

Summary Submission for Parliamentary Inquiry

Sharron King

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Sir or Madam,

RE: Inquiry into Financial Products and Services in Australia

Please accept this correspondence as my submission to the Inquiry into Financial Products and Services in Australia.

My name is Sharron King and I am a 39 years old Queensland Police Service Detective S/C 18yrs, and uniform 2 yrs. I am married and have been for 8yrs and I have three children aged 6yrs, 4yrs and 3yrs.

My submission is directly in relation to the collapse of Storm Financial Services.

I have invested in the Share Market since June 1996.

I have used gearing and equity to grow my portfolio for the period up until December 2000.

My Financial Advisor was Nancy Seymour located in her own premises at Holland Park. I had been with Nancy since 1990 and she was an Authorised representative of MLC.

In December 2000 a Financial Plan was created by Nancy then an authorized representative of Ozdaq Securities PTY LTD. This financial plan recommended a margin loan of \$28, 010 of which I commenced with Colonial Margin Lending. My loan application was based on my full-time employment and regular contributions each month to the portfolio. I was also contributing to a house mortgage at the time. I had a Loan Value Ratio (LVR) of 49.1% with buffer of 73.68%.

Information in the financial plan and from Colonial original loan approval documents was that in the event of my portfolio reaching buffer and margin trigger points I would be contacted by the lender and given notice to correct the LVR. This is documented and available.

My loan was increased in 2002 to \$78 010 due to the sale of my house. My LVR was 48.51%. My income stream at the time was reduced also due to the birth of my first and subsequent children. These circumstances were discussed at length with my advisor with regard to the portfolio being able to carry itself whilst I was on maternity leave. Before that time I was also contributing savings regularly. I was assured it could with documents provided. I was provided quarterly review reports and meetings with Nancy reviewing my Portfolio. The portfolio was \$160, 053.

My advisor retired around 2004 and her trainee financial advisor Stephen Halsall was absorbed into Storm Financial Services head office in Brisbane. Ozdaq Securities PTY LTD had changed its name to Storm Financial Limited. I followed Stephen Halsall on the advice of Mrs. Seymour.

Over the subsequent years I was encouraged to loan more by Storm Financial Services. At times when I have contacted Stephen to talk about the push for further finance and how to take the "next step" he was not aware that I had been contacted at all in this regard. He stated that notices requesting further finance to buy deeper were generated through a computer system when you reached a certain trigger.

In hindsight, it appears that there is a level of collusion between the data systems at Storm and CGI where information sharing was taking place and automated systems would ensure that any potential candidate for further finance was aggressively followed as soon as they triggered prequalification for further finance.

Apprehensively, but acting under the professional advice of Storm Financial Services and my broker Stephen Halsall I increased my margin loan. Storm staff and my advisor always provided unwavering support and encouragement for the increases. All my dividends from the portfolio were automatically re-invested.

My original security for the initial margin loan was gone and I was no longer working full time but the margin loan was increased continually with the shares as security.

My interest was paid from my Macquarie Cash Management account. Cash was injected into this through tax returns and next steps.

My personal circumstances were provided to my advisor continually. All margin loan increases were done through Storm and at no time was I ever contacted by Colonial Margin lending or provided a terms and conditions. I was not advised that there was a condition (4.2) which they now claim removes the requirement to notify me of a margin call on my own portfolio. This claim is contradictory to the extensive information provided in the initial financial plan which clearly states it is the lenders responsibility to monitor the loan and contact the client in writing of margin calls or corrections.

As I was not receiving any income for a period of 2 years how was Colonial credit scoring my margin loans? On what basis of serviceability were funds advanced? While I understand that Margin Lending is unregulated in Australia corporate governance and ordinary lending practice guidelines are in place with all major lenders to avoid unconscionable lending practices. Is there a special relationship between Colonial & Storm that circumvents credit assessment checks?

