Submission to the Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into issues associated with recent financial product and services provider collapses such as Storm Financial, Opes Prime and other similar collapses

Preamble

My name is Alain D'Hotman De Villiers, 41 years, married with two children.

I am a current serving police officer with the Queensland Police Service (QPS).

In January 2007, my wife and I commenced an investment portfolio with Storm Financial (Mackay). Due to a combination of factors including the recent financial downturn, the actions of the CBA, and the actions of Storm Financial, my wife and I have been left with a financial debt of $312,439. In real terms and with interest calculated, this figure translates to over $800,000 in repayments.

My family and I are now living below the standard poverty line *(Ref: Melbourne Institute of Applied Economic and Social Research)*.

Personal

I am a police officer and have served the Qld Police Service for approximately 20 years.

I am the recipient of the Qld Police Service Medal for exemplary service to the community; I am also the recipient of various Commissioner's Certificates in recognition of my good work.

In 1997 I raised money for three charities by completing a 2000km bicycle ride from Coolangatta to Cairns.

I have been involved in a number of community projects including PCYC, tennis, swimming, outrigging etc… I am the current serving vice president of the Gold Coast Junior Albert Tennis Club.

<u>Relationship with Storm</u>

I was told about Storm by a work colleague and consequently attended a seminar in Mackay. Like many others, my wife and I had paid off our family home, we owned our two vehicles and boat, and wanted to secure our financial future.

The value of our assets at the time was $470,000 ($440,000 house and $30,000 vehicles).

I recall the seminar focused on how to create wealth using the equity in the home. I recall there were a number of graphs shown in the presentation, comparing the various investment means (i.e. shares vs. real estate vs. cash). It was made plainly clear to us that historically shares had outperformed all other investments.

I recall someone raising the question 'what happens when the market falls?' The speaker responded saying that our assets (i.e. our homes / properties) would be safe due to the buffer / LVR, and that the strategy employed by Storm Financial P/L favoured falls in the market. I was lead to believe that the Storm strategy was designed to cushion any falls in the market, provided clients could afford to wait in the event of a downturn.

We were lead to believe that we could make a lot of money by using the equity in our homes and using the Storm strategy.

I later advised Storm Mackay that my wife and I were interested in a second meeting. We were told that the second step was to complete and submit a Questionnaire.

I recall receiving a lengthy Questionnaire which my wife and I completed and returned. The Questionnaire was basically an expenditure analysis, identifying the family's expenditure and potential savings. Our Questionnaire revealed we were able to save $200.00 per week. As a result of this, we were contacted by Storm Mackay and a meeting was arranged.

On 20 June 2006, my wife and I attended a meeting with Storm Mackay. At this meeting the Storm model was again explained to us, as well as margin lending principles. I had never heard of nor had I ever utilised margin lending facilities prior to this.

I was comfortable with margin lending the way it was explained to us, and believed there was enough of a buffer to secure our investment in the event of a market downfall.

I specifically recall my wife and I telling Storm that we were interested in investing, however because we had not invested in the share market before, we wanted to start with a small investment of $20,000.

It was stressed to us that for the Storm model to work, we needed to maximise our investment by capitalising on our borrowing potential. We were told the best way to do this was to borrow against our greatest asset, our home.

Storm Mackay stressed to us that the only contribution we would ever have to make would be the $200 p/week. This also corresponded with our saving potential as calculated by the Questionnaire. We were also told that this contribution would only have to be made for approximately three years until our plan could manage itself.

I recall my wife asking over and over again whether our home was safe. This was extremely important to us, because in 2000 my wife and I had battled through extreme financial hardship with the premature birth of our son, the loss of one income, and unfinished renovations to our home.

We were assured that our home was safe. We were told that the Storm model suited our needs and it was designed not only to absorb market falls, but to take advantage of and recover strongly from them. We were told over and over again that our home was not at risk.

I recall Storm informing us that in the worse case, we may lose all our gains, but that we could not lose our home or be left with a mortgage.

We were told the company had a strong balance sheet and they were continuing to grow and acquire other businesses.

Based on the information we had received from Storm, we decided to invest. We advised Storm that our preferred banking institution at the time was the ANZ Bank.

On or about 6 July 2006, we received a 107 page Statement of Advice which my wife and I signed and returned. Initial fees appeared quite excessive at $30,667, however the plan had provided for this. This was not to be an out of pocket expense for us.

We then received from Storm various documents including a Macquarie Cash Management Trust application; a Macquarie Margin Lending application; a Storm Challenger (CMIL) application; and an ANZ Discharge authority form. These were completed and returned.

On or about 20 February 2007, my wife and I received a Reconciliation Letter stating that our investments had commenced as at January 2007.

Our agreement was with the ANZ Bank for a $312,000 Investment Loan, plus $1,248.00 Stamp Duty and $111.30 Registration on Mortgage. The Investment Loan was broken down into:

- **$245,000** **CMIL investment**
- **$30,667** **Storm Financial Fees**
- **$34,838.40** **Deposit Macquarie CMT**
- **$1,494.60** **Bank / Statutory fees**

We also entered into agreement with the Macquarie Bank for a $140,000 margin loan. The full amount of the margin loan ($140, 000) was invested with CMIL.

