

Submission to the Parliamentary Joint Committee on Corporations and Financial Services

Enquiry into Financial Products and Services

From Carmela Richards and Kristy Devney

In response to recent media reports and the submission lodged by the Commonwealth Bank, we would like to provide some background on the lending processes and practices between Storm and the lending institutions. We are both ex Commonwealth Bank and Storm employees in more recent years.

Who are we?

Carmela was employed by the Commonwealth Bank (CBA) for 20 years, the last 13 of which were in Retail and Commercial lending areas. She left the Bank in 2000 to join Storm and in recent years oversaw the compliance and processing areas and was instrumental in developing relationships with Storm providers and systems within Storm. Kristy worked for the CBA for 12 ½ years, predominantly working in the retail lending area. She consistently was acknowledged for her high level of lending compliance and the business achieved. Since joining Storm, she was responsible for Bank liaison and headed up the Lending processing team.

The Storm Process

The Storm process was designed to ensure its clients received the best service and pricing that the Banks could offer. It was Storm's practice not to accept any commissions or trails on business referred to the various Banks's, but rather passed this onto the clients in the form of reduced interest rates and Bank fees. Storm was happy to liaise with the Banks on the clients behalf to achieve these goals. The usual practice for a new client was to provide the current lender and the major banks (CBA, NAB, BOQ, Westpac, ANZ) with an extract of the clients position as advised by the client to Storm (assets and liabilities, income and expenditure) and ask them to provide a **quote** on the amount of borrowings that could be available based on this initial information, and the pricing and products that would apply. If the clients also specified a lender that they wanted approached, that institution would also be contacted. This quote was non-binding on the Bank in that it was subject to verification of any information provided. The quotes were provided to the clients in a Statement of Advice along with a recommendation of which offer was considered the most favourable and why. This recommendation was based on a mix of pricing, the amount of lending offered, and service standards. For an existing client the process was similar, however it was preferable to remain with the existing lender if at all possible to reduce costs incurred to the client.

If the client decided to proceed with the Bank lending, Storm would advise the Bank to go ahead with an application and order necessary valuations. To the best of our knowledge all of the Banks had an internal policy that required them to undertake a phone interview, at the minimum, with the client to obtain an application, regardless of the information provided by Storm.

Any discrepancies of course may have affected the outcome, e.g. undisclosed credit cards, lower income etc could sometimes reduce the borrowings initially offered.

Prior to any of the loans being funded, the clients via Storm were required to provide copies of supporting data to the relevant Bank verify application details. This typically included up to date payslips, bank statements on savings accounts and loans, recent tax returns and the like. The amount and level of supporting data depended on the individual banks internal credit and compliance policies and was not dictated by Storm financial, which had its own internal requirements for supporting financial data.

We wish to emphasise that **if** the borrowings were reliant on income from the investments to support the borrowings, this was clearly made known to the Banks and they again made the final decision. We also mention that if there was a large variation (lower or higher) in the amount of borrowings offered by the various Banks, it was usual practice to query the reasons behind this to confirm accuracy and to gain a fuller understanding of Bank policy.

Untruths in the CBA submission to the Parliamentary enquiry

In its submission to the Parliamentary Enquiry, The CBA has commented incorrectly in several areas. These are:

1. that in 2006-2007 several staff was persuaded to join Storm, with these staff having inside knowledge of their policy, processing and systems. To our knowledge, there was only one staff member from the CBA who joined Storm during this period and it was entirely of her own accord. I know this as I was that person (Kristy). Storm however was happy to recruit anybody that understood lending processes in general not specifically CBA's.
2. The Commonwealth Bank has also stated that they were under constant pressure from Storm in dealing with Customers loans. We acknowledge that there was large volume of business being processed by the Commonwealth Bank and the sheer volume would have caused its own pressures. Given there was an increase in the number of CBA staff assigned to deal with Storm in recent years, the Bank obviously also recognised this was the case. Storm had agreed service standards in place with all the Banks not just the CBA and, as with any business, Storm did have an expectation that these would be met to ensure timely processing of our clients applications. Storm expected that a decision as to approval or otherwise would be made in the agreed timeframe but we do not believe that undue pressure was exerted to influence the amount of borrowings.

Whilst Storm has had a long term relationship with the Commonwealth Bank, several years ago this deteriorated due to a lack of service on the Banks part which resulted in the value of the business being referred to them decreasing significantly. Storm was dealing with complaints from our own clients due to lengthy delays in processing of applications and the provision of documents when the loans were approved. This was also one of the reasons that the relationship with Bank of Queensland amongst others became more substantial. There were several meetings with the Commonwealth Bank at the time as they were concerned that they were losing business and they were aware the issue was service related more than anything else. They wanted the business back and guaranteed the service would improve and agreed service levels would be met, regardless of volume – by their own acknowledgement, staffing and resources to deal with the volume was their own issue to deal with.

