

# Financial Services

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## Norris admits Storm failings

Duncan Hughes

Commonwealth Bank of Australia chief executive Ralph Norris admitted yesterday the bank had failed to follow "our own policies and lending practices" when lending to clients of Storm Financial, which collapsed in January, resulting in expected losses for investors of more than \$3 billion.

Mr Norris also admitted relations between the bank's Townsville staff and Storm's executive became "too close and on occasion we lost objectivity", leading to inappropriate loans estimated by third parties to be worth nearly \$1 billion.

In an extraordinary analysis of his bank's failings, Mr Norris also admitted that a desktop property valuation system, called VAS, was misused to provide inflated loans against properties used for leveraged investments in Storm-badged products provided by the bank.

Mr Norris implicated others "involved in the circumstances leading to the hardship", which included the Australian Securities and Investments Commission and other product providers such as

### Storm warning

CBA's submission to the Parliamentary Joint Committee on Corporations and Financial Services

"We have discovered that, when it came to providing loans, mostly secured by property, we failed at times to follow our own policies and lending practices."

"It is our view that, distressing as the impacts were on some individuals, they do not represent a systemic failure of the financial planning industry."

"One broad conclusion is that, based on previous experience of Storm acting appropriately in relation to margin calls, we relied on Storm to continue 'doing the right thing', in particular to take timely action with its clients in relation to margin calls."

ourselves", which is believed to refer to the involvement of several other lenders, particularly the Bank of Queensland, Macquarie Group and National Australia Bank. None of the other banks has yet to publicly admit any liability.

Leading banking analyst Brian Johnson yesterday warned that CBA's dealing with Storm could highlight a systemic "overstatement of borrower incomes and borrower collateral asset values which was not

identified by CBA". He said it "raises questions about the quality of Australian banks' massive home loan portfolios where the LVR and income serviceability dynamic may not be as good as the banks think".

CBA's 18-page statement, which was submitted to the federal government inquiry into financial products and services in Australia, vindicates a series of investigative articles by *The Australian Financial Review* over the past seven months.

The front-page reports, which were often denied or challenged by CBA at the time of publication, identified the relationships between the bank and Storm's lending unit.

The AFR reports also exposed the role of VAS that helped inflate more than \$100 million of loan applications in the 2008 financial year, producing values up to eight times other independent estimates at a time when real property prices were falling.

The CBA submission details how in 2006-07 "several of our operating processes" were recruited by Storm staff in the bank's Townsville office to encourage loan approvals. CBA alleges that some staff "exerted pressure" on their former CBA colleagues who worked in a special Storm team. "This small, on-the-ground team was under constant pressure from Storm in dealing with customer loans."

Mr Norris, who estimates more than 4000 clients had a relationship with Storm, repeated his recent claim that "we are less than proud of our conduct."

## Slow to the party, CBA also cuts fees

Vesna Poljak

Commonwealth Bank of Australia will slash fees on personal and business accounts, while Australia and New Zealand Banking Group has flagged a similar move that would complete an overhaul of the local fee pool.

CBA yesterday said it would cut dishonour fees from \$35 to \$5 and overdraft fees from \$30 to \$10. The late payment fee on mortgages and personal loans will drop from \$45 to \$25.

It will also introduce a "safety net" to help customers avoid such penalties through balance alerts communicated by email and SMS. "We want to provide significant fee reductions while retaining a positive incentive for our customers to help them avoid any exception fees," said retail banking services head Ross McEwan.

"Commonwealth Bank will continue to review all of our fees and pricing to ensure we respond to our customers' needs, as well as delivering new and innovative tools and functionality to help them manage their own money effectively," he said in the

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