



BT Financial Group Margin Lending

A larger sum working for you earlier..

★★★★★ **CANNEX**
margin lending star ratings™

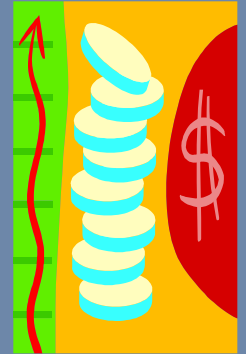
Agenda

- The Margin Lending Product
 - ✓ Features and Benefits
- Margin Lending Mechanics
 - ✓ The Power of Multiplication
- A Case for Gearing – Wealth Creation Strategies
 - ✓ Lump Sum Gearing
 - ✓ Regular Gearing
 - ✓ Income Splitting
 - ✓ Property VS Margin Lending
- Prepaid Interest
- Next Steps

Three Broad Features...

- **Easy to access loans**
 - \$2,143 for a \$5,000 regular gearing loan (geared @ 70%)
 - \$8,600 for a \$20,000 margin loan (geared @ 70%)
- **Revolving line of credit**
 - Flexible with no regular repayment schedule
- **Award Winning Margin Lending Provider**
 - 5 star Cannex Rating

Three Broad Benefits...



- **Wealth Creation**

- Gearing can speed up your financial goals sooner

- **Diversity**

- The ability to control a larger amount of quality assets

- **Tax**

- Tax deductibility
- Loan Structures – letting the higher income earner own the loan, may deliver tax advantages

How does BT Margin Lending work?



A client's portfolio is the security (or collateral) for the loan, just like a mortgage over property for a home loan.

We call this security the client's **loan portfolio**.



BTML assigns a **lending ratio** to each investment in the client's loan portfolio.

The lending ratio is the **percentage** of the investments **market value** that BT will **lend** the client.

How does it work?

Existing Investments

<u>Securities</u>	<u># of shares</u>	<u>Price</u>	<u>Market Value</u>
ABC Shares	9,000	\$12.15	\$109,350
XYZ Units	8,000	\$ 4.80	\$38,400

TOTAL MARKET VALUE

\$147,750.00

How does it work?

Applying the lending ratio

<u>Securities</u>	<u>Value</u>	<u>Lending Ratio</u>	<u>Loan Limit</u>
ABC Shares	\$109,350	70%	\$76,545
XYZ Units	\$38,400	70%	\$26,880

TOTAL	\$147,750		\$103,425
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Market value	\$147,750		
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Loan Limit	\$103,425		
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Average lending ratio 70%

Loan Balance	\$0		
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Gearing ratio 0%

Available credit	\$103,425		
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How does it work?

Client purchases \$400k TLS

<u>Securities</u>	<u>Value</u>	<u>Lending Ratio</u>	<u>Loan Limit</u>
ABC Shares	\$109,350	70%	\$76,545
XYZ Units	\$38,400	70%	\$26,880
TLS Shares	\$400,000	75%	\$300,000

TOTAL	\$547,750		\$403,425
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Market value	\$547,750
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Loan Limit	\$403,425	Average lending ratio 73.65%
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Loan Balance	\$400,000	Gearing ratio 73.02%
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Available credit	\$3,425
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Loan
balance
increases

How does it work

Margin calls - market drops 20%

<u>Securities</u>	<u>Value</u>	<u>Lending Ratio</u>	<u>Loan Limit</u>
ABC Shares	\$87,480	70%	\$61,236
XYZ Units	\$30,720	70%	\$21,504
TLS Shares	\$320,000	75%	\$240,000

TOTAL	\$438,200		\$322,740
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Market value	\$438,200	
Loan Limit	\$322,740	Average lending ratio 71.66%
Loan Balance	\$400,000	Gearing ratio 91.28%
Shortfall	(\$77,260)	
Buffer used	\$43,820	

