

FINANCE FOR A CHANGING ENVIRONMENT



Have we seen the worst of the turmoil that gripped international financial markets in the first half of this year? Market consensus seems to say yes, pointing to the bail out of US investment bank Bear Sterns in March 2008 as the low point of the international credit crisis.

Even if the worst is over, the past 6 months have hurt financiers of all sizes; from the big banks with their large corporate loan write offs and increased cost of funds to the non-bank niche players who can no longer source funds efficiently in the debt capital markets. Some smaller financiers have temporarily stopped writing new business while they assess the market and sure up their own source of funds. Nonetheless there is still a broad choice of financiers active in the market today, but they have become more cautious in their credit assessment and across the board have increased their margins and therefore their pricing.

It is important in this changing environment to regularly review your own debt position and assess if your funding structure and facilities are the best available in the market. At Pacific Finance our job is to understand your finance needs and source your finance on the best terms and conditions. To be effective in our role we are in regular communication with our panel of lenders to ensure we stay up to date with their latest products, pricing and lending policies. Long term trusted relationships with financiers and choice are the keys to success in the current finance market.

Whether it is a residential home loan, a commercial property loan, business working capital or equipment finance having a reliable and experienced finance broker to source your finance may make all the difference in today's changing financial environment.

Please speak to your Pacific Finance broker to plan a review of your current funding structure or your future funding needs.

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ARE YOUR EVERYDAY BUSINESS EXPENSES COVERED?

By Stephen Horsten, Grove Wealth
(Authorised Representative of Securitor Financial group Ltd, AFSL 240687)

I am sure that you would agree that running a successful small business takes a lot of time, money and hard work. Therefore it is important when you are reviewing your business continuity plan to ensure that you have appropriate levels of business insurance. Our last article discussed the importance of protecting key people within the business to provide an injection of funds to the business in the event of disablement, serious illness or death of a key person. This would assist in reducing business debt, for example, but it is important to know you can also cover your business expenses in the event of an accident which prevents you from working and therefore affecting your business cash flow.

Business Expense Insurance

Business expense insurance will reimburse certain business expenses for the period that you are totally disabled and unable to work. A monthly benefit is payable to the business after a waiting period (14, 30, 60 or 90 days) and for a maximum term of 12 months.

The policy generally covers regular normal operating expenditure of the business you manage such as:

- Rent or mortgage payments
- Property rates and taxes
- Equipment or vehicle lease costs
- Salaries of employees not generating business income
- Utility costs, etc.

It is important to note that the availability of cover depends upon the life insured's occupation and state of health.

If or when business expense insurance is claimed the payment is paid as revenue to the business, this therefore enables you to claim the premiums as a full tax deductible expense.

An example of how business expense insurance would be of benefit to a small business is, if a shop owner operating a Newsagency or Deli has a car accident and cannot work for a period of 6 months, then that's 6 months of income they cannot generate or 6 months of management guidance lost to the shop that can seriously affect profits. With business expense insurance in place, the business can be provided revenue from the insurance company to maintain the lease payments, some staff costs, utilities bills, etc.

The main question here is can your business expenses be maintained if you cannot work? Help is available and we are more than happy to assist you with your individual business needs.

Disclaimer: Pacific Finance does not sell or give advice on life insurance products. Any clients who may require more information on these services must either speak to their own professional adviser or alternatively we would be pleased to introduce you to Steve Horsten who can personally assist with your enquiry.



TEAM BRIEF

Jeff Doig
Director/Partner

Jeff Doig is the head of Pacific Finance's highly successful property team. In 1997 Jeff joined the company as a mortgage

broker with the mandate to establish and grow a property finance division that would cater for client's residential and commercial property finance needs. This included all property finance from first home buyers to experienced property investors and developers. Jeff succeeded and in 2005 was invited to become a partner in the business.

Jeff is today supported by a team of property finance brokers and analysts but he continues to personally advise his clients on successful strategies for funding their property portfolios. "For all my clients wealth accumulation is their key driver and a well managed finance structure is critical to their success."

Prior to joining Pacific Finance Jeff worked in a number of different finance and administration roles including an importing business, a liquor wholesaler and a credit union.

Jeff spends most of his day on the phone either putting new transactions together or solving issues for transactions in progress. The reward for Jeff at the end of the day is seeing the end result for his clients. "Working with a diverse client base and helping them meet their goals together with the support of a great team makes this job very rewarding."

