



Christmas Wishes



Can you believe it is almost Christmas time again? It only seems like yesterday we were running around our backyards collecting Easter Eggs!

As the festive season draws near, all of us here at Catalyst would like to extend our gratitude and Christmas wishes to you - our valued clients - for supporting us so strongly over the past year. We wish you all a wonderful, safe and joyous festive season.

Christmas has always been a time to remember and cherish those who are dear to us - our family, friends and even our work colleagues! It's a time to remember how much we have in our lives and to be grateful. In our increasingly busy lives, it

A Client for Life...

is important to take time out to cherish these moments.

To bring a little of the Christmas spirit to your life this year, you could:

- Pack a picnic and go along to your local Carols by Candlelight to belt out a few tunes.
- Spend time with family members you haven't seen in ages.
- Take an evening walk around your neighbourhood to see the Christmas lights.
- Make contact with a long lost friend to say "Merry Christmas - I'm thinking of you!"
- Pack a box of Christmas goodies and take it down to your local charity for the Christmas food collections.

Catalyst Wins

Offering our clients first rate service is our most important aim at Catalyst, so it is always a pleasure to find that, along with the rewards that come with happy clients, we are recognised by our industry.

We are very proud to announce Catalyst Finance and our established Brokers were again presented with awards at the recent 2007 Professional Lenders Association Network of Australia (PLAN) awards night.

For the second year in a row Catalyst Finance took out the coveted **Business Masters Award, ranking 3rd in Western Australia.**

Matt Rigby received a **Platinum Sales Master Award**, ranking in the top 60 mortgage brokers in the country. **Jason Cheetham, Diane Nicol** and



Kelly Robb received **Sales Master Awards** ranking them in the top 200 in Australia.

And we are certain **Craig Wilschefski** - our new blood for 2007 - will be up there with the best of them next year!

We know these awards stand as testament to the ongoing support received from all our valued clients, so we would like to extend a big thank you to you for your continued involvement in our business.

Introducing A New Face...



*We have recently added to our Catalyst clan. It gives us great pleasure to welcome **Melanie Randall**, our new Receptionist. Her welcoming smile will be the first thing you see if you drop by our office.*

Being the youngest of the team, she brings a truckload of energy and enthusiasm to our busy little office - and has already blended in well with the rest of us 'oldies'!

Welcome Melanie!

Christmas Cookies

There is nothing like baking home-made edibles for your loved ones at Christmas. This cookie recipe is easy to prepare and you can colour the white chocolate to compliment your chosen Christmas 'theme'.

Ingredients:

- 250g unsalted butter, softened
- Finely grated rind of 4 mandarins
- 200g caster sugar
- 2 egg yolks



- 1/2 cup (75g) self-raising flour
- 2 cups (300g) plain flour
- 375g White Chocolate Melts, melted (coloured with food colouring paste if desired).

Method

- Using an electric mixer, beat butter, rind and sugar until light and fluffy.

Add yolks, beat until combined. On low speed, gradually beat in combined sifted flours until mixture comes together. Form into a disk, wrap in plastic wrap and refrigerate for 30 minutes.

- Preheat oven to 180C. Roll out dough between 2 sheets of baking paper until 3mm thick. Using a 7.5cm Christmas tree-shaped cutter, cut out shapes and place on baking paper-lined oven trays. Repeat until all dough is used. Refrigerate shapes for 30 mins, then bake for 8 mins or until lightly browned. Cool biscuits completely on trays.
- Half dip biscuits in melted chocolate, place on baking paper-lined trays and refrigerate to set.

Budgeting 101 - A timely reminder

Written by Marnie Dalziell

With Christmas fast approaching, for most of us the temptation to overspend is at an all time high. It can become quite a nightmare – particularly if you don't realise where your money is going until you receive your credit card bill!

A simple way of keeping track of your spending is to use a simple budget spreadsheet. This may seem a daunting task, but it provides you with evidence of your spending habits and highlights areas where you can potentially cut back to ensure you reach your savings goals.

So How Do I Budget?

