

Submission to the Parliamentary Inquiry

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Summary:

- Page 1..... Our views – the banks; general
- Page 2..... Storm Financial: Trust; Negative Gearing
- Page 3..... Our views - general
- Page 4..... Disclosure 14/03/07; ignite
- Page 5..... Our history
- Page 6..... Our history;
- Page 7..... General
- Page 8..... Re: Bank of Queensland - errors on loan contract
- Page 9..... Personal details

The Banks:

We believe that the root of the whole problem stemmed from Storm Financial. Storm proved to the participating banks that they could all have a profitable relationship. Why didn't the margin lending bank also hold the mortgage? They did not check our income and details which were wrong.

The Global Economy:

That is why we are not upset that we were sold up.
We were, however, upset that it didn't happen earlier.

We, ourselves could have lost most of the money if we invested it ourselves. However, these experts did not act responsibly. Our property, though, would not have been lost had we been in control!

Macquarie Bank:

Macquarie Bank did not supply us with correct values in their statements. On many occasions they were not the same as Challenger.

We asked Storm to pay off our margin loan earlier on. They didn't send the forms to us so we asked Macquarie for the forms to be sent to us.

When the forms went back to Macquarie Margin Lending in the middle of December, I was assured by Alex Dodds that the loan would be paid off and I would not pay for the whole of December interest. Interest being paid was \$6,300 per month.

Then there was no clear indication if there was any amount left.

Storm Financial:

Our 'cashed up' money was sitting in the Cash Management a/c since mid-October. We were still paying interest on the margin loan of \$904,086 at that time, of around \$6,400 per month. We were told that the money would stay there in readiness of getting back in. The money could have sat there for another six months – what for, to pay more interest?

If Storm wanted they could have sold us earlier and saved our property. They knew from last February that we were concerned about the economic downturn and of losing our property. David McCulloch told me not to read the papers – it was all hype.

It has come to light that Storm's funds would have diminished earlier for Storm, if action was taken to save us. Storm sacrificed us in the hope of a quick turn-round in the market. They forgot about 'Murphy's Law'.

Trust:

During our first meeting, Emmanuel and David mentioned that CBA was looking to buy the system which Storm developed.

During another meeting they said that CBA did buy it for a lot of money but did not say for how much.

'Clients in negative gearing'

- ***We were in negative gearing long before October '08, actually we were in negative territory since February 2008. Because Storm kept our mortgage loan out of the equation, our portfolio was referred to as being in a good position against the margin loan.***
- How could Storm blame the bank for causing huge losses by panicking and selling up? Our margin loan stated David McCulloch as our adviser. He should have and he probably did know.
- How much bigger would these losses have been today if the bank didn't 'panic' and maybe **Storm should have 'panicked earlier'!**
- **We had no control over how much we borrowed.** Who increased our margin loans in the first place – it wasn't the bank, it was Storm's suggestion - because "**only those clients that did what they were told to do, they went ahead!**" It was a 'catch 22', you got involved, you could see something was not right. To get out meant losing our money and at the time it seemed not a good thing to do.
- A simple calculation of Storm's clients' data (**Ignite was supposed to hold all the information**) would have helped. Emmanuel did not take that step to sell earlier so he sat back hoping for the market to turn around and it didn't. Storm did not want to do what the banks did and they did it too late. **A simple calculation of each client, margin loan, mortgage and value of portfolio.** If things don't get better you get out.
- How much money did Julie & Emmanuel take out from Storm?

Negative gearing (continued)

- Why did storm show favouritism to some clients?
- We complained to Storm as to how we could afford to service both loans and then service our needs. I was told not to worry – it was their problem.
- December 2007: Storm didn't monitor our cash flow funds in our CMT a/c and we were in an embarrassing situation of not having available money to pay our rent – so they really didn't do their job and that was our panic!
- **Why were we not told of the HIGH risk that we were entering into?** Only that there would be "pain for gain" and "you are in for the long-term". We didn't show impatience, only concern.
- We are crying for \$75,000 of our cash which we gave Storm (on their request) in June 2008 and the two tax refunds totalling \$13,500 in October 2008. We were bailing out our own account.
- Did Storm really believe that the market would turn around and jump to 4,400 so quickly? Our phone calls of concern were drowned by their optimism.
- Our portfolio wasn't able to supplement our living, as was calculated, so we were in fact, were borrowing on the margin loan for that. Storm would sell units and transfer into our CMT a/c, and then for the same amount + commission, they would borrow on our margin loan in order to keep up the value of our portfolio!!
- **The Storm Way: Assuming that the market never dropped, and continued to go up, we believe that when we eventually died – even with a perfect market, our children would have inherited a Margin Loan + a Mortgage and very little in between!** The minute there was a positive margin between loan and portfolio, there went another increase on the margin loan.
- **Now who is going to pay our mortgage interest until such time that the property market picks up? – no bank will and neither will Storm Financial!**

**Example: From Storm Financial on additional investments:
dated 14/03/2007**

"As a Representative of Storm Financial Pty Ltd, David McCulloch is entitled to an amount of 10% of the upfront fees paid to the Licensee. This remuneration is included in the fees set out and is not an additional fee to you.

