

# CBA stepped up for Storm

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inquiry into financial services has revealed the role VAS played in generating huge commissions for Storm, which collapsed in January leaving thousands of investors facing ruin.

CBA describes the VAS as an "automated decisioning tool" which was used throughout its retail operations to determine if a loan applicant needed an independent valuation.

But the VAS worked overtime in Townsville where its turbocharged valuations were estimated to have helped generate more than \$100 million of loan applications in the 2008 financial year — at a time when real property prices were falling.

The loans were used to invest in Storm-badged products and additional margin loans for more investments that earned huge commissions and fees for Storm, CBA and other major banks that provided additional loans.

But the inflated property values served only to exacerbate the financial ruin and personal despair for thousands of Storm investors who fell deeper into debt as property prices and sharemarkets tanked.

A former Storm employee alleges in a confidential sworn affidavit lodged with the parliamentary inquiry that a vacant suburban block of land in the outback township of Charters Towers in Queensland was revalued by VAS in March 2008 at \$350,000, just eight months after another valuation recommended a price of \$50,000. The property recently sold for about \$55,000.

"When I questioned (a colleague) about this very over-inflated price, she said she would check with the CBA and come back to me in case there had been an error in the system in producing the valuation. She came back to me and said the CBA had double-checked it and the system was happy with the valuation," says the employee in the affidavit obtained by the AFR.

The parliamentary inquiry into financial services being chaired by Labor MP Bernie Ripoll will focus on the role of financial advisers in several recent high-profile investment collapses including Storm.

"VAS was extremely mutually rewarding for both Storm and the CBA's Atkenvale branch," Storm's former national development manager, Ron Jelich, says. "It evolved into a seamless relationship with the CBA providing valuations to Storm."

Jelich, a financial adviser for 27 years, lost between \$15 million and \$20 million after selling his business to Storm in September 2003.

"It is absurd the bank keeps denying the tight nature of this relationship," he says.

Jelich has filed a lengthy submission to the Senate inquiry exploring what he calls the "cosy relationship" between Storm founder Emmanuel Cassimatis and the group's lenders.

Another former senior Storm executive last month emailed colleagues saying that during 2008 a specialist cell was established in the bank's Atkenvale branch after the introduction of VAS to deal with increased work, with specialist lending staff seconded from branches across northern Queensland.

In his submission, Jelich says Storm employed several former CBA employees including David McCullough, ex-CBA Townsville business banking manager who worked at a very high level of Storm; Camella Richards, who ran back-office systems and processes; and Kirsty Devney who did day-to-day liaison between CBA and Storm.

"The CBA was always knocking on our doors wanting more business and asking how they could improve their service to gain more

referrals," the senior Storm executive says in the email.

The Australian Financial Review sent CBA 22 detailed questions about VAS, its use by the Townsville branch and the bank's relationship with Storm.

CBA spokesman Steve Batten says the bank played a passive role, claiming VAS was an automated "decisioning tool" introduced "with the primary purpose of determining if a loan applicant would be required to undertake an independent valuation".

He says that because public hearings for the federal parliamentary inquiry into Storm begin on June 24 "we are not in a position to respond to the many matters raised prior to the commencement of that inquiry".

"However, please be assured," Batten says, "the bank is taking allegations very seriously and is investigating all matters raised. The bank will respond through the appropriate channels."

In April, the AFR revealed widespread irregularities in mortgage applications to raise cash for margin loans to invest in Storm's

## CBA proactively delivered their customers to Storm to invest in a falling market.

A FORMER CBA EXECUTIVE

index product, including claims some mortgage forms were completed without clients' knowledge.

Since then, the Australian Securities and Investments Commission has widened its inquiry into a criminal investigation with a team of lawyers and investigators using Storm's custom-built former Townsville headquarters to interview former employees, bankers and investors.

Those helping with inquiries have been told ASIC's six-month probe has been extended to include possible breaches of the criminal code, in addition to the contravention of the Corporations Act and ASIC Act.

ASIC chairman Tony D'Aloisio told a Senate estimates hearing last week that it was investigating CBA for approaching Storm investors to offer them settlement deals on their debts if they waived their legal rights.

Storm Financial was created by Townsville local and former MLC insurance agent Emmanuel Cassimatis and his wife and former secretary, Julie, in 2004.

As the economy and markets boomed through 2006-07, Storm encouraged clients to increase their holdings and make the most of their "lazy assets" by cashing in their superannuation, invest inheritances or use the increased equity from their rising house prices.

Storm called it "stepping" an investment, thereby increasing its revenue stream.

During 2008, CBA's VAS system was allegedly used to trawl through the accounts of Storm customers and provide valuations that were used to top-up their investments in Storm index-linked products.

A former CBA executive based in Townsville, involved on the Cassimatis account for three years, says the system was used to "deliver customers up to Storm for them to pick them off".