In January 2008 my margin loan had increased to \$557, 640 with LVR 67.89%. I had, as noted, not received an income for approximately 2yrs. As the Global financial trouble emerged at the beginning of 2008 I was again advised by Storm to borrow more money to invest as the market had fallen. The margin lender again gave me a further \$10, 000.00 with no contact. The only reason I borrowed again at this point in time was under the advice of Storm Financial. At a time when they should have advised me to downsize my portfolio and reduce exposure to a collapsing market they instead provided self serving advice to attempt to match the market by instructing people who relied on their advice to throw money at the problem.

In July 2008 I received a letter from Storm requesting to lock my margin loan with fixed interest for a year at the rate of 9.25% until June 25th 2009. I was again directed to borrow \$57,000.00 from Colonial to cover the interest. I questioned Stephen Halsall on my portfolio as to whether it was growing enough to be able to support the paying of the interest as my loan was getting large. (\$623, 903.83) LVR 85.46%. Stephen Halsall advised that the additional loan was the smart thing to do. The margin lender approved the interest loan again, without any form of contact. A one page document was placed before me which I signed. I had assumed the banks would not keep lending me money if my portfolio could not support it. At this point in time I had not been working since 2002 and hold no tangible assets.

As many other people do, I had become accustomed to relying on my advisor Stephen Halsall to monitor my portfolio. I can not see on what basis further funding was approved, the Colonial statement displayed a LVR of 85.46% which is well past the margin call point of 70%.

Throughout September, as the global crisis deepened, I contacted Stephen Halsall and outlined my concerns. I gave strict instructions that my portfolio not be sold down as I would realize my losses. I informed him that my husband was able to inject money and also offer further security to cover the margin loan and in anticipation of an eventual margin call. This was also confirmed in an email to Stephen Halsall.

Documents demonstrating alternate income streams and property were provided to Storm demonstrating how we would service the margin loan. Constant contact with Stephen Halsall was maintained querying if we were in margin call yet. He consistently claimed that we were not. I queried his assertions and stated that we must be due given the drop in the market, Stephen Halsall claimed that he had not received any advice and that some form of arrangement had been made, excluding the investors, between CGI and Storm. He also again claimed that everything would be okay.

On the 12th November 2008 I injected \$50, 000 into my cash management account which bought the amount available to \$86,937 as additional security.

On the 14th November 2008 I received in the mail a letter from MLC Masterkey unit trust advising that \$130, 992.99 had been redeemed. I also received a letter from Challenger dated 31/10/2008 advising that \$126, 385 had been redeemed. I had not given approval for the sale of any shares, in fact I had expressly directed that the shares not be sold down. I have still not been provided with the redemption requests or the particulars of who authorized . Throughout the 20 years of my investing in the stock market I have always been provided with the requests to redeem from the broker/advisor to the lender. I have requested the details of the redemption request from Colonial who have failed to provide them. I contacted Stephen Halsall by telephone and email on the same day regarding the unapproved redemptions. Stephen claimed to be unaware of the redemptions and also that there must be a mistake. Stephen Halsall further claimed that he would immediately look into the matter. I reiterated our capability to cover the margin loan and that I was to be put back into the share market immediately. This was also contained in an email which is available.

I have now discovered that I was in margin call on the **10th October 2008**. Colonial claim to have contacted Storm and further claimed that they were not required to contact me. My October 2008 statement displays my LVR to be 107.5%. Why was 21

days allowed to pass without any action on my account allowing my LVR to climb to 107.5%?

The first redemption was on 31st October 2008 yet Stephen Halsall claimed to be unaware that Colonial had made the margin call.

My shares from Challenger and MLC were redeemed without my approval on 31/10/08 and 4/11/2008 to the value of \$452,100.14. A withdrawal was also made from my cash management account of \$40,000.00 and deposited placed into a Commonwealth Bank accelerator cash account without my knowledge. The Commonwealth Bank will now not supply any documentation regarding the transaction or the account. The CBA then withdrew \$40 000 from the Accelerator account and placed it in my margin loan as \$40 000 credit variable loan. I was now paying interest on my own money which the CBA were now claiming as their variable rate loan.

