

**Committee Secretary,  
Parliamentary Joint Committee on Corporations and Financial Services  
Department of the Senate  
PO Box 6100 Parliament House  
Canberra ACT 2600**

**27 July 2009**

**Following is our submission to the joint committee.**

**Elizabeth and Barrie Watts**

## **STORM FINANCIAL**

We attended by invitation a Storm Financial introductory seminar in September 2006. After a consultation meeting and receipt of a plan designed to meet our financial needs on November 9, 2006, we agreed to invest our savings with Storm.

The amount invested in the stock market totalled \$850,000. This was financed by cashing in Elizabeth's superannuation, our bank savings, mortgaging our home for \$360,000 with the Bank of Queensland and accepting a margin loan of \$390,000 with Macquarie Margin Lending. Storm Financial's fee for those services was in excess of \$75,000. We were persuaded that payment upfront would be less costly over time than a pay-as-you-go arrangement.

Although the value of our house was assessed on behalf of the BOQ before the mortgage was approved, at no time were we made fully aware that our house could be at risk. We believed that any such element of risk was covered by the assurance of strategic mechanisms in the Storm plan. Nor did the BOQ ever contact us until after the mortgage loan took effect. All documents relating to the arrangement with the BOQ came through Storm.

Storm's educational sessions with us emphasised, via historical graphs and charts, that despite risk involved in share trading, Storm's "Viability Testing" consistently evaluated and updated our positive ability to cope with market fluctuations. Examples frequently shown at those sessions cited the speed of market recovery and subsequent large gains following previous market crashes, from the Great Depression to the IT bubble.

Storm's strategy may be simply paraphrased in these terms: "Never sell in a market downturn. Take advantage of the opportunity in a falling market to increase shareholdings against the historical certainty of strong and rapid market recovery."

Accordingly, in March '07, May '07, August '07 and January '08, on Storm's advice we invested further amounts totalling \$227,000, incurring additional Storm fees of \$17,688.

In July '08 we were in margin call. The cash reserve policy was clearly not working. We were extended a loan of \$27,000 by the principals of Storm, followed in November '08 by a further \$37,000.

In December '08 we requested an appointment with our Storm senior adviser to convey our increasing alarm about our ability to survive financially and to repay Storm's unsolicited loans. That meeting took place in early January '09. Our adviser reasserted Storm's confidence in our position.

Within a week or so, Storm had put itself into voluntary administration and was closed down soon after.

We were left with a mortgage of \$360,000 and a Margin Loan of \$850,000, which on advice we paid out.

We are now receiving the age pension and are attempting to live on it while meeting the monthly mortgage repayment from what is left of our meagre savings.

Details of our dealings with the BOQ follow.

## **BANK OF QUEENSLAND**

On Storm Financial's advice and acting on our behalf, Storm had applied for a \$360,000 business loan from the Bank of Queensland.

We were advised by letter from the BOQ on January 30, 2007 that the loan application had been accepted and settlement of the loan documents had been completed. The letter advised that loan fees of \$2,748.96 had been debited and that the proceeds of \$360,000 had been distributed "in accordance with your instructions to the bank". We had in fact given no instructions to the bank. All such arrangements had been made by Storm.

At no time had we had any contact from or with the bank prior to that point.

Details of the loan conditions were sent to us dated 16 December '06, but evidently were not dispatched on that date and were not received until some time in January '07.

Although the relevant document in Storm's plan for us specified a "lo doc" loan, we were ignorant of the nature and implications of such a loan.

We have since been advised that banks have a legal responsibility to assure a loan applicant's understanding of risk involved, and of the ability to repay in the event of a change in the applicant's circumstances.

In hindsight it seems unrealistic, to say the least, that in our case a bank would extend a 30-year loan to an applicant couple of limited means who were then aged 68 and 65 respectively.

We reiterate that the BOQ's relationship with us was arranged by and through Storm Financial, not by the bank itself. Storm appeared to have dealt of the bank as de facto agent in making arrangements on our behalf.

During February '08 we contacted the BOQ several times to ask what was the best way to proceed. In our ignorance we assumed the bank would allow us to change over to a full document loan, as interest rates were falling and the only way we could continue to afford the mortgage repayments was with a lower rate of interest. We were dissuaded from this with a rather offhand comment that it would "cost a lot of money" to change over.

In May '09 after several conversations with the Townsville office of the bank we formally applied for a full document loan. This was later refused by telephone. After requesting that this be put in writing we had to wait some three weeks for a one-sentence reply (attached).

Despite these setbacks we persevered and were given the name of the State Support Manager in Head Office in Brisbane, whom we petitioned again (attached) to change to a full document loan. This letter was sent by express mail on June 16, 2009. We received no response until two weeks later, in a telephone call informing us that the recipient had been on leave but was urgently requesting our file to see what could be done. Since then we have had a further call to say that the bank is unable by law to change the loan as our income does not qualify, but the request was still under consideration and a decision would be forthcoming. It is now six weeks since our letter was sent and we are still waiting.

This does not seem to us a professional or helpful way for a bank to deal with its clients. Having happily taken the business handed to them by Storm Financial without even a conversation with us, the BOQ now wishes to absolve itself of any responsibility.

We believe the bank's conduct throughout has been cavalier and has become unnecessarily bureaucratic, unresponsive and dismissive.