FINANCIAL STANDARD GUIDE TO
INVESTMENT LENDING

GUIDE SERIES 6
NO.1

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GEARED INVESTMENTS

PUBLISHED BY

Financial Standard
a Rainmaker Information company

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Financial Standard is an industry publication owned and published by Rainmaker Group, a publishing and research data group that was founded in 1992 and has established a reputation as a leading financial services information company in Australia providing database services, consulting services, publishing and conferences.

The Rainmaker Group is comprised of Rainmaker Information, Rainmaker iTV, Rainmaker Select Series and Financial Standard.

INDUSTRY SNAPSHOT

GOOD WEALTH ACCUMULATION STRATEGIES revolve around an investor's life stages. Whether the client is saving a deposit to buy a home, saving for their children's education or setting aside money for retirement, prudent gearing strategies are part of the mix.

Wealth management groups have been working with financial planners to refine their thinking about how to use investment lending within a tailored wealth accumulation strategy. In light of volatile markets, the trend is towards using a wider range of products, with moderate gearing levels, to provide the right match to investor needs. This guide, the *Financial Standard Guide to Investment Lending*, details the latest thinking on these issues.

The guide will also detail changes that will flow from the passage of the *National Consumer Credit Protection Act 2009*, which transferred regulation of consumer credit from the states to the Commonwealth and put supervision in the hands of the Australian Securities and Investments Commission (see Regulation of Investment Lending).

This Act builds a new foundation to the investment lending market, paving the way for better consumer protection and avoiding the mistakes in previous years where aggressive gearing strategies played a role in several prominent failures.

Reserve Bank lending data shows that margin lending balances stood at $18.7 billion in June 2010 and the number of accounts at 206,000. The average number of margin calls per day (per 1,000 clients) was 0.40 in the March 2010 quarter, against a high of 9.9 back in December 2008.

Demand for investment lending products is recovering. Planners who understand the market as it is today are better placed to recommend the investment lending strategies that suit an investor at particular points of their lifecycle, from starting out to buy their first property to saving for retirement.

WHAT IS AN INVESTMENT LOAN?

INVESTMENT LENDING can take several forms but the most common are margin loans and home equity loans.

A margin loan allows a person to borrow money to invest in shares or other financial products and use the asset as security for the loan. What makes a margin loan different to other borrowing is that the lender has the right to compel sale of the shares, a reduction in loan balance or the addition of other security where the value of the securities falls below a required minimum value.

The principal purpose of a margin loan is to provide greater access to markets with the aim of achieving financial goals more quickly, but there are a number of additional benefits. It can unlock equity in existing investments for use as loan security. It can be used to raise cash for other investments without having to sell assets. It can help diversify a portfolio by providing more funds for investment.

There are a couple of variations on the standard margin loan. A regular gearing plan allows investors without existing savings or investments to establish a savings plan with an accompanying margin loan facility.

Protected loans allow risk-averse investors to use gearing without the risk of losing capital. Loans that provide 100 per cent investor protection can be expensive and this has contributed to fairly weak demand for protected investment loans. However, lenders have developed variations that offer a reduced level of protection, such as 80 per cent of the capital invested, at a lower interest cost.

Home equity loans allow investors to access the equity in their homes and use for personal or investment purposes. A sophisticated form of a home equity loan is an all-in-one account, also called a debt wrap, such as Colonial Geared Investments' CALIA+, which provides an overall lending facility within which the borrower can set up a number of sub-accounts.

This is a useful tool for investors because it allows for a separation of personal and investment loans. The investor can create a new sub-account for a new investment purpose without having to apply for a new loan.

Investment lending can take several forms but the most common are margin loans and home equity loans.

UNDERSTANDING HOW AN INVESTMENT LOAN WORKS

THE GREAT MAJORITY of investors who decide to gear their investments use a standard margin loan. But there are several different types of investment loans designed to suit different investment strategies, risk tolerances and established asset structures.

Regular gearing plans

A common investment strategy for young people starting their wealth accumulation plans and people with high incomes but no savings is to make regular contributions to a fund or group of funds. Most fund managers have regular saving plans. An instalment loan, sometimes called a regular gearing plan, is one that can be linked to such a savings plan.

The investor makes an initial investment of their own money along with some borrowed funds. The initial amount varies according to the minimum initial investment required by the fund manager. The fund manager may have a minimum ongoing monthly contribution amount, as do some lenders. The strategy does not work for direct shares.

