senior Economist, Ben Phillips, said that for the month of January total loans increased by 3.5 per cent on December last year. Loans for construction rose by 2.5%. In seasonally adjusted terms the number of loans for existing and new dwellings increased by 4.2 per cent in Western Australia.

There would appear to be little doubt that behind the modest but meaningful spike in property sales is the improved affordability of property.

Home affordability at 5 year high

Lower interest rates and greater government subsidies have made home affordability in Australia the most attractive for five years, according to the Housing Industry Association (HIA).

HIA's Chief executive, Chris Lamont said conditions for first home buyers had improved dramatically with the result many were taking up the opportunity to get into home ownership.

Repayments on an average home loan fell by 26% to \$2,056 a month by the end of the December quarter, from \$2796 the previous quarter. Thanks to the February and April interest rate reductions, they've since fallen even further.

Mr Chris Lamont said the December quarter figures saw households needing an income of about \$70,000 to buy a modest home.

Should you require further information on any topic relating to business or commercial property finance, residential property finance or equipment financing we'll be more than pleased to assist.

The information contained within this newsletter is of an advisory nature only and due to constant changes we advise you to contact us before making any formal financing decisions.



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You have just 2 months to claim the 30% equipment investment allowance

As you are probably aware the Federal Government recently increased its Temporary Investment Allowance from 10% to 30% as part of its stimulus package.

The move gives businesses a one-off tax deduction equal to 30% of the capital cost of eligible new equipment and motor vehicles. In other words, on a \$100,000 machine, you get a \$30,000 tax deduction, in addition to the normal depreciation claim.

Although we are still awaiting final details, the main points are:

- For new assets only.
- Must have a cost price of more than \$10,000 (\$1000 if a company's turnover is less than \$2m per year).
- Eligible capital equipment (including motor vehicles).
- Acquired or ordered between 13 December 2008 and 30 June 2009.
- Installed and ready for use by 30 June 2010.

With interest rates at 40 year lows, equipment and motor vehicles being sold at bargain prices and a 30% extra tax deduction on the table this may well be the time to act.

This is particularly so if are looking to position your business for the future and if investing in capital equipment could make your business leaner and fitter, allowing you to take advantage of future opportunities.

Characteristics	Lease	Commercial HP	Chattel Mortgage
Are repayments tax deductible?	Yes	No	No
Can you depreciate the equipment as tax deductible?*	No	Yes	Yes
Is the interest tax deductible?	No	Yes	Yes
Is GST payable on the cost of the equipment?	No	Yes	Yes
Is GST payable on repayments?	Yes	No	Yes

* If used for income producing purposes

Population growth reaches new highs

Recently released figures from the ABS showed Australia's population growth in the year to September 2008 reached near-record levels, with rates reaching the heights last set after World War II.

Western Australia held its position as the fastest-growing state in the country - recording a growth of 2.9% to 2,188,000.

Arrivals from overseas contributed 61 per cent of the increase across Australia.