Using a budget planner is the most efficient way to start a budget. I have found a very effective planner available on the Australian Securities and Investment Commission website. To download the planner in Excel format go to <http://www.fido.asic.gov.au/fido/fido.nsf> and select Budget Planner from the Calculators drop down menu, or send me an email marnie@catalystfinance.com.au and I will send you a copy.

Now comes the scary part – you need to be really honest with your spending habits!

Locate all your records of incomings (eg payslips, tax returns, dividends) and outgoing (eg credit card, food purchases, bank statements, school and sporting fees, etc). Remember, the more detail the better. For example, using 12 months worth of utility bills will give you a far better picture of your average monthly spend.

Decide on a timeframe – do you want your budget to be weekly, fortnightly or monthly? A good

idea is to select the same timeframe as your pay period so you can use your payslip for your income details.

Break expenses into fixed and variable payments. Fixed payments are those that remain fairly constant such as your mortgage, sporting memberships, shire and water rates)

Variable expenses are ones that fluctuate from month to month and include fuel, food and beverage, entertainment, gifts, etc. This is the category that allows you the most flexibility when adjusting your budget to align with your savings goals.

Your Bottom Line. Entering all the details onto your budget will show you if you're in the red or in the black.

Do you have a surplus? Good for you! You're living within your means and are on the right track to your savings goal! You might consider looking at ways of investing this surplus to boost your savings goals. This could mean a visit to a Financial Planner or simply opening up a high interest savings account - a good idea if your savings goal is a short term one. You could also think about using these excess funds to pay off your home mortgage, thus further reducing your outgoing.

Do you have a deficit? You may need to review your variable expenses and look at the areas you can cut back on – comfortably – to enable your savings goals to be reached. Small sacrifices here can see great changes to your bottom line down the track. You might also consider consolidating your loans and/or refinancing them into your home loan thus reducing your repayments and minimising your fees and charges. For example, store credit cards, "Interest Free" store finance after the interest free period and even some credit cards have exceedingly high interest rates which make a considerable dent in your ability to save.

Helpful Hints

Allow yourself some "fun money".

Allocating yourself weekly 'fun money' means you're more likely to stick to your savings plan. It is exactly the same principal as if you were dieting – if the diet is too strict you'll find your cravings take over and you'll binge on chocolate cake every day. But if you allow yourself a small treat each day you're more likely to stick to and enjoy the benefits of your new diet....so consider your budget as a "diet" for your finances.

Always keep some "emergency money"

handy for unexpected expenses (i.e. a trip to the dentist, new tyres for your car). Even if it doesn't cover the full cost of the emergency it won't leave such a large hole in your savings.

Keep an eye on small purchases that sap money

from your budget without you realising. These can include take away coffee, work lunch purchases, bank fees, impulse buying and even wasting money on electricity / water that you don't really need to use.

Set a savings goal. It will give you a great incentive to stick to your budget. It can be as simple as needing enough money to buy a new TV, or as big as an overseas trip of a lifetime.

Don't stress. If you find yourself sliding off your savings path for a few days, don't beat yourself up, just keep your savings goal in mind and aim to get back on track as soon as possible.

Regularly reviewing your budget will ensure you stay on track with your savings goals. It enables you to identify when your budget isn't meeting your needs - for example situations like increases in pay, a new addition to the family, taking out a car loan will have an effect on your ability to save.

Insuring your most important asset

Our Financial Planning partners Sam and Choon from Interworx Wealth Management have provided the following important and valuable information regarding insurance cover.

Often people think of an asset as something they can see and touch. If I was to ask a room full of people what their most important asset is, it is fair to say that a large percentage would say that it was their home or car. The first thing most people organise when they first purchase a property or a car is their insurance cover. How expensive would these things be to replace if they were lost or damaged?

But is your property or your car really your most important asset? What if they were not insured and you lost either? Could you survive? The answer is “yes” and whilst you would suffer some very difficult financial pain, most people would find the strength to move on and rebuild.