The great majority of investors who decide to gear their investments use a standard margin loan. But there are several different types of investment loans designed to suit different investment strategies, risk tolerances and established asset structures.

Protected loans

If shares or funds have lost value by the end of the loan term, a borrower using a protected loan to acquire the assets has the right to give the shares or units in the fund to the lender and extinguish the debt. Borrowers never receive a margin call. Protected loans are suited to uncertain times and to investors who have a very low risk tolerance.

Protection comes at a cost. Repayments are made up of interest plus a protection component, which pays for a derivative contract such as a put option over the portfolio. With the cost of protection added into the repayments, the cost of a protected loan will usually be four or five percentage points higher than a standard margin loan. Think of the extra payment as an insurance premium.

Because the structure of protected loans is more complex than standard margin loans there are some tax consequences. The Australian Taxation Office does not allow a full deduction for interest payments. It apportions some of the interest payment as a non-deductible cost of protection. Because of this, is it advisable to stick to protected loans that have ATO product rulings.

An investor using a protected loan has the same rights to dividends, franking credit and capital gains that an investor using a standard margin loan would have.

Gearing can play a useful role in developing strategies for each of those life stages.

INVESTMENT LENDING STRATEGIES

SAVINGS AND INVESTMENT STRATEGIES should relate to an investor's life stages, the times in a person's life where new challenges and opportunities arise. Three of those points are: saving a deposit to buy a home, savings for children's education expenses and bridging the gap between superannuation savings and the level of savings required to maintain a comfortable lifestyle in retirement. Gearing can play a useful role in developing strategies for each of those life stages.

Saving for a home loan deposit

Lenders are much stricter these days when it comes to assessing applications for mortgages from first home buyers. Gone are the days when a borrower could get 100 per cent of the value of the property and sometimes even a little extra to cover expenses. Banks want to see deposits of at least five per cent and usually 10 per cent, made up of genuine savings.

That can be tough when the average cost of a new home is $455,000. Someone setting out to save a $50,000 deposit with an initial contribution of $2000 and monthly contributions of $500 will take about seven years to reach the target, assuming an average rate of return on investments. An investor who adds an extra $500 a month of contributions through a regular gearing plan will reach the target in five years.

The plan: regular gearing

Margin loans allow borrowers the option of regular gearing. Most margin lenders will allow investors to draw down as little as $250 a month to buy additional units in a managed investment.

Bridging the superannuation savings gap

Changes to superannuation concessional contribution limits have forced many investors to rethink their retirement strategies. The idea that you could pay off the mortgage and then start pouring money into super in the years leading up to retirement will not work for people who hit the $25,000 a year contribution limit.

The plan: home equity loan

These products allow investors to draw against equity in property for investment. Compared to interest rates on other forms of investment lending, the cost of home equity finance is low. It is a way of providing investment funds for people with no cash on hand but plenty of equity in their home.

REGULATION OF INVESTMENT LENDING

Consumer and investment lending

The National Consumer Credit Protection Act (National Credit Act) imposes an obligation on lenders and intermediaries to ensure they do not provide or arrange unsuitable loans for borrowers. A loan will be unsuitable if, for example, at the time the loan is assessed, it is likely that the borrowers would face hardship in making repayments.

The National Credit Act regulates consumer credit contracts, such as home loans, personal loans and credit cards. It also regulates consumer leases, such as novated leases. The Act covers investment loans where the borrower is a natural person or a strata corporation and where the loan is meant predominantly to purchase, renovate or improve residential property for investment purposes or to refinance an existing investment loan.

June 30 was the deadline for credit providers and intermediaries to register for an Australian Credit Licence and from July 1 registered persons and entities were given six months to apply for an ACL. Also from July 1, the "unsuitability test" provisions of the Act took effect.

From January 1, 2011 credit assistance providers will be required to give consumers a credit guide as soon as it becomes apparent that the credit assistance provider is likely to provide credit assistance.

Margin loan regulation

Margin loans have been regulated under Chapter 7 of the Corporations Act since the passage of the Corporations Legislation Amendment (Financial Services Modernisation) Act in 2009. A person who holds an Australian Financial Services Licence has an obligation to lend responsibly. This requires the licensee to not provide an unsuitable loan.