**Disclosure of Interest in the Challenger Managed Investments Limited
Storm Australian Indexed Trusts**

- Storm Financial Research Pty Ltd is a research company owned in shareholding by Emmanuel and Julie Cassimatis.
- Storm Financial Research Pty Ltd is entitled to receive an ongoing royalty of 0.165%pa including GST based on the value of your holding in the Fund. The ongoing royalty is paid by the fund manager and is contained in the management fees. This is not an additional cost to you."

"This company referred to at the time is obviously 'IGNITE' who also was asleep at the wheel!"

- **When we were in business, we had to keep records for 7 years.**
- **How legal is it for the support system, Ignite, to withdraw from Storm, after Storm went into voluntary administration, leaving the receivers and voluntary administrators with an information blackout?**

Was Ignite there just to keep our details for what benefit to us - only for Storm to pay that company another fee?

As quoted in one of the papers:

- Software called Phormula, owned by Ignite, and owned by Emmanuel and Julie Cassimatis, was designed to monitor "**client's borrowing and investing capacity**" and identify new investment opportunities which, in the process, generated lucrative fees for storm.
- Now we read that Ignite is a creditor.

Ignite: We felt so lucky that Storm had their own built-in research company which was going to look after our investments – isn't that what research means?

It seems that it turned out that the research was not for our benefit but for Storm's benefit and what was the best possible way to get more money out from us.

History:

At the Start:	
Assets as at 18th January 07: (prior to joining Storm Fin.)	387,500 cash (to give Storm) + plus extra for our use. (sold home) Allotment valued at \$550,000 Plus sale of land worth \$110,000 (settled Dec. '07) • We had no loans and no mortgages at this point
Why we joined:	We were told we could refire with what we had and that we would never pay taxes again - sounded very attractive after being in business in a shopping Centre for 15 yrs. We were told that we would never, ever pay taxes again. That "only those who did what they were told benefited and that we were in for the long term.
First (5) weeks of joining:	
Investment #1: 19/01/2007 (our cash of \$310,000 + \$240,000 margin loan)	\$550,000 invested - Cash of \$387,500 was broken up into: Storm fee: \$42,500 Cash Management a/c: \$35,000 (Macquarie Bank) Investment: <u>\$310,000</u> + (margin loan <u>\$240,000</u>) \$387,500 (with Macquarie Bank)
Investment #2: 26/02/07 (mortgage of \$330,000 less fees, bank charges, C/Man. a/c + another \$275,000 margin loan)	\$550,000 invested: Mortgage on allotment \$330,000 was broken up into: Bank fee: 2,600.00 Storm fee: 42,300.00 Cash Management a/c: 10,100.00 (Macquarie Bank) Investment: <u>\$275,000.00</u> (BOQ) + another \$330,000.00 (margin loan with (Macquarie \$275,000) There was a margin loan on our mortgage.
<u>SUMMARY as at 26/02/07</u> (first 5 weeks - with Storm)	Macquarie Bank: <u>Margin Loan: \$240,000</u> Bank of Qld: <u>Mortgage: \$330,000</u> Macquarie Bank: another <u>Margin Loan: \$275,000</u> Total Margin Loan: \$515,000 Mortgage: <u>\$330,000</u> \$845,000

Remaining Investments:	
<u>Investment #3:</u> 16/03/07	\$50,000 invested – with margin loan of \$88,719 (Storm fee: \$3,719) The balance in CMT a/c
<u>Investment #4:</u> 14/06/08	\$25,000 invested – with margin loan of \$26,452 (Storm fee: \$1,452)
<u>Investment #5:</u> 04/09/07	\$128,000 invested – with margin loan of \$137,283 (Storm fee: \$9,293)
<u>Investment #6:</u> Feb 2008	\$30,000 redemption from portfolio to supplement C/M'gmt a/c Replaced the \$30,000 – with another margin loan of \$30,000
<u>Investment #7:</u> 17/06/08	50,000 redemption from portfolio to supplement C/M a/c Then replaced the \$50,000 redemption <u>with \$75,000 – this time with our own money which we put aside for a 'rainy day'</u> . (Storm fee: \$1,818 – added to margin loan)

Additional transfer to CMT a/c: David McCulloch asked us to also transfer our (2) tax refunds into Macquarie CMT a/c, \$13,500 went in November 2008.

Storm Financial:

- David insisted: For our portfolio to benefit on this dropping market transfer \$75,000 into your C/M account before the end of the financial year *so that we can take you to the next step of your investment journey*".
Please note:- that on this last investment (Invest. #7), Storm included Appendix 'A', 'B', 'C' & 'D'. Appendix 'D' sixth paragraph, *"We understand that any projections of future performance are a guide only and no guarantee is given that investments will meet the expectations stated. Where managed or market linked investments have been chosen, adverse market conditions may result in invested capital being diminished"*.
- From the day we noticed that our mortgage was used to take out another margin loan, we raised concerns about our leverage. We were assured and told not to worry, sit back & not look at things. That this was Storm's problem, that's what they are there for, to look after all this.
"If you do what we tell you to do, your portfolio will grow, there will be pain for gain and don't forget that you are in for the long-term".
- Yes we were told that the mortgage would be invested into shares. No, we were never informed that our mortgage would be used to borrow more money on it – that would have made us change our minds. There was never HIGH RISK mentioned, only 'PAIN FOR GAIN' & in for 'LONG TERM' and that we had to be patient.