But what if you lost or damaged your ability to work? Your ability to earn an income? What would be the financial consequences of this happening? We often take for granted our ability to work and earn an income and never consider the financial consequences of this being lost.

Think of a 35 year old male earning \$70,000 p.a. who plans to work until he

reaches age 65. His ability to earn an income would in theory be 30 years x \$70,000 which equals \$2,100,000. How quickly would you insure a house or a car valued at this amount? I would therefore say that this is probably your most important asset.

Think of it another way – let’s say for example you had a machine in your back shed. This same machine makes “gidgets” which are then sold for income. The machine is switched on every morning at 9:00am and then switched off every evening at 5pm. It does not operate on weekends and occasionally you spend some money on maintenance and repair. But most importantly at the end of 12 months it generates \$70,000 in income for you. You then assume that it will just continue operating and plan both your lifestyle and investments around the income you expect to receive.

Then one day it stops working! It may take many months or even years to start again. What happens to all your financial goals and your lifestyle? What if you have children and debt and other financial commitments that you cannot avoid? These are the sort of questions you need to ask yourself and find a solution for.

But if someone offered to insure this machine for long term maintenance and repair, would you insure it? I do not know of too many people who wouldn’t. Therefore if you consider home or car insurance as important then some form

of “income protection” insurance cover would be equally if not more important.

Income protection is an insurance policy that covers you 24 / 7 worldwide for any injury or illness that prevents you from working. Most income protection policies cover up to 75% of your income. It is designed to protect people against long term injury and illnesses.

Think of your own situation and how being unable to work for 1 or 2 years would affect you financially. Could you continue to pay your mortgage? Would you be forced to sell your investment property or other assets? Could you put food on the table and cover other living costs?

Most people reading this article will have set some financial goals and have committed to making debt repayments either on your home or an investment property. And most people have probably just assumed that your employment income will just continue and even increase over time. But the reality is that people do suffer from illnesses and have accidents that may prevent them from working for lengthy periods.

Therefore having some type of income cover is very important. The cost of this cover is dependent on various factors including your occupation and your age to name a few and can be claimed as a tax deduction. We are happy to provide advice on this area including other forms of cover including life insurance. Sam or Choon can be contacted on 9440 1377.

Festive Riddle



Well...I said I was going to stump you with our Spring Riddle and it seems I managed quite well. Answers were well down from usual levels, and might I add, some of them were quite creative indeed.

To refresh your memory, the riddle was about the peasant who was given one final sentence to save his life. If he lied he would be hanged, if he spoke the truth he would be beheaded. For those of you who are still scratching your heads – the answer is “I shall be hanged”.

Huge congratulations go to **Eileen Scorgie** who sent in the first correct answer. Well done Eileen!

As it’s almost Christmas – a time meant for compassion to all - I thought I’d give you an easier riddle this time...but be careful....its not as simple as it first appears to be.

According to the song, in total, how many gifts did my True Love give to me during the Twelve Days of Christmas?

Winner Of Our Melbourne Cup Sweep

We hope everyone took the time out to have a bit of fun on Melbourne Cup Day! For those of you who took part in our client sweep, the lucky winners were:

1st place: Danya Cuttriss-Hoare – who wins 2 nights accommodation at our Hamelin Bay holiday home.

2nd place: Willie Drew – who enjoys \$100 worth of Liquor Barons vouchers – just in time for the festive season

3rd place: Graeme Wright – who also enjoys Liquor Barons vouchers to the value of \$50.

And our “**wooden spoon**” prize was won by **Andrew Gibb** – who enjoyed a lovely bottle of Penfolds Bin 404 Cabernet Sauvignon for his troubles.

Thank you to all who participated.

Flow on Effects of Non-Conforming Loans Problems in the US

Written by Jason Cheetham

Most of you would have seen the recent headlines about the US Sub Prime mortgage market. It has certainly gained enough media attention in Australia to concern many people and probably with good reason.