The products affected by this change include basic margin loans, limited or non-recourse margin loans and non-standard margin loans of the Opes Prime type. It also covers hybrid products that use the key features of a margin loan.

From February 1 this year, providers of margin loans and financial planners offering advice on their use were able to apply for an AFS licence or a variation to an existing AFSL. Since June 30 providers and advisers who had not lodged an application for an AFSL or a variation to an existing AFSL were prohibited from issuing or advising on margin loans until they get a licence.

The amendments to the Corporations Act include a transition period, so that most obligations apply from January 1, 2011. By that time providers of margin loans must have an AFSL with the appropriate authorisation. They must have a product disclosure statement, meet the responsible lending requirements and comply with new margin call notification rules.

Other regulation

Investment lending is also regulated under the *Australian Securities and Investments Commission Act 2001* (the ASIC Act). The Act prohibits conduct that is misleading or deceptive, or conduct that is likely to mislead or deceive, in relation to the supply of financial services, including credit products. It prohibits misleading statements or advertising, undue coercion at the point of sale and in debt collection.

And in April this year, the *Trade Practices Amendment (Australian Consumer Law) Act 2010* received Royal Assent. The amendment introduces a national consumer law regime that addresses unfair contract terms.

UNSUITABILITY

Credit providers and intermediaries must carry out an assessment to ensure borrowers do not take on loans they cannot service.

- **Reasonable inquiries and verification must be made to determine a client's financial situation.**
- **A margin loan will be deemed unsuitable if the client will often be uncontactable and has not appointed an agent.**
- **When assessing capacity to service a loan, expected income from investments purchased using a margin loan may be taken into account but should not be the sole determinant.**

INVESTMENT LENDING IN SUPERANNUATION

AN AMENDMENT to the Superannuation Industry Supervision Act, passed in September 2007, established the right of super funds to borrow to invest in any asset that they would otherwise be allowed to buy outright. This was a very important change that opened up a new area of work for financial planners dealing with their self managed superannuation fund clients. But it has also been a controversial change that has been subject to further government review.

In May this year the Australian government introduced the Superannuation Industry (Supervision) Amendment Bill 2010 to give greater certainty about borrowing arrangements for super funds.

The amendment introduced the concept of an acquirable asset, which is defined as any asset that a super fund is otherwise not prohibited from acquiring. Where it varies from the rule established in 2007 is in specifying that funds that can be acquired under borrowing arrangements are restricted to a "single acquirable asset".

AMP technical analyst Fabian Bussoletti says super fund trustees could still acquire a collection of assets, such as a stock portfolio, that would be regarded as a single asset as long as the assets were all acquired and disposed of at the same time.

Bussoletti says: "The 2007 reference to asset resulted in some uncertainty, so this is a welcome clarification. It will limit the use of borrowing to invest in shares but our understanding is that the vast bulk of the borrowing was being used for commercial property investment."

The amendment also directed that funds be allowed to borrow above the value of the asset being acquired to cover costs linked to the purchase of the asset.

The most controversial aspect of super fund borrowing, which must be limited recourse, is when lenders ask a member of a super fund for a personal guarantee. A number of commentators have argued that this practice should be banned. The Australian Taxation Office had noted its concern that the guarantor might sue the fund in a case of default, thereby putting fund asset at risk and circumventing the requirement for funding to be limited recourse.

The amendment restricts the right of the lender and the right of "any other person" (such as the guarantor) in the event of default to the rights relating only to the acquired asset.

NEW ERA FOR INVESTMENT LENDING

Sponsored statement

Pete Steel, General Manager, Core Equity Services

BORROWING has long been trusted as a valuable and essential financial strategy to enable generations of Australians to reach their financial goals. Gearing, or borrowing to invest, essentially provides a way to create wealth in assets such as the family home, investment properties, managed funds and shares. Borrowing to invest remains a compelling strategy and, in many cases, a necessity as investors strive to achieve their financial objectives.

In addition to the markets changing, the legislative goalposts have moved

While borrowing remains the centrepiece of many financial strategies, recent responsible lending initiatives are driving significant legislative changes that will impact the way that advisers, investors and product providers deliver debt-based solutions to Australian households. These changes impact both traditional margin lending products and the advice relating to more commonplace loans.

