20 May 2009

The Committee Secretary
Parliamentary Joint Committee on Corporate & Financial Services
PO Box 6100
Parliament House
CANBERRA ACT 2600

RE: Storm Financial & Associated Lending Institutions

We are two of the investors with Storm Financial ("SF") and Colonial Margin Lending ("CML"). We reside in Mackay, North Queensland.

Our position is that we are a single income family. My wife Luciana Domenica Milburn is in remission from breast and liver cancers and cannot work. So I am the sole income provider. I am currently employed and my work revolves around the coal industry, so my job does not have any job security. I am 54 years old. If my job was terminated the prospects of finding another job would be very slim.

We began investing through SF in 1999 which was the year in which my wife underwent her operation for breast cancer.

For the first 8 years of our investment, we ran at an LVR between 65-75% maximum. Then without any consultation with us, SF and CML pushed the LVR's up to 90%. This was only an advantage to both SF and CML, because it reduced their workload.

At no time did we sign any paperwork authorising this. During this time SF maximised borrowings for existing clients as unbeknown to us they were not signing up new clients as quickly as they needed. At no time did CML contact us with any warnings that our LVR was being increased. Now CML says it was a risky strategy and that we as investors were greedy.

Whenever we raised questions with SF staff regarding the impact of the global recession and what effect the sub-prime debacle would have on our investments they told us that Australia would only be minimally affected so that we should not worry. They told us to increase our investment as the markets dropped so we could take advantage of the quick recovery which would follow. We did not doubt the advice we were receiving because we trusted SF, Mr Cassimatis and our adviser, Stuart Drummond. The previous 8 years of trading had been good to us and besides they were our close personal friends, or so they told us at that time.

Our adviser constantly reassured us that:

1. SF had trigger points in place to eliminate any personal liability on our part;

2. The software SF was using was the ultimate in monitoring our portfolios;
3. The Americans were trying to implement this same software as it was better than anything they had ever seen;
4. With this control and checks we had the safest investment ever; and
5. We were borrowing money from the most reputable bank in Australia (CBA subsidiary, Colonial Margin Lending).

Even when the market was dropping in July/August 2008 they were reassuring us that everything was safe and that we should not worry because even the banks were happy with the investment model.

In 2008 I was negotiating to buy a new Toyota Landcruiser and was constantly discussing this with Stuart Drummond, my adviser. His advice was to go ahead and purchase it because all was well. I took delivery on 28 October 2008 for a purchase price of $67,000.00 only to discover in December that half my portfolio had been sold down on the same day that I took delivery of the new vehicle. This vehicle was re-sold after having travelled only 2,000 kilometres at a price of $57,000.00. I incurred a loss of $10,000.00.

While our adviser was convincing us that all was well, in late December 2008 we received a phone call from CML informing us that our portfolio had been completely sold down and were in a negative equity position. CML wanted to know what other property we had to mortgage to cover the shortfall, which in our case was approximately $300,000.00. We had no other property. Furthermore it had been necessary for us to give them permission to break the loans and use pre-paid interest and then charge us break fees, which in our case amounted to $86,000.00.

We had been customers of CML for 9 years. But this was the first contact we had ever received from then. John Clothier, an employee of CML notified us that we were sold down with an LVR of 132%. When I asked him why we were not advised earlier so that we had the opportunity to do something, his answer was that we should monitor our own portfolio at all times. This came as a complete shock to us because we were paying financial advisers an up-front fee of 7% plus some trailing fees with allegedly 'state of the art software' to manage our investment, who had done a very good job for us for many years previously.

Every Storm investor has been left with negative equity or owing large home mortgages. If the correct procedures had been followed as per what we signed up for, we would all have been sold down at 80% LVR. Not every Storm client could have misunderstood what was happening.

As an aside, how could clients of Storm like my parents who are both in their 80's be expected to follow their portfolios when they don't even own a computer, let alone control their margin loans?

We requested the following information from Colonial on 12 February 2009:

a). Copies of loan documentation, reams of paper copies many duplicates and triplicates;
b). Other people's information included in our documents (these documents forwarded to ASIC);
c). Proof that they advised Storm re: margin calls, will not supply any documentation, their excuse is other people's information on same data link, something to do with privacy laws. Not careful with other's information, above point 2;
d). No explanation why LVR was allowed to get so high (132%)
e). Why if Storm was risky did they allow further borrowings when world economies going down.

We received a reply from Colonial on the 8th day of April 2009.

Because of the forced sell down and subsequent breaking of a pre-paid loan, this will have adverse tax implications in the coming tax year. All pre-paid interest since December 2008 will be deemed income so we will have to pay tax, even though we have lost our sole single asset.

Since CML realised we have no assets and little money, little contact has been made since late December 2008. In a phone call in mid January the CBA hardship taskforce advised me that they would cancel interest repayments for 6 months, only to have it capitalised thereafter.

General Thoughts

i. On the day Colonial sold everyone down and closed the index funds, do we know who purchased all the shares? Was it CBA?

ii. Was Storm Financial an independent advisory company or was it just a sales team selling CBA products with CBA money and using us (as investors) just for an identity to carry the debt?

iii. Is it possible to question some of the decision makers in these institutions, such as Mr Adrian Stewart (ex. Challenger Bank) and Mr Edward Tait (ex CBA).

   These two gentleman were crucial in decision making which took our $6,000,000.00 investment to a negative equity position of $300,000.00.

Please let us know if you require any further information.

Yours faithfully,

Bruce Milburn & Luciana Domenica Milburn