Outside of work Jeff enjoys spending time with his family, taking his boat to Rottnest, trips down south and indulging in a good drop of red wine.

As for the future Jeff's aim is to continue to develop Pacific Finance as a market leader and to look for new ways to develop and enhance the finance broker services model in an ever changing market.



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BORROWING THROUGH YOUR SELF MANAGED SUPERANNUATION FUND

The use of borrowed funds to purchase income producing assets in a self managed superannuation fund (SMSF) has historically only been permitted in extremely limited circumstances. New laws passed in the final days of the Howard government have changed this position. With the use of products known as instalment warrants, a SMSF can now purchase an income producing property and use bank finance to fund part of the purchase price.

In response to these changes some financiers have recently released their guidelines for lending to SMSFs. While the end result to the SMSF looks and feels like a typical property loan, the law governing SMSFs is quite onerous and specific and therefore the structure and risks associated with the finance are extensive and complex.

Because of these requirements the process from start to finish will take time and planning. All trustees of SMSFs will require written independent advice from an accountant, a lawyer and possibly a financial planner.

Working together with our financiers and a specialist superannuation lawyer, Pacific Finance have developed a step-by-step process for sourcing SMSF investment property loans. Here are the key points to consider:

Independent Advice

Trustees must first and foremost decide whether purchasing an investment property funded by debt finance is an appropriate investment strategy for the SMSF. Consideration of such a strategy must be undertaken with your financial advisor and accountant. Amongst other things consider the risks and obligations associated with the Superannuation Industry Supervision Act (i.e. sole purpose test, in house asset test and arms length transaction test), income tax, capital gains tax, stamp duty and the ability to meet debt repayments.

Establish Property Trust and Review SMSF Deed

Before signing an offer and acceptance for any property purchase a property trust must be established. The trustees will incorporate a number of provisions including the terms under which the property trustee will hold the property and the terms of the instalment warrant. In addition most existing SMSF deeds do not allow debt funding and need to be amended to facilitate investment property loans. This work would be completed by an independent legal adviser.

Credit Assessment

Property choice is limited to standard income producing residential property and non-specialised commercial property. General lending criteria dictates an initial loan to value ratio of 63% for commercial property and 72% for residential property. Serviceability will be assessed on net rental income of the property plus members contributions.

Costs

Being a complex structure it is necessary to use professional advisers and as such the set

up fees are higher than a standard property transaction. As a guide only the fees and charges would include:

- Pacific Finance arrangement fee
- Independent accounting advice
- Independent legal fees to establish property trust, instalment warrant structure and amend SMSF deed – approx. \$2,000 plus GST
- Financier establishment fees – varies between financiers
- Financier legal fees – approx. \$2,000 plus GST
- Valuation fees – market rate
- Government fees and charges.

Pacific Finance cannot give advice on issues relating to SMSF investment strategies, tax or legal issues. It is therefore an essential requirement that before we are engaged to arrange your finance under the above structure you have confirmed the investment strategy with your financial advisor.

For more information on how to start the finance process and an introduction to our specialist superannuation lawyer please contact your Pacific Finance broker.



On the 16th February, Pacific Finance Broker Tim Edwards and a group of team mates competed in the Rottneest Channel Swim. The team completed the event in 7 hours and 12 minutes and enjoyed a great night at the pub afterwards!

SUCCESSION PLANNING OVERVIEW

by Guy Brandon, Principal – Nissen Kestel Harford Accountants & Business Advisors

You may be requesting funds from Pacific Finance to acquire an interest in a business structure (e.g. shares in a company; units in a unit trust) or a business as part of a Succession Plan.

A Succession Plan generally results in generational change from the current owners to less experienced individuals. Examples being transfers from parents to children or a management buy-out.

Often, little consideration is given to aspects of a Succession Plan other than "getting one's hands on the purse strings". It is a complex and emotive area and should not be completed in a rush to meet an arbitrary deadline e.g. 30 June.

Issues to be reviewed include:

Structure

- In the case of an acquisition, what is being acquired? Are you acquiring an interest in the current structure or buying the business out of that structure?
- Is the plan to make a once-off 100% acquisition or will it be in multiple tranches (e.g. 50% for each of the next 2 years). The latter may result in issues of control in the interim.

Timing

- For example the end of a specified period (e.g. 30 June, but note comment above).

