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FOR IMMEDIATE RELEASE

## Double gearing dangers addressed

CANSTAR CANNEX releases *margin lending star ratings* report today.

The boom-time practice of borrowing against the family home to leverage into buying shares through a margin loan will be severely curtailed under the new Rudd government proposal to crackdown on margin lending.

While this move is long overdue and is to be applauded, it is cold comfort to the many thousands of investors who have already gone to the wall as a result of this debt-on-debt strategy, according to research and ratings company CANSTAR CANNEX.

"Debt is good when asset prices trend upwards but it's the opposite when the value of shares and property fall," CANSTAR CANNEX financial analyst Frank Lopez said.

"Unfortunately margin loans seem to have taken the rap for bad investments when, in all likelihood, it's the financial advice that should be questioned."

Margin loans allow people to borrow money to invest in shares or managed funds and claim the interest repayments as a tax deduction.

Borrowing to invest, commonly known as gearing, is not without risk, as you are matching a guaranteed expense with a non-guaranteed income.

"No-one can guarantee dividend payments or even that a company will remain viable in years to come," Mr Lopez said.

"The problems begin if the market value of your shares falls to such an extent that it pushes your gearing above the agreed loan-to-value ratio, forcing you to sell a parcel of shares or make a cash payment to restore your loan cover."

"When the borrower's deposit is funded by debt you hit the problems that we've seen in many high profile cases of ordinary mum-and-dad investors losing their homes."

The critical issue of which party – lender, sharebroker or financial planner – makes a margin call will also be clarified in the new margin lending overhaul.

"It is proposed that responsibility will default to the lender, unless arrangements are made for the financial planner to do so," Mr Lopez.

“It’s vital that borrowers know exactly when they are in the buffer so they can prepare for a margin call, should it eventuate.”

While there is definitely a place for properly geared margin lending, borrowers can expect a tightening of lending criteria for a geared margin loan in order to avoid the double-debt trap.

Full disclosure of fees and commissions is also a key point in the new regulations.

At the moment, margin lending is not regulated in Australia. However, under the new plans, it will be regulated by the Australian Securities and Investments Commission (ASIC) and margin lenders will be required to hold an Australian Financial Services Licence (AFSL).

“Any move to make the overall lending structure more transparent and advice more appropriate will protect investors using margin loans, and this can only be a good thing,” Mr Lopez said.

CANSTAR CANNEX today released its *margin lending star ratings* report, awarding five stars to outstanding lenders.

Once again, Colonial and Commonwealth Securities lead the way across both star ratings profiles – Share Investor and Managed Fund Investor. St George Margin Lending maintained its five-star rating for the Share Investor profile. These institutions are also joined by Goldman Sachs JB Were who gained a five-star rating across both investor profiles.

Consumers can download the full *margin lending star ratings* report on [www.canstarcannex.com.au](http://www.canstarcannex.com.au)

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#### For further information:

Frank Lopez  
Financial Analyst  
(07) 3837 4158  
[francesco.lopez@canstarcannex.com.au](mailto:francesco.lopez@canstarcannex.com.au)

Christine Thelander  
Head of Communications  
(07) 3837 4151  
[christine.thelander@canstarcannex.com.au](mailto:christine.thelander@canstarcannex.com.au)

#### About CANSTAR CANNEX:

Founded in 1992, CANSTAR CANNEX Pty Limited is Australia and New Zealand's premier researcher of retail finance information for over 350 institutions such as Banks, Building Societies, Credit Unions, Finance Companies, Brokers, Mortgage Originators, Life Companies and finance related Internet Portals.

CANSTAR CANNEX customers use the extensive database for competitor analysis as well as a means of disseminating their product range. This information is also distributed to print and electronic media for publication and to Agents, Accountants, Brokers and Internet Portals for use in advising their clients.

#### What are the CANSTAR CANNEX star ratings?

CANSTAR CANNEX researches, compares and rates the suite of banking and insurance products listed below. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR CANNEX website at [www.canstarcannex.com.au](http://www.canstarcannex.com.au) if you would like to view the latest star ratings reports of interest.

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