Perhaps the Bank's own sale culture may have had an impact in this area. In 2002/3, Storm placed approximately \$20m in business with the CBA retail/commercial lending areas. This had steadily

increased to the vicinity of approximately \$120m in the 2007/8 financial year. During Kristy's time with the Bank, the internal CBA's local Area sales target had also been revised upwards each year accordingly and we believe this process has continued. In recent times, CBA staff had indicated that the CBA had "officially" approved 2 full time positions to service Storm client loans, had implemented a separate BSB for Storm client loans and that the target for Storm lending cell was set at approximately \$130m for the 2008/09 financial year. All of these decisions, whilst they may be recommended by the Regional areas, are traditionally not made locally but are generated from the Queensland Regional Management (e.g. John Hoey – Queensland Regional Manager/Graham Carney Executive Team Retail Sales) or at a higher level. It is clear that the CBA at the highest levels had always identified Storm clients by the lending area responsible for processing its business and accordingly was well aware of the size of the home loan lending referred by Storm within the Bank.

The Townsville Lending Area enjoyed the "Rewarding Success" incentives as the leading lending team in Australia on several occasions in recent years. These included holidays on the Gold Coast, Sunshine Coast and Brisbane amongst others and at which senior CBA executives were present, including the CEO of the time, to recognise the efforts of the teams. Rather than the "disproportionately large amount of home loan business attracting further scrutiny", it seems the Bank was more interested in increasing the sales target to be achieved.

The CBA has also indicated that its retail lending area in Townsville was solely responsible for a number of decisions that did not conform to usual bank practices. From Kristy's own experience, any applications that relied on income outside of the Banks policy guidelines from the investment could not be approved locally. These applications were submitted to a cell called Home Loan Decisioning Cell (HLDC) based in Sydney for approval. Credit Officer such as Tony Pollock and Steve English and the like were responsible for the decisions made on these loans. Also any discounted pricing delegations were also approved by the Queensland Management team based in Brisbane (Carol Quaid). We believe in recent years that this delegation has now been transferred to Sydney Executives. Again, it is clear that the Storm business was valued by all levels within the bank and not something that was a local anomaly as the CBA has asserted.

A larger application was also submitted approximately 4 to 5 years ago to the HLDC team who did not have the discretion to approve the application at the time due to the applicant's sole source of income being obtained from her proposed investment portfolio. The application was subsequently referred to Premium / Private Banking, Brisbane Ian Britton and was approved.

Over the years, business has been referred to other branches of the Bank, due to prior client relationships. This usually resulted in a discussions of how the lender /area could assist with our overall Storm business going forward as these other staff usually saw the value of the business that could be generated from our clients. Other Area Managers within Queensland have also wanted to know what the possibilities of getting some if not all of the business as well, as they knew that the Storm connection could help them reach and exceed their lending targets.

The seeking of our business was not limited to the Commonwealth Bank and the other major lenders – there have been numerous phone calls, discussions and meeting over the years, where brokers were keen to look after the Storm clients loans. In 2000, there was a separate policy approved for Storm client loans through Colonial's 3rd Party Mortgage broking arm following discussions with Kathy Cummings and her team. Storm was accredited as a broker and could submit applications on

their clients behalf. This process was shortlived as Storm staff found that too much time was being expended on the lending rather than our core business and it was more favourable to let the Banks deal with the loans. The use of brokers following this was an initiative that Storm resisted as we felt it would be more in our client's interests to remain with the major Lenders.

It was also standard CBA compliance procedure to regularly and randomly audit its Retail loan files. This was carried out by Shane Laws and his team "Credit Support and Monitoring" based in Sydney. This involved a request for files to be sent to their office. In more recent times, the files were imaged and available for checking without notification to the lending area being audited. The team checked such things as completeness of application, compliance with Bank Credit policy and that verification data was held to support application. Failure or low assessment meant bonuses could be withdrawn or reduced and affected eligibility for qualification for the Rewarding Success program. During Kristy's time with the Bank, the Townsville Lending area consistently received high ratings of audit standard. CBA staff had advised that they had had approximately 300 Storm files audited in December/January 2008/9 and were proud of the rating they received at that time for a very high compliance and standard of lending.

3. The CBA has stated that when Storm advised its clients to enter into one of the CBA's margin loans, this involved staff from other divisions who had no knowledge of the source of investment funds (i.e. via home loans). This is not true.

