

Personal Responsibility and the Law of Diminishing Returns

If you saw the recent 60 minutes feature on the post GFC failure of the CEC Group in North Qld and the attack on the Commonwealth Bank I am sure you would have been somewhat taken back by the content. I won't get into the detail here but sufficient to say that the program and its reporter displayed a spectacular lack of understanding of even the most rudimentary elements of bank finance and credit contracts. The founder of CEC, to no great surprise, is playing the bank sent me broke card to some effect and places the outcome completely at the feet of the lender.

This was a speculative and high-risk developer who, like so many before them, went under and blamed everyone but themselves. No personal responsibility here, it's the banks fault. We were just poor simple developers and the evil bank gave us a box of matches and a can of petrol. We didn't start the fire. Give me a break people!

I guess the only argument the borrower might have been able to make was that the bank should have known "we were too silly to manage our affairs and declined finance". I am expecting that the bank treated their borrowers like adults, assessed the funding via prudent standards and the economic conditions of the day and approved funding. It's kinda like saying that your project needs petrol and matches and we are all mature grownups so a fair assumption is you won't blow yourself up. Anyway, courtesy of aggressive speculative develop strategies and the GFC it turns out that CEC did indeed explode.

Yesterday (20/7/17) the Australian Financial Review, a respected business and finance journal, ran an article addressing the 60 Minutes feature. It's a cracker and highly recommended reading. Just Google Why 60 Minutes stitched up the Commonwealth Bank and enjoy. Again, I won't go into detail and I don't want to get sued but sufficient to say the AFR essentially discredited the 60 Minutes piece and painted CEC in a very different light. Sadly, while plenty of everyday punters will have watched the 60 Minutes show I suspect bugger all are readers of the Australian Financial Review and that's a real shame.

The sad truth is that while most people have borrowed money in their lives very few really understand how banks work and they take their views from the sort of garbage that 60 Minutes, A Current Affair and others peddle. From this they come to a view and the view is that banks are bastards who are out to get us. Of course, the politicians pick up on this and play to the lowest common denominator. Their actions are clearly reflected in a political view that the voters are too stupid, gullible or naïve to deal with the banks and so we must have regulation. Back in the day a normal loan offer and related security documents might take up as much as 10 pages. That's 10 pretty easy pages to read and understand and most borrowers did just that.



Mike Phipps. **0448 813 090**
mike@mikehippsfinance.com.au

Paul Grant. **0448 417 754**
paul@mikehippsfinance.com.au

Cameron Wicking. **0477 776 859**
cameron@mikehippsfinance.com.au

Head Office
4/31 Mary Street
NOOSAVILLE QLD 4566

Office. 07 5470 2194
Fax. 07 5455 6626

www.mikehippsfinance.com.au

MIKE PHIPPS FINANCE ACL (364 314)

fresh ideas...



Personal Responsibility and the Law of Diminishing Returns

Now, thanks to regulation, disclosure and fear of borrowers taking no personal responsibility it's not unusual for a pretty straightforward loan offer to take up hundreds of pages and to be almost incomprehensible for the average borrower. To no great surprise very few people read all the documents and even if they do even fewer understand them. Most simply check the loan amount, the rate and bank fees and sign up.

This is the law of diminishing returns at its finest. Put a simple, concise and well-crafted document in front of someone and chances are they will read it and understand it. Put 400 pages of impenetrable jargon, disclosure and bank speak on the table and there's no chance. Of course, that's great for finance brokers and lawyers because the less people understand about all this stuff the more they need us but that's hardly the point.

Let's cut to chase. If you borrow money you make the application. With the possible exception of those bizarre credit card limit increases I seem to get offered from time to time, no bank is sending me approved loan offers. Sure, they are marketing lending as a service they offer but I need to apply and at that stage I have decided to take personal responsibility for that action. If I invest my borrowed funds and my venture goes under that's not the bank's fault. If I hit a cash flow crisis and the bank can't help me that's tough but, that's my problem, not the bank's. If my company goes under and the bank calls up my personal guarantee that's what I signed up for. I won't be lawyering up to try and wriggle my way out of my responsibilities and I won't blame the bank. We had a deal and I expect both parties to keep their end of the bargain and it's a pretty simple bargain. Here's some money, spend it wisely on what you said you would and pay it back as we agreed.

I can hear the wailing from certain quarters right now. It's not that simple Mike. The world is a complex place and banks are not what they used to be. Sorry, it really is that simple although I agree that banks are certainly not what they once were. We can thank the not my fault, no personal responsibility, law of diminishing returns, media and political agenda for that!

Mike Phipps F Fin
Director | Phippsfn Pty Ltd
ACN 139 124 673



Mike Phipps. **0448 813 090**
mike@mikehippsfinance.com.au

Paul Grant. **0448 417 754**
paul@mikehippsfinance.com.au

Cameron Wicking. **0477 776 859**
cameron@mikehippsfinance.com.au

Head Office
4/31 Mary Street
NOOSAVILLE QLD 4566

Office. 07 5470 2194
Fax. 07 5455 6626
www.mikehippsfinance.com.au

MIKE PHIPPS FINANCE ACL (364 314)



Fresh
Finance



PREFERRED
SUPPLIER

Disclaimer:

Mike Phipps Finance is not a financial planner or investment advisor. The contents of this editorial reflect broad observations of transactions for which the writer has been mandated to negotiate finance. Potential investors in management rights businesses should conduct their own due diligence and seek their own independent advice. Returns, rates and equity numbers are for demonstration purposes only. SMSF compliance is an area requiring specialist advice and potential investors should seek appropriate guidance from industry professionals. TMC Pty Ltd is not an investment advisor or licensed financial planner.