- We could not understand how with our cash + mortgage of \$330,000 could yield a margin approval of up to \$1,000,000.
- At meetings we were dazzled with lots of graphs, projections and information which at the end of the session meant good things!
- When we asked for the 'worst scenario'. *Emmanuel said that if the All Ordinaries dropped as much as 2,000 points, we would still be fine.*

We could not see a way out.

A simple table, updated regularly would have triggered 'danger'. Where was the safety valve?

Name:	Date: As at:	Portfolio Value:	Margin Loan:	Mortgage:
Michaelides	June 2008	\$1,208,745	\$904,086	\$330,000

- We believe Storm Financial created Sub-Prime investors to increase their business value in readiness to enter the stock market.
- Why did Storm use two (2) different banks?
- Margin Loan on mortgage & then another margin loan on portfolio after it edged up.
- Very old clients and fairly new clients like us, everyone seems to be in the same position – but not all clients. As the values grew, so did the mortgage and margin loan.

LASTLY: Why did we have to pay so much interest on our margin loan from July to Dec '08? They 'cashed us up' mid October but because Storm dedicated the money to the CMT a/c, we earned very low interest. Yet the interest on the margin loan was around \$6,400 per month.

- Why did (4) clients receive \$650,000 for financial assistance?
- Why did the Cassimatis's pay themselves so much money in dividends when their costs were \$850,000 per month and their revenue was low at the time?
- Why did Storm select 40 clients and loaned them \$3.5 to \$4 million?
- Why did 'Ignite' (the research company) not research the financial situation better after all they were paid to research?
- Is it legal to black-out information when administrators & receivers are involved? Don't records need to be kept for tax purposes?

Bank of Queensland – North Ward Branch Townsville

With reference to our 'Consumer Lending Application' in the above names, for a mortgage on a vacant block of land, arranged by Storm Financial, dated 24/01/2007, for \$330,000.

Firstly, there was no contact at all between ourselves and the BOQ North Ward Branch on this matter. All arrangements were organised by Storm Financial.

Prior to signing the documents, we made it clear to Emmanuel and David McCulloch (our designated advisor) that we would mortgage the land provided we pay the mortgage off in due course – and they said we could.

We had no idea that the proposed term was 360 months – 30 years (see page 5).

We didn't go to the bank to sign these documents, as David from Storm called us to go and sign them at his office. He was busy so we were ushered into another room where we signed on the dotted line. I asked for a copy and was told that one would be sent to us. It wasn't.

Errors on the application:

Page 1:

- Date moved into current address: was not 16/01/2006 - it was March 2005.
- Date moved into previous address: was not 07/05/2004 – it was January 1993.
- Employment details: Date started with employer: 07/05/2004 – There was no employer.

Page 2: Financial Position

Assets:

- Motor vehicle/s: Value \$0 – We had a Subaru (2001) & Harley (2006).
- Investment shares: Value \$3000 – not sure what they are.

Other Assets:

- Macquarie a/c Superannuation funds now sitting in a CMT a/c \$550,000 – (obviously Bank of Qld did not check if we really had those assets at Macquarie, the most in there was \$35,045.76 – see attached bank statement).
The \$550,000 referred to was our cash of \$310,000 + margin loan of \$240,000.
Therefore, the total value of assets \$1,158,756 was incorrect as the margin loan was included into the assets.

Liabilities:

- Other loans \$0 – What about the margin loan of \$240,000 as at 19/01/2007?
- Paying monthly rent and interest on mortgage is a liability.

Page 5: Applicant(s) Financial Budget

Income:

- At the time of signing the loan contract (24/01/07), our income was not what was stated - there was no income, Storm had our money at the time. You didn't ask for a statement of earnings. Our income came from our own cash sitting in CMT a/c. You should have been aware that by signing the contract, there was an additional liability - our monthly interest payment to you for the mortgage.
- Our income, after joining Storm, was not from dividends as stated on the contract. Our income was to come from selling units to supplement our CMT a/c, and then borrowing on margin loan to re-buy those units + enough for Storm commission. We were also borrowing to pay our mortgage interest.
- 360 months, we would not have agreed to this and at the same time, we made it clear about our discomfort of having this mortgage.

Expenses:

Monthly commitments – there was no mention of rent, insurances, registrations, medical insurance, and of course the monthly interest repayments on our loan with you.

For your interest, Storm used the dividends not for us to live on as they said it would. The dividends were used to increase the value of our shares so that we could borrow more.

Providers of the above submission.

Sofronis Michaelides

Anna Michaelides