As margin lending is now included as a financial product, there are new licensing, conduct and disclosure requirements and ongoing training requirements under changes to Chapter 7 of the *Corporations Act 2001*. Further, there are changes to the way clients will be notified of margin calls, along with new responsible lending requirements which will test investor knowledge and capacity to service debt.

In addition, the new *National Consumer Credit Protection Act 2009* (National Credit Act) imposes strict guidelines upon anyone who provides advice on consumer credit. This includes home loans, personal loans, residential investment property loans and other non investment lending loans that an adviser or broker may recommend to their clients.

The new laws impact all Australian Financial Services Licence (AFSL) holders who wish to provide advice on margin lending and consumer credit. These changes include:

- New licencing under the National Credit Act for advisers providing consumer credit advice, such as our CALIA+ product.
- New referral guidelines in relation to consumer credit under the National Credit Act.

- New responsible lending requirements under both the National Credit Act and Chapter 7 of the Corporations Act.
- Variations to existing AFSLs and introduction of Product Disclosure Statements for margin lending.

What is the incentive to embrace the changes?

Given the level of change, you might ask why you would want to provide advice on consumer credit or investment lending?

Traditionally, debt was the domain of bankers, accountants and mortgage brokers. A lack of product design flexibility discouraged advisers from providing debt advice to their clients. New product innovation has enabled advisers to have deeper, more relevant conversations with clients, and fill the void around debt advice.

Investment lending has the ability to add significant value to the overall advice provided to a client. Assessing both the asset and liability position of a client, for example, provides a view of their total financial position.

The reality is that most investors have debt of some kind

Currently, household debt is about three times the size of the discretionary managed funds market in Australia. Without the appropriate licence and ongoing training, an adviser is not permitted to discuss strategies that impact the debt component of a client's financial position.

Debt-based conversations can additionally lead to risk advice and open up previously untapped client segments, such as the accumulator market, as advisers expand their advice offering to include debt management. This is particularly relevant as advisers look to expand their client base beyond the retiree and transition to retirement demographic.

Remember: the basics don't change

Margin lending is still a relevant and powerful wealth creation strategy. However, understanding and managing the risks is critical in achieving a successful outcome for your clients.

Borrowing to invest will magnify the gains and losses of a portfolio and there are key risks that need to be highlighted during any client conversation about investment lending including:

- Interest rates have been moving higher since the GFC. In a rising interest rate environment it is important to assess an investor's serviceability on a loan.
- Market volatility. We have experienced high levels of volatility in the past couple of years. Big downswings in market returns can push investors into margin call territory. This needs to be explained to investors to be sure they understand their obligations should their loan move into margin call.
- An investor's risk profile may preclude them from investing in a higher risk gearing strategy. Factors to consider include their age, their stage of life, the stability of their income streams and their ability to meet margin call requirements from liquid assets.

Understanding these risks is vital and may lead to strategies that will help reduce a client's risk including:

- Not borrowing to their maximum LVR. Remember that if an investor has a lower gearing level or LVR, then they can weather a larger fall in the market before a margin call is triggered.
- Using a regular gearing plan . This is a way of dollar-cost-averaging in to the market and removes the issue of trying to time the market.
- Investing in an underlying portfolio that is highly diversified can help to smooth volatility and therefore reduce the associated downside risk.
- Factor in some buffer in case interest rates increase over time. If a client is able to service an interest rate in excess of their current position then this will give them room to breathe in an environment of rising interest rates.
- Use investment income to reduce their LVR over time. As income from an investment is generated the client has an option to take the income, apply it to their loan or reinvest and therefore reduce their LVR.

So how can Colonial Geared Investments help you?

In light of the changing landscape relating to investment lending it may be difficult to keep up. Colonial Geared Investments can help explain the changes as they pertain to our product range including our award-winning Colonial Margin Loan and debt consolidation product, CALIA+. CGI offers advisers numerous tools, including case studies and simulators, which can assist you in explaining the concepts of gearing to your clients. If you require any additional information in regard to the changing landscape please contact your BDM or phone (02) 8292 5254.

TAX MANAGEMENT

A VARIETY OF HOME EQUITY LOANS, known as all-in-one, split loans or debt wraps, allow the borrower to operate two or more sub-accounts under a single loan contract. Typically one sub-account would be an owner-occupier home loan while another would be an investment loan.

