SUBMISSION TO THE PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

We wish to submit our story to the Senate Inquiry

BACKGROUND

In early 2003 we all but owned our home, had an investment house which was providing a good return and were both working. Our children were either supporting themselves or were about to do so. Realizing that relying solely on our superannuation would require us to work to retirement age and then only provide a modest income and require government support we decided to engage the services of a financial advisor. Research and inquiries amongst friends and acquaintances lead us to the door of Jelich and Jones at Redcliffe. Under advice from Ron Jelich we increased the mortgage on our home by $200,000 and this money was invested in Australian Equities via MLC Masterkey Unit Trust. When Jelich and Jones switched to Storm we were encouraged to sell our investment house and invest the proceeds with Storm. At various stages over the next few years we were advised to revalue our house and increase the mortgage by the maximum amount possible and increase our margin loan when LVR's allowed such movement. At all times we were assured our investments were safe, When we started margin lending we were told at investment seminars our LVR would be kept at safe levels and closely monitored and the level of risk was very low, indeed we were told the levels were kept low to allow us to buy in during market down turns to take advantage when the market rebounded. We were told it was better to stay in a falling market than to exit and miss the rebound. When the market started to fall I contacted a senior Storm advisor and was told that is not your worry, it is our worry, this is what you pay us fees for. When I said if it continued it could become our worry he said you don't understand the market, there is a level below which it can't fall and even if it did we have a massive war chest set aside to protect clients if required. At this stage we were concerned we could lose our investment but were assured we would be converted to cash between 80% and 90% LVR. This would protect our Capital and allow us to re-enter the market at an appropriate time. We were told Storm had used this strategy before in other down turns and it was proven to be effective. We were told to be calm and confident in existing investment strategies. We had signed a letter authorising Storm to convert our equities to cash.

OUTCOME

Colonial Geared Investments

Without any other notice on Monday 8th December I received a phone call from Colonial Geared Investments saying we had been completely sold down, our LVR was 106%, and we had 48hrs to either come up with $52,000 shortfall, come to an arrangement or face the prospect of legal action and ending up with a bad credit rating. I was told they had severed all contact with Storm and it was now our problem and we were going to have to resolve it on our own. CGI informed me they would keep ringing me until it was resolved and that they were not going to go away. We had $62,000 in pre paid interest which hadn’t been utilized and could be used to reduce the debt. Under extreme duress we agreed to this however the bank took $26,000 as a breakout fee, we contributed cash and have reduced the shortfall to $8,000. Even arriving at correct final figure on the first attempt was beyond the capabilities of CGI staff. The first figure provided in writing by non other than John Clothier CEO of CGI proved to be incorrect. It took several attempts and caused us additional stress before they arrived at the correct figure. They did apologies for this stuff up and back dated the start of our payment agreement which saved us $60 in interest. We have reached an agreement with Colonial to pay $200 / month until the loan is paid out.

About this time a letter arrived from CGI signed by John Clothier who had the audacity to suggest we contact a member of the FPA for advice and that CBA would cover the cost. I pointed out to Mr Clothier that Storm were members of the FPA and his bank had been happy to lend billions of dollars on their advice. Mr Clothier’s advice was that we follow the same path that had previously led us to disaster. This letter alone highlights to us the arrogant, uncaring attitude to clients that was common in senior CGI staff at that time.

Questions:

1. Why did CGI agree to raise margin call LVR’s to 90% without any consultation with or agreement from their clients?
2. Was this action carried out by CGI and Storm legal? I have no doubt it was irresponsible and unethical?
3. Why did CGI allow our investments to fall into negative equity without making any attempt to contact us?
4. After allowing our investments to fall into negative equity why did CGI then convert all our remaining equities to cash without contacting us there by destroying any chance we had of salvaging our position?
5. Given CGI claim we the clients were partly responsible for monitoring our own situation why did they shift the goal posts mid game (LVR’s) without our consent and have absolutely no contact with us before they sold us out and ruined our lives.
6. Did CGI have the systems and staff in place to allow us to accurately monitor our situation daily even if we had known how to do this.
7. If CGI claim we were responsible for monitoring our own situation did they make any effort to ensure we had the knowledge and capability to do so.
8. Why after forcing us into a situation where we had no choice did CGI threaten us with a bad credit rating and then charge a $26,000 breakout fee when we attempted to resolve our situation.

Suncorp

Our mortgage investment loan is with Suncorp who we have been our principal bank for many years. Our current mortgage across 2 separate loans amounts to a total of *$475,000.* Previous to current events they have provided a banking service which has adequately