It was explained to us that our initial investment was seen as a platform for future investments. That the procedure for reviewing our investment was primarily driven by changes to the value of our investment, and this was related to movements in the market. The aim of any review conducted on the basis of a movement in the share market, was to purchase extra share units. The direction of the movement would determine how this purchase was financed.

This in mind we reminded Storm Mackay that we did not want a 'get rich quick' scheme, and preferred to minimise our risk and move slowly with our portfolio.

Since signing with Storm, we never dealt directly with the banks in relation to loans. All dealings with the ANZ and Macquarie were initiated by Storm Financial, however we were called on from time to time to sign loan documents. In fact, we never received as much as a phone call from anyone from Macquarie. On the advice of Storm, our margin loan with Macquarie continued to grow. The process involved us receiving a telephone call from Storm Mackay followed by 'Next Step' documents which we were required to sign and return. I often questioned the pace of our increased borrowings and was told that everything was going well and that we needed to increase our borrowings to take full advantage of the storm model. I concluded that Storm Financial were the experts who knew what they were doing, and signed the documents.

Our additional borrowings from the Macquarie Bank were as follows:

In May 2007, $74,842 split as follows:

- **$70,000 CMIL investment**
- **$4,842 Storm Financial fees**

In August 2007, $45, 049 split as follows:

- **$42,000 CMIL investment**
- **$3,049 Storm Financial fees**

In August 2007 $53,630 split as follows:

- **$50,000 CMIL investment**
- **$3,630 Storm Financial fees**

In October 2007 $63,273 split as follows:

- **$58,900 CMIL investment**
- **$4,373 Storm Financial fees**

In January 2008 $10,743 split as follows:

- **$10,000 CMIL investment**
- **$743 Storm Financial fees**

In addition to this, in January 2008, Storm advised that we fix our ANZ residential investment loan at 8.19% over two years. This would enable us to prepay the interest component and maximise the tax benefit. The balance of this loan is currently $413, 439.53 and our repayments are approximately $2,173.00 per month.

In addition to these, and on the advice of Storm, my wife and I made three additional deposits to our Macquarie Cash Management Trust account, again to get the full benefit of the storm model. These comprised:

- $10,000 on 29 October 2007
- $10,000 on 21 July 2008
- $14,000 on 3 December 2008

These were tax refunds that Storm strongly advised should be reinvested. The only benefit ever received from our storm investment was a pre-arranged $7,000 withdrawal for an overseas holiday.

Since the collapse of Storm, I have made repeated requests to the Macquarie Bank for our personal records including loan documents. I have received several photocopied documents which appear to merely be identification documents. I have not received any documentation from Macquarie showing any form of serviceability assessment. By this I mean the bank does not appear to have conducted any assessment of our ability to repay the margin loan. In addition to this, there does not appear to have been any advice given to Macquarie by Storm, in regards to our commitment to the ANZ investment loan.

In regards to the ANZ investment loan, again there does not appear to have been any assessment done by the ANZ in regards to serviceability of the loan. The loan was approved by the ANZ on the advice of Storm. Repayments on this loan are fixed until January 2010, with repayments consuming over 50% of my income. My wife does not work, and after all other bills (apart from food, clothing etc…) are paid, I have calculated that we have approximately $173.00 per fortnight at our disposal. As a reminder, our family consists of two adults and two children. I am in awe at what information the ANZ Bank relied upon to approve this investment loan. I have requested these records but to date have not been provided with anything.

To say that the Macquarie Bank and the ANZ are aware of the predicament of Storm clients would be an understatement. I am able to say that to this day, we have not received one phone call from any person from Macquarie, offering any form of assistance or support in regards to our margin loan. In addition to this, no person from Macquarie has been able to advise us on the actual and real value of our portfolio at any one time. The Macquarie Bank has not been able to respond to any of our concerns.

No one from the ANZ Bank has contacted us offering any form of assistance or support. I have sent numerous amounts of correspondence to the ANZ Bank, requesting an assessment of our loan agreement. The ANZ Bank was absolutely disgraceful in their response to us. Initially they ignored all of my requests, however after numerous heated telephone calls to their Financial Hardship team, we received an email offering us some assistance. The ANZ Bank agreed to suspend all interest repayments until January 2010 which is the end of our fixed interest rate term. The ANZ Bank conceded that interest would still be added to our loan and that we would be required to repay the higher loan balance at the variable interest rate. We declined the bank's offer.

In addition to this, we have not been able to date, to identify from any party, the name of Storm Financials professional liability insurer. A submission has been made to Worrell's Solvency who we have been told will forward our paperwork to the insurer. Worrell's Solvency have stated that at the request of the insurer, they are not prepared to provide their name to any former client of Storm Financial. I find this absolutely appalling and question why, at the very least Freedom of Information has not been exercised.

I believe that both Storm Financial and the Macquarie and ANZ banks have acted inappropriately and with the sole intention of benefiting themselves and increasing profit. I believe there was little regard given to the serviceability of these respective loans and had a competent and diligent assessment of our serviceability been undertaken, neither bank could have approved these loan amounts. I believe that Storm Financial have utilised their strong client base and financial position to guide and influence the bank's assessment processes.

I wish for this inquiry to investigate the actions of the respective banks, and particularly those involving Storm Financial clients. I wish for the inquiry to investigate the processes used by the banks to assess serviceability of investment loans and margin loans, with consideration be given to individual client information provided to the banks by Storm Financial.