All-in-one loans give investors a lot of flexibility around their investment management. They have, over the years, also been used for some aggressive tax planning and there is a long history of Australian Tax Office rulings and litigation that planners should be aware of when using the product.

In 1998, the Australian Taxation Office issued a product ruling on what it called split loans that said their dominant purpose was tax avoidance. The ruling said: "Taxpayers will be allowed a deduction equal to the amount that they would be entitled to under a traditional loan arrangement. It is the claim for the extra interest that we intend to disallow."

Trudy and Richard Hart brought a case against the ATO in 2000. The couple used a property in the Australian Capital Territory as security for a $298,000 loan, which was operated with two sub-accounts. Loan account number one was a $202,000 home loan and loan account number two, for $96,000, was used to finance an investment property.

Monthly payments were credited entirely to loan account number one. At each payment date, loan account number two received an interest debit that was added to the principal of that account. A deduction was claimed for interest (including the interest on interest) on the investment loan sub-account.

In the first Federal Court case, Justice Richard Conti ruled that the split loan was a scheme "fashioned by taxation". On appeal, the full bench of the Federal Court backed the Harts.

The ATO was granted leave to appeal to the High Court in 2003. The High Court found that the Harts' loan arrangement was caught under the Part IVA anti-avoidance provisions because the prescriptive nature of the repayment arrangements gave it the flavour of a scheme devised for tax avoidance.

Debt facilities with multiple credit lines do not automatically contravene Part IVA. The sticking point has been when borrowers have tried to claim a deduction for the interest accruing on interest.

RISK MANAGEMENT

INVESTORS WHO INCLUDE BORROWED MONEY in their wealth accumulation strategies have more funds working for them than if they accumulated funds over time using a traditional savings strategy. However, it also exposes them to the risk that they will have to service a loan on an asset that has lost value or is not producing the expected income. If the investor is using a margin loan strategy it exposes them to the risk of a margin call.

The technical research manager at Centric Wealth, Anne-Marie Esler, says risk management planning must form a central part of the investment lending process.

Esler says: "Ensure your income continues to be received throughout the term of the strategy. For most people, this income is coming from their salary.

"If this salary were to cease, the ability to make loan repayments is likely to be at risk. To avoid forced liquidation of the portfolio, it should be recommended that individuals protect their salary through income protection insurance."

Esler says another essential aspect of risk management planning is to ensure that the investor has surplus income over their spending requirements and are not relying on the income produced from the investments to meet loan repayments.

Gray says good risk management involves getting the level of gearing right. Gray says that before the global financial crisis most planners were comfortable with a 50 per cent loan to valuation ratio as a starting point. He says people have become more conservative in their approach over the past couple of years and the starting point is usually between 30 and 45 per cent.

The head of national accounts at Colonial Geared Investments, John Gray, says good risk management involves getting the level of gearing right. Gray says that before the global financial crisis most planners were comfortable with a 50 per cent loan to valuation ratio as a starting point. He says people have become more conservative in their approach over the past couple of years and the starting point is usually between 30 and 45 per cent.

RISK MANAGEMENT PLAN

Financial planners should consider a four-point risk management plan when putting together an investment strategy for clients that involves margin lending:

- **Conservative gearing – do not gear up to the maximum allowed by the lender.**
- **Cash reserves – a savings buffer is essential to meet contingencies.**
- **Diversification – managed funds offer a bigger spread of stock. If the client insists on gearing a concentrated equity portfolio then reduce the gearing.**
- **Life insurance – a client should have enough cover the generate an amount of cash that will give the planner room to restructure the portfolio.**

DEALING WITH A MARGIN CALL

THE BIGGEST RISK that borrowers take on with a margin loan is that the assets they have used as security will fall in value and they will be asked to provide additional security or pay down part of the loan.

This event, the margin call, is what makes margin loans different from other investment finance. It is important for borrowers to understand what a margin call means and how they can deal with it before getting into a loan.

A borrower receives a margin call when their loan exceeds the maximum loan to valuation ratio. Lenders provide what they call a buffer – if the value of the security falls and the loan value exceeds the limit by only a few percentage points, the account is "in the buffer" and no action is required.

Most lenders have a buffer of 5 per cent, some 10 per cent. When the loan balance exceeds the limit by more than the buffer it is time for action.

In such a situation the borrower must do one of three things: provide additional security, repay part of the loan or sell securities. Lenders say that in most cases borrowers are able to settle margin calls by putting in extra cash.

