

BM & JE Zollner

July 25th 2009

Senator the Hon. Ian McDonald
P.O. Box 2158
Townsville Q 4810

Dear Senator McDonald

In early 1996, we were approached by Kevin Williams of Q Money, a subsidiary of Cassimatis Securities, to change a small insurance policy with MLC into an investment portfolio. After much deliberation and educational sessions, we decided to go ahead. The All Ordinaries was at 2850. We were advised to secure a home loan with the CBA for investment purposes and a Margin loan with CGI to maximise our investment. Within 6 months, the market had fallen to 2300 and we feared we would lose our home. We were assured that arrangements were in place to protect our investment and that we 'would never get a margin call'.

We remained clients of Qzdaq and then Storm, when Q Money was sold to the Cassimatises. The stock market recovered over time, but remained relatively flat for several years. While we didn't make a fortune, we re-invested dividends so that our portfolio continued to grow. We were both employed in full time, permanent positions and were in our late forties. Our aim was to become self-funded retirees, so that we didn't have to rely on the pension for our income. With increasing age, came some health problems and we hoped to retire earlier than age 65.

In May 2005, our portfolio was performing at such a level that early retirement was possible. Being conservative investors, we remained in the workforce until November 2006, just to make sure we could adequately provide for ourselves. At this time, we both invested all of our superannuation with Storm Financial. We were also advised to increase our mortgage, as our home had appreciated in value. Throughout our 10 year association with Storm, we had regular 3 monthly updates, with occasional advice to extend our margin loan to keep our LVR between 33 and 50%, depending on the market and dividends being re-invested.

In early 2008, when the stock market began to fall, we were concerned that as self-funded retirees, we were at greater risk of an actual loss than ever before. Once again, we were assured that procedures were in place to protect our portfolio and 'we would never get a margin call'. The Stop-Loss was explained and we were satisfied that Storm had our investments in hand. We were encouraged to take a further mortgage to be 'well positioned when the market recovered'. While we were reluctant to risk our home further with the market volatility, we decided to go ahead, as they were the professionals and their advice had been sound in the past.

For our final loan, an assessor did not visit to value our home. A 'desktop valuation' had been done, by CBA and passed on to Storm.

(With regards to obtaining finance - at no time, during our 12 years of investment, did we visit CBA or Colonial premises regarding Storm-related investments. Loans were arranged by Storm, and documents hurriedly signed in Storm offices. Even if documents had been signed in a leisurely manner, we are not trained in legal jargon and were not advised to get legal advice. We trusted our advisor, implicitly.)

In mid 2008, the market had fallen further and we panicked. We requested a reduction in our LVR, but were refused, and were assured that we were 'perfectly safe'. Our 'buffer' was sufficient to cover market falls and provide us with 2 years living expenses and again, we would 'never have a margin call'. Unfortunately, we didn't realise that we should sit in the Storm office until our request was met.

In October, we signed documents to convert our portfolio to cash, if our LVR reached 90%. We received no advice that this had happened, either by Storm or CGI.

We became aware that we had a problem with our margin loan in early November when we received our Macquarie Bank October statement. Interest payments for our home loans come from this account, and an extra \$40 000 had been withdrawn. We received no advice from CGI or Storm financial regarding this withdrawal. We tried to contact our advisor immediately, but couldn't get past the switchboard, or have emails answered. We finally worked out that we must have had a margin call.

Our first contact regarding margin loans came from CGI with a demand for \$55 000 within 48 hours. Our portfolio had been sold down completely, with proceeds being deposited into a CBA accelerator account, but we had a shortfall of \$55 000 in our margin loan. We contacted our advisor and he then realised our financial situation – self-funded retirees with no portfolio, no jobs, no income and a \$300 000 debt on our home. When our final statement arrived, our LVR had reached 110% before our portfolio was sold down. We decided to pay out our margin loan, rather than continue paying interest on \$1.5million. This cost us a break fee of approx. \$44 000. We had pre-paid interest on the loan in June 2008.

We still had to service 3 home loans with the CBA. We contacted CBA to try to reduce interest repayments to a more manageable level, but loan 'break fees' were beyond our means. We had to find employment or sell the house to pay out the loans. Brian was fortunate to find work at Pioneer Mill in Ayr, within a month. I also found work quickly, but my position is a rolling 3 month contract, and it is in Townsville. Rather than commute 200 km daily, I stay in Townsville with my brother-in-law and his family during the week. This puts extra pressure on us at a time when we already have more than we can handle. We have also moved into a rental property at Pioneer Mill and plan to let our former home to reduce financial pressure. I am applying for every 'situation vacant' in the Burdekin that I am able to do, even if not adequately qualified, so I can live with my husband again. I am having no success.

Since we actioned these plans, the CBA has made an offer of financial assistance, on which we are currently awaiting financial and legal advice. We have heard nothing from CGI, apart from receiving quarterly statements informing us that we have available credit of \$1.5million for a margin loan.

We have submitted this document to the Committee Secretary of the Parliamentary Joint Commission on Corporate & Financial Services with the request for a review of Financial and Banking practices in order to prevent financial and personal catastrophes of this nature from ever occurring in the future. We hope that you will support our plea.

Yours faithfully
Brian & Janet Zollner