CLIENT INTERVIEW – MICHAEL AYRIS

MANAGING DIRECTOR & BUSINESS FOUNDER DOWNHOLE SURVEYS



DHS was formed in 1989, having started as a single operation in a small office in Kalgoorlie. It is now doing business internationally and employs 70 staff in Australia, South Africa and the Middle East, achieving an annual turnover of \$20m.

Managing Director and business founder Michael Ayris, qualified as a Cartographer in 1981 and then spent three years working for Goldsworthy Mining in the Pilbara.

“Back then computers were only just beginning to be used for plotting maps and I was

lucky enough to become involved in the first implementation of mine planning software at Shay Gap Mine Site,” Michael says.

Michael then moved to Kalgoorlie where he was employed as a computer consultant to mining companies specialising in Surpac, a comprehensive system used for orebody evaluation.

After years of developing his skills in the mining industry, Michael started his own company with just one idea and substantial research to back it up.

Michael explains “The idea to form my own company came about when I was asked to plot a drill hole on a cross section after being provided dip and azimuth data. Prior to this I had always drawn drill holes as straight paths. This new data required many difficult survey calculations to plot and took me days to manually calculate.”

From here Michael became curious, “I started to think about all the other drill holes and how many of them have deviated like this and hence an idea and a business were formed.”

From this point Michael began researching and soon discovered that all the equipment at that time was from the USA and no service company existed in Australia, meaning there was an un-tapped market to target. It was at this time that Downhole Surveys relationship with Pacific Finance Director Mark Didco began.

“Mark provided finance for the very first DHS survey instrument and since then we have not used another finance broker,” Michael says. “We are extremely happy with the level of service provided and the professional manner in which business is conducted. My business couldn’t have grown at the rate it has without Pacific Finance.”

Michael prides his business on being seen as a leader in the industry, with the company’s

main point of difference being that they specialise in Directional Surveying and that they’re always using the latest technology in Gyro Surveying.

“The DHS group now provides services to the mineral exploration and drilling industries utilising the latest technology in downhole navigation systems, such as the Target INS Gyro, manufactured in Germany,” says Michael.

As for the future, Michael has no plans to slow down. The booming mining industry has presented many opportunities including increased rates and revenue and regular on-site service contracts. However finding qualified staff who can service this demand and don’t have unrealistic wage expectations is always a challenge.

“Our main focus is to increase services in Steering Orientation within the oil and gas industry, CBM and surface drilling industries.”

Michael wants to continue to expand the DHS oil business globally. In order to do this DHS requires approximately eight new Target INS Gyro systems.

“At a per unit cost of \$340k, these systems will allow the company to successfully expand in this sector, Pacific Finance has assisted us tremendously by arranging finance to purchase these valuable devices,” says Michael.

What Michael appreciates most about Pacific Finance is that they provide a very personal approach to finance.

“I have been associated with Mark Didco for many years. On several occasions Mark has driven all the way to my house in Mundaring, with documents to be signed. He has even met me on the side of the road at a pre-determined rendezvous to sign papers... Now that is service!”

Documentation

- This may include a sale agreement or an equity holders agreement (in the case of a sale in multiple tranches) to set out conditions for the future arrangement. Have these drafted by your legal advisor.

Other stakeholders

- Including business’s employees, customers and suppliers. When and how should the succession plan be dealt with?

Finance

- Vendor finance - there may be taxation and other legislative matters on how this is structured.
- External finance – contact your Pacific Finance representative.

Specific to the proposed owner / controller

- How will prior actions of the previous owner/controller impact on the new owner/controller. Discuss this with your legal advisor and insurance broker.
- Taxation – Stamp duty and any relief (e.g. certain transfers of farming property).

Specific to the current owner / controller

- Are you relinquishing ownership or control? There may be differing consequences, including taxation, depending on what is being relinquished.
- Who is (are) the appropriate successor(s)? Do they have the appropriate skill set and if not, who is to assist the mentoring / development process?
- What will you do after the succession? Retire? Continue to work for, or mentor,

the new owner? If neither there may be restraint of trade issues to be resolved.

- Taxation – Capital Gains Tax and any relief (e.g. small business relief). Goods and Services Tax and any relief (e.g. sale of a going concern).

Time and money spent now reviewing these, and more specific, issues may save you money if it is determined at a later time that an alteration to the process would have been preferable.

The above is commentary and not specific advice for succession planning. It is strongly recommended you seek professional advice (e.g. from your accountant or legal advisor) on the appropriate Succession Plan. Importantly, understand the plan. If not, ask.