Lenders allow a maximum loan to valuation ratio of 70 per cent to 80 per cent on many stocks and funds. Some financial planning groups limit their clients to 50 per cent or even less.

Lenders say there are positive aspects to a margin call. They see it as a safety net, where the lender uses the mechanism as a way of making sure that borrowers address their situation while they still have equity left in their securities. The borrower and their planner are required to review the situation and make a considered decision about whether the securities are worth holding onto.

Investors can do a lot to reduce the risk of a margin call and ease concerns about receiving a call. One way to manage the risk of a margin call is to keep the gearing level below the limit allowed by the lenders. Lenders allow a maximum loan to valuation ratio of 70 per cent to 80 per cent on many stocks and funds. Some financial planning groups limit their clients to 50 per cent or even less.

Leverage increases access to markets and offers the prospect of higher returns. The benefits of leverage can only come with a commensurate increase in downside risk.

Investors can reduce the risk of a margin call by actively monitoring their portfolios, keeping track of how their investments are performing and how their gearing ratio is moving. Gearing is not a set-and-forget strategy.

PLANNER CASE STUDIES

Case Study 1
Gearing gets young investors started

Shane Pinkerton has focused on establishing a client base of young investors since establishing a Fiducian Financial Services franchise in Adamstown, Newcastle, in 2002. Unusually for a planner, 60 per cent of his clients are under 50.

Pinkerton says he has worked through a local education organisation, giving lectures on investment principles and strategies, wealth creation and the sharemarket. It is at these lectures that he meets young people interested in investment.

He uses gearing "a fair bit" when he is working with young people on their investment strategies. This often involves a regular gearing plan to average into Australian share funds. "A lot of them know nothing about it and the ones that have heard of it don't understand how it would work for them," he says.

A critical element in the plan is to make sure the gearing is sustainable. Pinkerton says: "It has to be based on sustainable cash flow. You look at whether the client is capable of saving and then adapting to gearing."

He says 50 per cent gearing is the level he generally works towards. And he prefers to work with margin loan providers that are strict on loan-to-securities ratios. "From a dealer group perspective we have given it a lot of thought in the context of changes to credit legislation. There is more responsibility to understand what level the client is comfortable gearing to."

He says young people are often surprised by investment timeframes. Gearing should be a five to seven year strategy.

The other thing about young investors is that they sometimes bring a lot of youthful aggression to the investment thinking. "We do have to counsel them sometimes when they get a bit gung-ho," Pinkerton says.

Case Study 2
Taking 40-somethings back to basics

Financial planner Barrie Henman has a core clientele in the 35 to 45 age group. Henman, who is the principal of Peak Financial Management in Surrey Hills, Melbourne, says people in that group are often torn between wanting to get their debts under control and wishing they had started their wealth accumulation strategies earlier.

For Henman it is a matter of getting back to the fundamentals, starting with a budget. He says: "I would say that 99 per cent of people have never done a comprehensive budget – not just sitting down and listing the top-of-mind items but really drilling down. It is a bit of an eye opener.

"Then we stress test the budget – increase their outgoings by 25 per cent, look at some possible lifestyle expenses that might come up in the years ahead – and see how it comes out.

"These people have a lot of balls in the air and what we are trying to do is make sure their dollars are working as hard as possible for them. That way we can identify just how much they can put towards debt reduction, super, a gearing plan and discretionary spending."

It is only when Henman is confident that there is enough cash flow in the budget that he moves the discussion on to the clients' objectives and whether they have enough risk tolerance to take on some leverage.

"Most of these people have a greater tolerance for risk than baby boomers because they have longer investment horizons. For many of them the basic budgeting and stress-testing we go through is a valuable education. Some come out of that process discovering that they have less risk appetite than they thought, while others feel that they are better equipped to take on the risks."

Often the big question is whether to increase super contributions or use a gearing plan. Henman says he reviews likely future lifestyle events so the clients can get a sense of when they will need access to savings.

Henman says a recent change in the planning process, which has resulted from the financial crisis, is that lenders are more restrictive with gearing levels. With leverage around 50 per cent rather than 70 per cent, clients' expectations about the returns that gearing can produce have to be realistic.

FEES

MARGIN LOANS DO NOT CARRY a heavy burden of fees and charges. In most cases individual borrowers do not pay application fees and only a couple of lenders charge transaction fees.

