

10th August, 2009

Committee Secretary
Parliamentary Joint Committee on Corporation & Financial Services
CANBERRA ACT 2600
Australia

Dear Committee Secretary

Re. Submission – Investigation in to Commonwealth Bank Australia

Please accept this letter as my late submission in to the enquiry currently taking place re. the Commonwealth Bank of Australia (CBA) and the loans to the clients of Storm Financial.

In this letter, please find a brief explanation of why I believe that the CBA are completely responsible for the situation that many clients of Storm Financial find themselves in (including myself), especially in relation to the value of margin loans given. I strongly believe that the CBA endorsed the Storm Financial program and should be held accountable for their actions as per my two specific examples below.

EXAMPLE ONE

I went to Storm Financial for advice and after some education sessions, I was given the advice to apply for a mortgage on my house. The CBA, who were the lending institution recommended to me by Storm, completed a valuation of my property and agreed to lend 80% of the total value. This was calculated at \$200k. This agreement received from the CBA was then sent to Colonial Geared Investment (CGI) to provide the basis of my margin loan. The value of the margin loan I received was \$300k.

At the end of this process, I had \$500k to invest in the markets. Storm Financial then advised me to put \$50k in my “dam” (essentially a safety fund) and \$30k was paid in fees to Storm Financial. The balance then is \$420k which is invested in the index.

At this point, the only security that I have is \$50k in my “dam fund” and the only security that CGI has is that the market is going to increase to enable me to repay the loan as well as interest.

EXAMPLE TWO

Further evidence of the CBA's endorsement of the Storm program was seen in 2007 when CGI increased the LVR of clients of Storm Financial from 70% to 80%. If CGI did not endorse the Storm model of borrowing and investment, then they would not have taken such an expensive step.

Early in 2009, the media continually reported the clients of Storm to be greedy individuals who borrowed above their means. As more evidence is revealed, it becomes clear that CBA were in fact the ones who were greedy as essentially, they made decisions to lend too highly to clients on the basis that the markets would always increase in value (or if they did fall, then the difference would be slight).

I strongly believe that there are particular individuals within CBA who allowed their judgment to be clouded when making lending decisions. The process of a margin loan is black and white and should purely be based on an assessment of risk. The decision of how much to lend a client is a calculation but instead was turned into a subjective decision based on the fact that the client was investing through Storm Financial.

The managers who made these decisions are now hiding behind their mistakes of the past and trying to apportion blame to ASIC and even their own staff.

My only request of the Government through this enquiry is that CBA are held accountable for their errors and that the many clients who have suffered as a result of their poor decisions are adequately and fairly compensated. The CBA must be made to take financial responsibility for this to ensure that the same decisions aren't made in the future.

It's very disappointing to see the CBA, even this far in, have continued to victimise the clients of Storm by waiting until the last minute to put their submission in to the enquiry leaving us no time to respond to the statements that they have made. CBA's clear priority in this is to protect their reputation and as a result, we are continuing to suffer on many levels.

I look forward to the Government's consideration of the above and to the right decision being made at the conclusion of the enquiry.

Kind regards,

Panfilo Di Lullo