At this stage I now have \$532,065.14 in cash in an accelerator account a variable rate loan of \$40,000.00, which is my money, and a fixed rate loan \$623, 903.83. My LVR is 98.50% obviously still in margin call but I was oblivious to this mess as my margin lender Colonial did not contact me yet obtained money from me by withdrawing my \$40,000.00 and placing it on my portfolio as a variable rate loan! I actually received a letter from John Clothier, Colonial, saying there attempt at direct debiting of \$40,000.00 to my margin loan from the Accelerator account was rejected and I have incurred a dishonour fee. The letter is dated 19th November and the action was attempted on 17th November and again on 18th November when it was successful.

Colonial seem to be perfectly able to contact me regarding a dishonour fee yet choose not to contact me when my margin loan is in call and the loan value exceeds the value of the investment.

Had Colonial simply have contacted me to advise of key occurrences funds would have been placed at call and security provided to push the LVR back down to an acceptable level.

The redemptions continued on the 30th November and 5th December until my entire portfolio had been redeemed into cash which was placed into the aforementioned Commonwealth Bank accelerator account which had miraculously been opened in my name. I received correspondence from Colonial on the 22nd December 2008 informing me of such. This was the only correspondence I received from Colonial.

I note that I have been a client of Colonial since 2000 and I have never defaulted on any payment of any type. As far as I can see I was a valued client who provided an increasing income stream by way of interest payments which increased from 2000 at \$28,000.00 to in excess of \$600,000.00.

I sent a complaint to John Clothier, Head of investment lending, Colonial on 9th February 2009 outlining my concerns and querying the lack of any contact regarding my margin loans and the subsequent selling down of the security. I received a reply in which he states; *“It was only December 2008, when CGI became aware that Storm had not been notifying its clients of the position of their margin loans accounts and there had been a prolonged period of inadequate responses to margin calls by Storm, that CGI took the extraordinary step of contacting borrowers directly”*

In my letter to John Clothier I also asked why Colonial would not have contacted there clients to share information, to which he has replied: *“There is no obligation on*

the margin lender to sell down security at any time and it is not the lender's role to protect the borrower from adverse market movements"

When queried as to the availability of information that had been shared between Storm & Colonial John Clothier has replied with *"daily emails, each of which contained information from a large number of Storm clients. As such we cannot supply this information to you without breaching our privacy obligations in relation to other Storm clients."*

The response is unacceptable, the information can easily be separated to ensure that the relevant information be passed on to the particular client without disclosing details of other clients. This is simply an attempt to avoid providing the requested information if it in fact exists.

Mr. Clothier's letter does not answer any of my queries.

I complained about being charged an early prepayment fee of \$14,000.00 for my fixed rate loan which CGI had forced me to break with their actions. Mr. Clothier again states they fulfilled all their obligations by keeping Storm informed of my portfolio position I still can not obtain *the evidence of these notifications.*

The actions of Storm Financial, Colonial, Commonwealth Bank and Stephen Halsall have been entirely self serving with no regard whatsoever for the welfare of there clients. My life work, savings and other investment windfalls were all bound into my investment portfolio which was sold out from under me by an unconscionable lender enabled by an incompetent investment company seeking to protect only their own interest. My investments have been a long term strategy already spanning 19 years. My portfolio was for my families' future requirements of education and beyond and for my own retirement. No money has ever been realized from the portfolio for my own benefit all earnings were immediately reinvested.

The Commonwealth Bank, Colonial Group Investments, Storm Financial Services and Stephen Halsall have devastated my family including my mother who was a Storm retiree. I cannot begin to express the emotion and physical toll this has taken which all could have been averted with a 30 cent phone call. I couldn't even get a car loan now if I tried. My young family now does not have the advantage of my continual care as I now need to start again.

Unless regulations are introduced to the margin lending industry the brokers, lenders and insurers will continue to effectively conspire together to increase their own wealth at the risk and detriment of everyday non-corporate investors who are simply following advice to invest for their own and their families future in Australia.

I trust that this information assist in the Inquiry and I am available to discuss any point at the following contact details.

Yours Faithfully,

Sharron King