Application fees do apply to companies and trusts. According to the banking industry research group Infochoice the standard application fee for companies is around $150, with the range between $130 and $200. Application fees for trusts are a little higher, ranging between $150 and $250.

In most cases there are no early repayment fees. A few lenders charge fees if repayments are made within the first few months. Repayment fees range between $200 and $500.

The majority of lenders allow unlimited transactions free of charge. One lender allows borrowers 10 free transactions and then charges $10 per share settlement. Another charges $5 per transaction if the loan balance is below $20,000.

Home equity loans have fee structures that are similar to standard variable rate mortgages, with application fees of around $500. An annual fee may also be charged. As with home loans, some fees may be waived depending on the loan size.

Margin loans do not carry a heavy burden of fees and charges. In most cases individual borrowers do not pay application fees and only a couple of lenders charge transaction fees.

COMPARISON CHART

Institution	Product	AU equities available	Managed funds available	Pledge non-appr. stock
ANZ	Variable	830	900	✔
Bank of Queensland	Margin Loan in Arrears	325	1900	✔
BT Margin Lending	Variable	313	1568	✔
Colonial Geared Investments	Margin Loan Variable	374	1582	✔
CommSec	Margin Loan Variable	495	1582	✔
Morgan Stanley Sm Barney	Variable Loan	240	170	✔
nab	Margin Loan Variable	374	1006	✔
St.George Margin Lending	Floating Variable	323	1581	✔
Suncorp Bank	Share Finance	348	1564	✔

Source: CANSTAR CANNEX 17/09/2010

Buffer margin stocks	Margin call conditions	Mcall notification via phone	Protected loan available	Instalment gearing available	Options trading available
5%	24 hrs	✔	✘	✔	✔
10%	24 hrs	✔	✘	✔	✘
10%	72 hrs	✔	✘	✔	✔
10%	72 hrs	✔	✔	✔	✔
5%	24 hrs	✔	✔	✔	✔
5%	24 hrs	✔	✘	✔	✔
5%	24 hrs	✔	✘	✔	✔
10%	24 hrs	✔	✔	✔	✔
5%	24 hrs	✔	✘	✔	✘

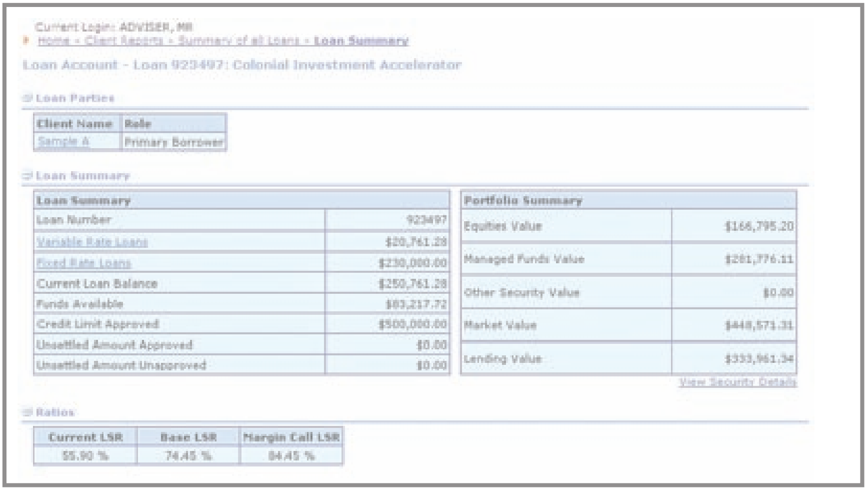
EASY GUIDE

FINANCIAL PLANNERS can stay on top of their client's investment loan profile using the admin platform provided by their investment lending provider.

For example, they can instantly check their client's financial situation under the 'Loan Summary' section or do scenario analysis using what-if simulators. The following screenshots are for illustration purposes only and are sourced from Colonial Geared Investments.

LOAN SUMMARY

A snapshot of your clients' margin loan, showing you key information at a glance.



