

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
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Australia

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We are ex storm financial clients. In 2006 we were in a position to do some investing as we had all but paid off our family home and had a substantial amount of good quality stocks. We had saved and sacrificed for 20 years to get to this position and were looking to invest to prepare for our retirement which was years away, but we always believed that we needed to take care of our situation as the pension was not going to be available for us later on in life.

We were introduced to Storm Financial by close friends who had gone to one of the information sessions and suggested that we go for a look. After these information sessions, we both agreed that in theory the model sounded good and agreed to proceed to the next step i.e "A statement of advice".

Our first step was to borrow \$376,000 against our family home and a further \$244,000 from a margin loan to purchase further shares. At first the amount scared us and we did not want to do anything; we were particularly worried about the debt on our home as we were always taught that you never put up your house as security. However upon talking to our advisor who we had known for many years we were convinced to proceed with this course of action. We believed we had done our due diligence by speaking to other Storm Financial clients who had been involved for many years and were more than happy with the advice and as we personally knew the advisor felt confident that we would be ok.

The model worked well for the time we were in it. We were contacted at different times over the years to increase our borrowings and after time we became quite comfortable with the amount as we had been in it for quite some time and it seemed to be working. We were always very careful with our funds and never at any time used any profits from the investment, instead choosing to deposit every cent made from our personal direct stock dividends and any income tax refunds directly into the Cash Management Trust (dam). We always knew that it was a long term strategy. At no time did we ever have delusions of getting rich quick. We are on reasonable incomes and were able to save on top of putting enough money into driving the investment plan.

The stock market began taking a dive in 2007 and in July, 2008 we were contacted by telephone by Macquarie Margin Lending that we were in margin call. Arrangements were made to link funds and direct stocks to the loan that satisfied the margin call. However in mid November, we received a statement from Challenger stating that on October, 24th our portfolio was sold down in to cash. At no time during this period were we contacted to advise we were in margin call again from either Storm Financial or Macquarie Bank. We were well aware of the continuing market slide and were fully expecting contact again (as we had in the past).

This is the issue that is particularly troubling to us, why did we not receive a call from MML as we had done so in July of the same year? Why were we not given the opportunity to save our portfolio, as we had excess funds in another bank account and could have put a further \$3000 to \$4000 per month out of our salaries to the account to stay in the market? We have written to MML and asked why this occurred and were told that they operated as an "intermediary business" and therefore had no obligation to contact us directly. They said they deal with the advisor directly and no one else. This has caused us to lose our life savings.

We would like the following questions answered by Macquarie margin lending:-

- Why was our loan **not** sold down at 80% LVR instead of in excess of 100%(neg equity)
- Who authorised our margin loan LVR to exceed 80%?
- Who negotiated the higher buffer and margin call trigger point?
- Why did we receive no call from MML on the 2nd occasion?
- If our advisor was the first point of contact, why in the original application for finance form, question #8 advising of our Authorised Representative, not signed or completed. Surely this indicates we wanted to be the ones contacted.
- If MML contacted the advisors as they claim they did, and no action was being taken by the advisors within the allotted time frame, one would think alarm bells would have been ringing to the tune of "Time to contact the client". Instead, they chose to sell down regardless of situation or circumstances.
- Did MML have the resources to be able to handle this crisis?
- Did we not get the 2nd phone call because they were too busy?
- Are all clients of MML treated the same way as Storm clients? I.e. did non-storm clients suffer the same fate?
- How could we monitor our own portfolio when the "Gear up" web site was unreliable and not updated regularly?
- How did MML ensure we were aware of our commitments to monitor our own portfolio?
- What documentation exists that states we were responsible for monitoring our own portfolio?
- In a response from MML they state that they can not give us details of correspondence between Storm Financial & themselves. Surely this can not be the case when it is **our** account they are dealing with.
- Is it reasonable to expect that the person who holds the loan, carries the responsibility for the loan, is the sole respondent for the obligation and the sole entity in respect of consequences for failure to meet those obligations, is not in the banks view the person who should be contacted in view of critical events such as buffer triggers and margin call?
- Is it reasonable for MML to hide behind their so called "Terms and Conditions" while the clients position is being decimated. The same clients who had an impeccable banking history with them and met the first margin call immediately when notified. Point being, they had absolutely no reason to annihilate us for past performance.
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Prior to the collapse our debts amounted to-

- \$376,000- Original equity loan to CBA
- \$116,000- Additional equity loan to CBA. (Inflated house revaluation @ July 2008 by CBA)
- \$1,101,548- Margin Loan with Macquarie margin lending. (Sold down in excess of 100% LVR)

We have since had the property revalued to prove that the CBA inflated the value of the property at the time the 2nd equity loan was approved. The property would have had to have been valued at \$615,000 to enable an LVR of 80%. Instead, the property has been valued (JUNE 09) at \$500,000. In which case the LVR was in the vicinity of 98%.

We are also questioning the involvement of ASIC and the Commonwealth Bank in relation to the demise of our financial advisors "Storm Financial". It begs the question; did they shut Storm Financial down deliberately? If this is proved to be the case, given that we were left high and dry, trying to find answers and solutions to our problems whilst under an enormous amount of stress, we believe we should be entitled to receive reimbursement for the fees that we paid to Storm Financial throughout the duration of our involvement with them. The fact remains that if we had been able to have contact with our advisors during this period of uncertainty, we would have been in a much better position.

For the fees paid to Storm Financial we expected, and initially appeared to receive, quality advice. It is an important point that we PAID those we saw as experts, licensed financial advisors, to look after our investment affairs.

We would like the following questions answered by Storm Financial, ASIC and CBA:-

- Were the signed documents regarding the sell down of our portfolios sent immediately by Storm Financial to the margin lender?
- Why was the PI insurance held by Storm Financial inadequate when we were assured many times that if we were ever given bad advice that we could sue them?
- How was our property revalued at an inflated figure when no formal valuation was ever conducted?
- Were storm financial client's collateral damaged in a dispute between Storm and CBA?
- ASIC, in our understanding is a form of protection for consumers against unscrupulous operators! Why then was ASIC so proactive in gagging Storm Financial from the outset? Effectively, what they caused was massive stress, frustration and further damage by leaving people without access to their information and advisors.
- We are at a loss to understand how multiple banks have taken the same action during this saga. One could sort of understand if 1 bank took it upon themselves to do the wrong thing. But when multiple "pillars" or large corporations decide to pull the rug on us all at the same time....? One has to ask. *What was the catalyst?*

Summary

We had no option but to repay our margin loan in full due to the fact that we had been sold down so late and had no equity to re enter the market. The family home now has a debt of \$492,000 whereas prior to our involvement with Storm financial was almost owned outright (\$37,000 owing). We cannot believe that for the sake of a 30cent phone call, our life has been ruined and our savings decimated.

We are honest hard working people, along with all the other victims we're sure. None of us deserve what has happened. We would all have expected some sort of loss during the global crisis, but it's a different story when we are thrown to the wolves!

We are now pinning hopes on all wrong doings being exposed during the parliamentary inquiry and request that we get the chance to attend an inquiry in Cairns.