Basically, sub prime loans are as stated - loans that are "below" a normal or fully verified loan. A fully verified loan is one where the borrower has an income proven in writing to a lender, (i.e tax returns, payslips etc); some stability of employment and residence, a clean credit history and normally a saved deposit if purchasing a property or equity in their home if refinancing. Thus "prime" loans are the most attractive loans available in terms of interest rates and fees, with good reason.

Someone then came up with the idea of pricing loans based on risk which meant even with a chequered credit history and minimal verification; a borrower could find it easier to obtain finance. As they were priced up to 5% or more above normal interest rates they were more profitable to the lender but the lender still had a registered mortgage over the home as security.

When these loans began to take off 4 years ago in the US, mortgage brokers (who account for a greater part of the market in the US) targeted people who didn't qualify for "prime loans" as the brokers were paid considerably higher commissions by lenders for doing so, due to the lender's higher profit margins in the sub prime loans.

Little communities sprung up in places like Cleveland Ohio where people could buy land and build their dream home without proof of income, a poor credit history and

in many cases no deposit. This snowballed and real estate values rose quickly up until early 2007. With increased equity in their homes these borrowers then used the lure of easy credit to take out home equity loans for cars, holidays etc exacerbating the situation when the market dropped.

Most of these "sub-prime" loans had attractive interest rates with a low "teaser rate" for the first few years and then rose sharply which made affordability nearly impossible for people with these facilities. Mortgagee sales eventuated and the market went south. Demand dropped for the properties and people could no longer afford to stay in their homes. Many were not told about the increased interest rates as the premium in the interest rate wasn't reflected in the first few years. Ridiculously, with increased risk comes an increased cost and loan repayment, but the lenders were silly not to realise that sharp rises in loan repayments also led to a higher default rate.

Another reason the lenders didn't take due care was the money lent to borrowers wasn't the lender's own money. They were bundles of money parceled up as mortgage-backed securities, borrowed from the market in tranches and then on-sold to borrowers, with a margin. This practice is also very common in Australia with lenders though many of them don't go to the same extent of "easy credit" as in the US.

So when this crisis hit in the US and bulk mortgagee sales in the mid-West started to eventuate, the market reacted and a "credit crunch" ensued. It became harder and more expensive to borrow money through these mortgage backed securities and they were less likely to lend the money out. Thus the cost of sub-prime loans rose significantly due to risk as mortgagee sales were occurring prolifically.

You may have already noticed this situation impact on lender's interest rates in Australia. Even a couple of lenders' "prime" loan interest rates went up due to an increased cost of funds. Though we have "sub-prime" lending in Australia it is nowhere near the extent of the US, where they were the norm rather than the exception.

It is also important to differentiate between "sub-prime" in the US and low and no doc loans in Australia. Usually sub-prime loans were offered to people with a chequered credit history where a chance of "repeat offending" was obviously higher. It is a requirement of Low and No Doc loans in Australia that borrowers have a clean credit history with an explained, paid default of up to \$500 being the height of acceptance in most cases. Also most lenders will only lend up to 80% against the security value for these loans whereas the US sub-prime market lent up to 100% and above.

The message here is clear - with higher risk expect a higher cost. The lenders that have found themselves trying to sell properties worth significantly less than the debt owed on them have either ended up bankrupt themselves or close to it. Logic suggests that they were "dancing with danger" dealing in this market and they were happy enough to risk loss in favour of higher margins. It is difficult to see the same thing happening in Australia but there is no doubt that obtaining credit is a whole lot easier than it used to be. There has to be a duty of care with the lender and mortgage broker that we not increase the risk of default with a client due to putting them into a loan they cannot afford.

As always seek professional advice when taking on any debt and be sure that you fully understand your rights and obligations when borrowing money.

Remember if any of your details have changed or you're planning on moving in the future, please let us know so we can amend our database. If you no longer wish to receive our newsletters please let Marnie know and she'll remove you from our mailing list.



Unit 1, The Ascot Centre, 152 Great Eastern Highway, Ascot WA 6104
PO Box 59, Cloverdale WA 6985 • Phone: 61 8 9477 4188 • Fax: 61 8 9477 4199
Website: www.catalystfinance.com.au • ABN 69 025 150 953