Current Login: ADVISER, MR
Home » Client Reports » Summary of all Loans » Loan Summary

Loan Account - Loan 923497: Colonial Investment Accelerator

Loan Parties

Client Name	Role
Sample A	Primary Borrower

Loan Summary

Loan Summary	
Loan Number	923497
Variable Rate Loans	$20,761.28
Fixed Rate Loans	$230,000.00
Current Loan Balance	$250,761.28
Funds Available	$83,217.72
Credit Limit Approved	$500,000.00
Unsettled Amount Approved	$0.00
Unsettled Amount Unapproved	$0.00

Portfolio Summary	
Equities Value	$166,795.20
Managed Funds Value	$281,776.11
Other Security Value	$0.00
Market Value	$448,571.31
Lending Value	$333,961.34

View Security Details

Ratios

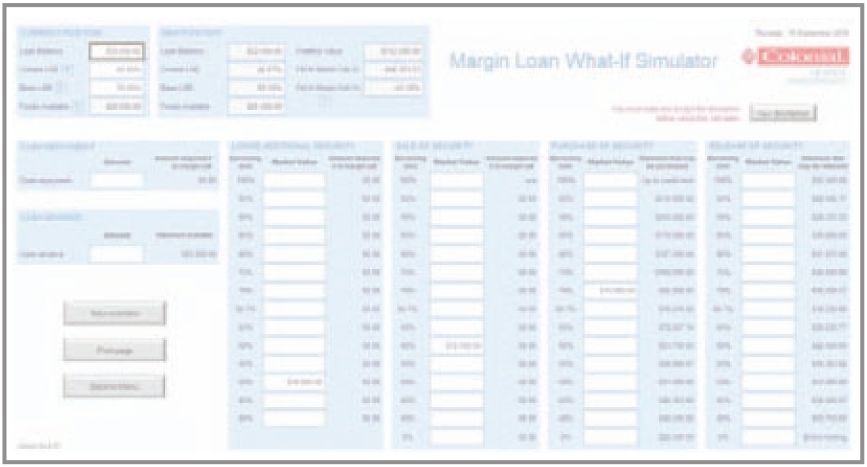
Current LSR	Base LSR	Margin Call LSR
55.90 %	74.45 %	84.45 %

SECURITY DETAILS

Allows you to view a summary of your clients' portfolio including the names and codes of securities, the market price, units held, market value and transaction history.

MARGIN LOAN WHAT-IF SIMULATOR

A what-if simulator is an easy way to see how proposed transactions will impact your clients' margin loan. Simply enter the current loan position and the value of the proposed transactions to see your clients' potential loan position.



GEARING SIMULATOR

A gearing simulator is designed to allow advisers to quickly and easily demonstrate the advantages of using a geared investment strategy over a non-geared investment strategy.

GLOSSARY

Approved securities	All margin lenders publish a list of shares and funds against which they are prepared to lend. A maximum loan to valuation ratio is assigned to each security. In recent years equity derivatives, such as options, have been included on approved lists.
Buffer	To accommodate small fluctuations in share and unit prices, margin lenders will allow the loan to valuation ratio to exceed the limit by a certain amount before making a margin call. This is called the buffer and is five or 10 per cent above the maximum LVR, depending on individual lenders.
Debt wrap	A borrowing facility that allows the borrower to operate a number of loan sub-accounts within a single loan contract.
Gearing ratio	The proportion of the market value of the security that the debt represents, expressed as a percentage. Lenders apply a maximum gearing, or loan to valuation, ratio to margin loans, depending on the volatility of the securities in the portfolio.
Home equity loan	A loan that allows people with equity in their homes to borrow against that equity for personal or investment purposes. Investors may also be able to nominate a portion of the equity in their home (the available equity) as security for a margin loan. The maintenance of separate home loan and margin loan accounts helps keep the borrower's tax position simple.
Regular gearing	A loan that can be drawn down in regular instalments, usually monthly, and used to accompany a savings plan into managed funds.
Margin call	A margin call occurs when the loan to valuation ratio exceeds the borrowing limit and the buffer. When markets falls and asset values go down the LVR will go up. Once a margin call is made the investor must take action to restore the account to its appropriate LVR.
Negative gearing	The income produced by the investment is less than the interest on the borrowing used to purchase the investment.
Pre-payment	Lenders allow investors to pay their interest a year in advance. Useful for tax purposes.
Protected loan	Lenders guarantee up to 100 per cent protection of the secured assets. There is an interest rate premium for this guarantee/insurance.
Security	The value of the cash or investments the borrower provides the lender as security for the loan.

10.2010

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GEARED
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