Colonial margin lending at no time in their applications queried the source of the investment funds – there was generally no requirement to complete a balance sheet unless the loan was over \$1m. However senior representatives from Colonial **were well aware** of the Storm process. Colonial has a product known as CALIA (Colonial Asset Linked Investment Accelerator), the description of which is outlined below as extracted from their web site:

CALIA+ is a flexible, all-in-one loan that enables you to take advantage of the hidden equity locked up in your home and other assets. By consolidating your existing personal, home and investment loans into a single loan facility, it helps you to see your overall financial position and prepare for opportunities that may arise in the future.

CALIA+ allows you to:

Unlock hidden equity	Increase your investment power by unlocking the equity you have built up in your home and investments.
Get the big picture	Take control of your finances by consolidating your home loan, investment loans, personal loans and margin loans in one simple, flexible loan facility.
Be ready when opportunity knocks	Access funds quickly when you need to and take advantage of new opportunities as they arise.
Tailor your repayments	A wide range of flexible repayment options let you pay off your borrowings in the way that suits you.

Key CALIA+ Features:

- Residential, commercial and rural property, shares, managed funds and cash may be used as security. Equity from a property can secure margin loan sub-accounts. Lending may be for personal or investment purposes and there are no set repayments so you are able to structure repayments in a manner that suits you.

- CALIA+ is distributed only through financial advisers so that the product is always used as part of a comprehensive advice based plan

Paul Johnson and Phyllis Sequeira (Senior Executives of Colonial) amongst others were very familiar with the Storm model and were actively encouraging the use of this product from its inception around 2002/03 and onwards, given the increasing volume of Home lending that was generated from our clients.

Over the years, there have been many meetings between Storm and the executives of the CBA/Colonial, such as Craig McMorron, Kathy Cummings, Brian Salter, Simon Duffy, Anthony O’Flynn, Mike O’Reilly, John Beggs, Paul Johnson, Matt Levin and Phyllis Sequeira and others. These meetings were to achieve a greater understanding of the Storm cashflow model and the use of retail home loan lending for investments purposes and margin lending in the process, and to discuss business opportunities for the Bank going forward.

4. The Commonwealth Bank has stated that Storm was adamant that as the customer’s financial adviser, it was its responsibility, not theirs, to action margin calls. This is not true. Whilst Storm has always been happy to assist clients and Colonial with the margin call process, we understood the Bank had their own processes for advising clients of margin call. In past years (2003), Colonial’s practice was to advise the client in writing that they had received a margin call. Given this would generally result in a phone call to Storm to query how to resolve the call, we asked that we be advised of any margin calls as well so that we could assist the clients deal with this as soon as possible. We kept the Bank fully informed of any action that was being taken to ensure they were satisfied with the outcome or if they required further action to be taken, as the ultimate decision to exercise the call, and the risk remained with the Bank.

Storm’s process not unique

The Storm process for Bank lending was not unique. From our own experience within the Bank, another financial planner in Townsville for a number of years used a similar approach and the same CBA contacts to obtain quotes and then the retail lending. This relationship had ceased in recent times due to the planner becoming affiliated with another major Bank and lending representation being available in their office, as outlined on their web site (extract below):

“By incorporating a NAB Banker at XXX, your Financial Adviser and NAB Banker work together to ensure you are receiving the best advice for your life stage now, and for your financial future.

The Adviser Banking Centre is a unique concept that will offer the complete financial service. You have access to all the products that you would expect to find at any financial institution, with the added bonus of a qualified Financial Adviser, NAB Personal Banker, personalised service and much more.”

We know of other instances where financial planners from other dealer groups use the same or similar model as Storms ie the use of equity from a client’s home and a margin loan as a way to access investments.

The VAS Valuation System

With regard to the VAS (Banks valuation system), more and more often from late 2007, when Storm requested a valuation on a clients behalf, we were advised that VAS accepted a valuation of X amount. It became apparent that it was no longer bank policy to have an independent valuer assess valuations on all occasions as had been the case in the past. We understand that this system was in place for all CBA clients **Australia wide** and was not just a Storm initiative and as such could be relied upon. However it has become apparent in recent months that the valuations seemed to be inflated. Personal experience has confirmed this for Carmela. It appears that the desktop valuation system may have been a tool to reduce costs to the Bank and the Bank has been prepared to accept the risk of in some cases minimal or negative equity. This system is still in use by the Bank for all new borrowings and for partial discharges of security.

Conclusion

As past bank employees, we are upset and disappointed that CBA has unfairly and incorrectly blamed past and present bank employees for discrepancies regarding Storm. The CBA's information regarding Storm is not correct and furthermore they know this. For an organisation the size of the bank to blame its staff for the problems it has is not professional nor is it credible.

We hope our information has been helpful.

Regards

Kristy Devney

Carmela Richards