fulfilled our banking requirements. However in light of recent events we are forced to reconsider our opinion of their service. When on the advice of our solicitors we contacted Suncorp requesting full and complete copies of any loan or lending applications forms relating to our loans we were informed we had to pay a *$50* fee to obtain those documents. We reluctantly agreed to this and were promptly forwarded loan contracts for both our loans. When we pointed out this was not what we had requested and we had paid *$50* for worthless documents which told us nothing we were told this is what Suncorp were prepared to offer (arrogance and an uncaring attitude rears it's ugly head again). Surely it is not about what they were prepared to offer, it should be about what we were entitled to. After another email we received two incomplete loan application forms and a letter from Storm stating our income for the financial year ending June 2007 was $345,000. Not bad given our combined gross income from salaries at that time was approx $75,000. Nothing on any documents provided so far show how our ability to repay was assessed or where our existing liabilities were included in the assessment of our applications. We are now struggling to meet interest only payments on these loans despite both working second jobs and subsequent salary increases.
Our first loan application was filled out and signed in the Suncorp branch in Morayfield. The application for the second loan and subsequent applications to increase this loan were filled out and signed in the Storm office in Redcliffe. We had never seen the letter stating our income was $345,000 before Suncorp forwarded it too us. We have asked the following questions of Suncorp, no acknowledgment let alone answers so far after 4 weeks. Perhaps the inquiry or ASIC will have better luck.

Questions:
1. Was our ability to repay our loans correctly assessed by Suncorp?
2. Were our existing liabilities considered in this assessment?
3. Did Suncorp use the income provided without our knowledge by Storm ($345,000pa) to assess our ability to meet our repayment commitments?
4. If Suncorp included the income from investments provided by Storm in the assessment of the application did they also investigate and identify there was a significant margin loan supporting these investments (they never asked us)?
5. Does Suncorp have further documentation showing how this assessment was carried out?
6. If so why are they reluctant to provide this documentation to us?
7. Was it common practice to accept loan applications from other external financial advisers?

Storm
Our relationship with Storm has been detailed in the opening background. We will go straight to questions.
Questions:
1. Why were we advised to continue to increase our margin loans as the market was falling and our LVR's were getting higher?
2. Why were we not converted to cash to protect our investments before we reached our maximum LVR?

3. If we had reached our maximum LVR before being converted to cash how were we ever going to re-enter the market?
4. Why were we allowed to fall into negative equity without being converted to cash?
5. What was the chain of events that occurred during the time we went into margin call and CBA severed all ties with Storm?
6. Given Storm's up front fee structure was the pressure applied to clients to increase their investments through increased borrowings in the client's best interest or was it simply to generate revenue for Storm?
7. What happened to the "massive war chest"?
8. Why wasn't there adequate liability insurance in place to cover client losses?
9. Was it legal, ethical or responsible to provide a letter to Suncorp stating our income for the 2007 financial year was $345,000 to substantiate increasing our mortgage without informing us?
10. We were constantly told Storm is here for our clients. To quote "Storm will take the bullet for you." The time has come too draw a target on your chest and stand against the wall, figuratively speaking of course. Will the senior management of Storm cooperate fully and frankly with this Inquiry, ASIC and the various legal teams to achieve the best possible outcome for its former clients and friends?

ASIC

While well intentioned the decision by ASIC to gag Storm at the height of the crisis caused added stress to former Storm clients at a time when we all needed all the support and information we could muster. This action caused the advisers we had relied on for years to refuse to even take our calls this at a time when CBA were pressuring clients for every remaining dollar we had. Not a good time, alcohol and anti depressants helped a lot of people cope. Storm was licensed by ASIC.

Questions:

1. Will ASIC consider investigating the investment models of financial planners before granting licenses? With particular attention paid to gearing levels, LVR's and the exit/convert to cash strategy employed by the planner in times of market volatility?
2. Will ASIC consider a structured level of indemnity insurance (so many $ insurance for so many $ invested **)** before granting licences in the future?
3. Will ASIC consider increasing regulations and financial lenders "Duty of Care" to borrowers regarding margin loans?
4. Will ASIC investigate the roles of all banks and lending institutions involved in this disaster?

FPA

Who? Storm were members. Need to improve their approval and regulatory processes and lift their profile if they are to be relevant into the future. No questions.

CONCLUSION

We are a normal Australian couple with 4 children and soon to be 6 grandchildren. We have worked hard all our lives to provide a home for our children and a secure future for ourselves. The Australian Government told us we should make provisions for our retirement and with the aging population should not rely totally on the government in our retirement. We heeded this advice and went to a financial planner who was a member of the FPA and licensed by ASIC the government watchdog. We trusted Storm and paid them many $ in fees, we trusted the banks (CBA and Suncorp) who were more than happy to lend large amounts of money on applications filled in by Storm and then collect their interest and fees. Never once did any one tell us we were doing the wrong thing, quite the contrary.

We don’t have any investments left, we still owe CBA approx $8,000 and have a mortgage with Suncorp of *$475,000.* We both have second jobs when work is available and are living in a converted games room attached to our shed. Family members are living in our house to help meet the interest only payments on our mortgage, no hope of ever paying off the principal. Retirement is a distant dream.

Questions and answers:

1. Did we act with good intentions? - Yes.
2. Did we conduct our affairs legally? - Yes.
3. Were we financially naive? - Yes.
4. Were we too trusting of all the organisations we dealt with? - Yes.
5. Were we let down by the organisations we dealt with? - Yes.
6. Will this inquiry help us to gain compensation? - We hope so.
7. Will this inquiry recommend putting in place systems and procedures to prevent this occurring in the future? - It must.