"The CBA proactively delivered their customers to Storm to invest in a falling market," the former executive says. "By offering Storm the opportunity to increase clients borrowings without first seeking the clients approval, it gave tacit approval to the Storm model. The bank was clearly OK with the Storm model because it was saying there is more equity in the property, we can lend them

## Clash of values

How rising valuations from CBA's computer valuation system fed Storm Financial's business

► Storm Financial's summary of a client's assets and liabilities

Storm Financial Ltd  
PO Box 5066  
Townsville Qld 4810

		07.12.07	ASSETS	
		Value	Cash	%
Liquid "Cash" Assets/Reserves	NOTES			
Bank Accounts	See Separate Sheet	\$35,306	\$35,306	100.00%
		\$0	\$0	100.00%
From Super	Net of tax	\$300,000	\$300,000	100.00%
		\$0	\$0	100.00%
<b>Sub-Total</b>		<b>\$335,306</b>	<b>\$335,306</b>	<b>100.00%</b>
Unbundled Non-Restricted Assets	NOTES			
		\$0	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%
Direct Shares - Industrials	See Separate Sheet	\$0	\$0	0.00%
Direct Shares - Resources	See Separate Sheet	\$0	\$0	0.00%
<b>Sub-Total</b>		<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
Bundled Non-Restricted Assets	NOTES			
Other Managed Funds - Not Securing		\$0	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%
<b>Sub-Total</b>		<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
Bank Loans Securing Assets	NOTES			
Residential Property - Joint		\$500,000	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%


► Six months later, an updated summary shows the increased property valuation

Storm Financial Limited  
PO Box 5066  
Townsville Qld 4810

		07.07.08	ASSETS	
		Value	Cash	%
Liquid "Cash" Assets/Reserves	NOTES			
Bank Accounts	See Separate Sheet	\$39,512	\$39,512	100.00%
		\$0	\$0	100.00%
		\$0	\$0	100.00%
<b>Sub-Total</b>		<b>\$39,512</b>	<b>\$39,512</b>	<b>100.00%</b>
Unbundled Non-Restricted Assets	NOTES			
		\$0	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%
Direct Shares - Industrials	See Separate Sheet	\$0	\$0	0.00%
Direct Shares - Resources	See Separate Sheet	\$0	\$0	0.00%
<b>Sub-Total</b>		<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
Bundled Non-Restricted Assets	NOTES			
Other Managed Funds - Not Securing		\$0	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%
<b>Sub-Total</b>		<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
Bank Loans Securing Assets	NOTES			
Residential Property - Joint		\$540,000	\$0	0.00%
		\$0	\$0	0.00%
		\$0	\$0	0.00%

► Client is then advised to borrow more and invest the increase in Storm's products

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 stormfinancial

### Summary of Recommendations

As outlined above, a recent valuation of your property has shown that you have \$40,000 in additional equity available to you to borrow for further investment purposes. We recommend that you use these additional borrowings in order to undertake the following investment.

more money and you can invest more money. If it had a problem with it, why were they offering their customers to Storm?"

The desktop system generated valuations by keying in a property's postcode or addresses. Details about the address and size of the land and property, such as the number of bedrooms and bathrooms, were keyed in for a valuation that was provided within minutes, according to the former bank executive.

Storm clients who had their house revalued dispute the bank's claim it was used to determine only if a loan applicant would be required to undertake an independent valuation, claiming they were sent VAS revaluations without any suggestion more assessment needed to be done.

Storm obtained hundreds of valuations undertaken by CBA and then wrote to the investors with advice on what to do with the increased equity in their properties.

"By drawing as much liquidity as we can from your house while we want to, and while the bank is happy to do so, means you are setting yourselves up as your own banker," Karen McTier, a Storm employee representative, wrote in a letter to a Rockhampton couple in May 2008.

"If at any time in the future, you need the money, we have already borrowed it and it is

sitting in high-quality liquid shares that we can access very quickly," McTier wrote, adding that the couple's house value had increased by about 14 per cent to \$330,000.

"Taking money out of your home reduces liquidity risk and more importantly provides the opportunity to 'buy now'."

The Australian Financial Review has obtained several clients' spreadsheets from last year setting out revised property valuations for mainly Townsville clients and Storm's financial recommendation.

Typically, the home owners were told their properties had risen in value by more than 20 per cent over the previous 12 months and recommended that more than 90 per cent of the new equity be invested in Storm products. The remainder would be split between a cash account and Storm's 7.5 per cent commission.

The owner of the land in Cambridge Street, Charters Towers, did not take up the offer to gear up based on the valuation. Nevertheless, he has racked up some \$700,000 of losses from the collapse of Storm and does not want to be named because he is trying to negotiate a settlement with CBA.

The Cambridge Street land, between two houses in Charters Towers, about 110 kilometres south-west of Townsville, has recently been sold privately by a local