Margin call	(\$33,440)
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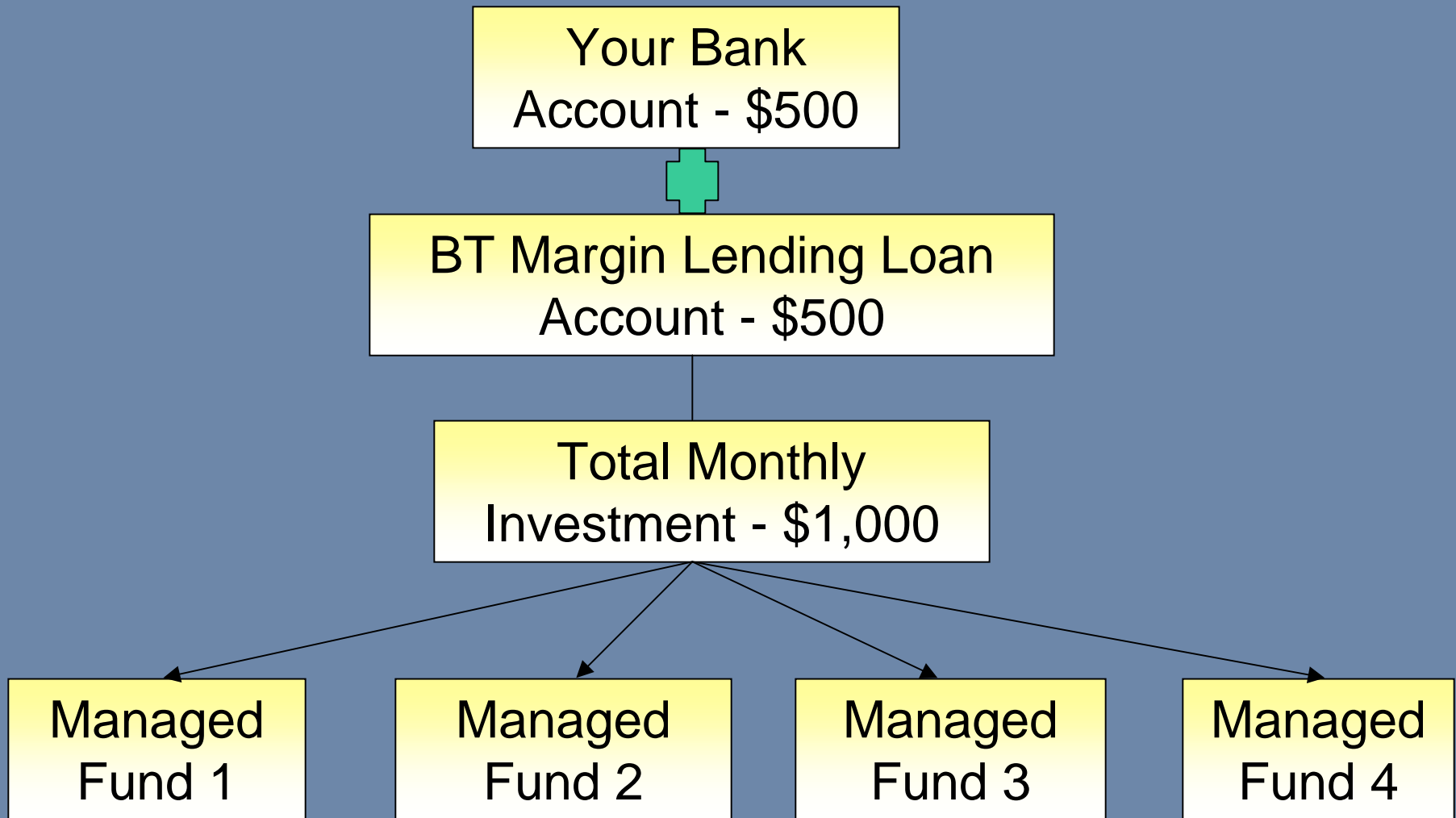
Loan balance
Stays the same

Gearing Strategies – regular gearing

Regular Gearing Strategy

- **Regular Gearing Loan**
 - Equals Easy Investment Plan + Loan Advance
- **“Forced” Savings Plan**
 - Dollar Cost Averaging
- **Low, affordable Start**
 - Start a regular gearing loan with as little as \$2,143

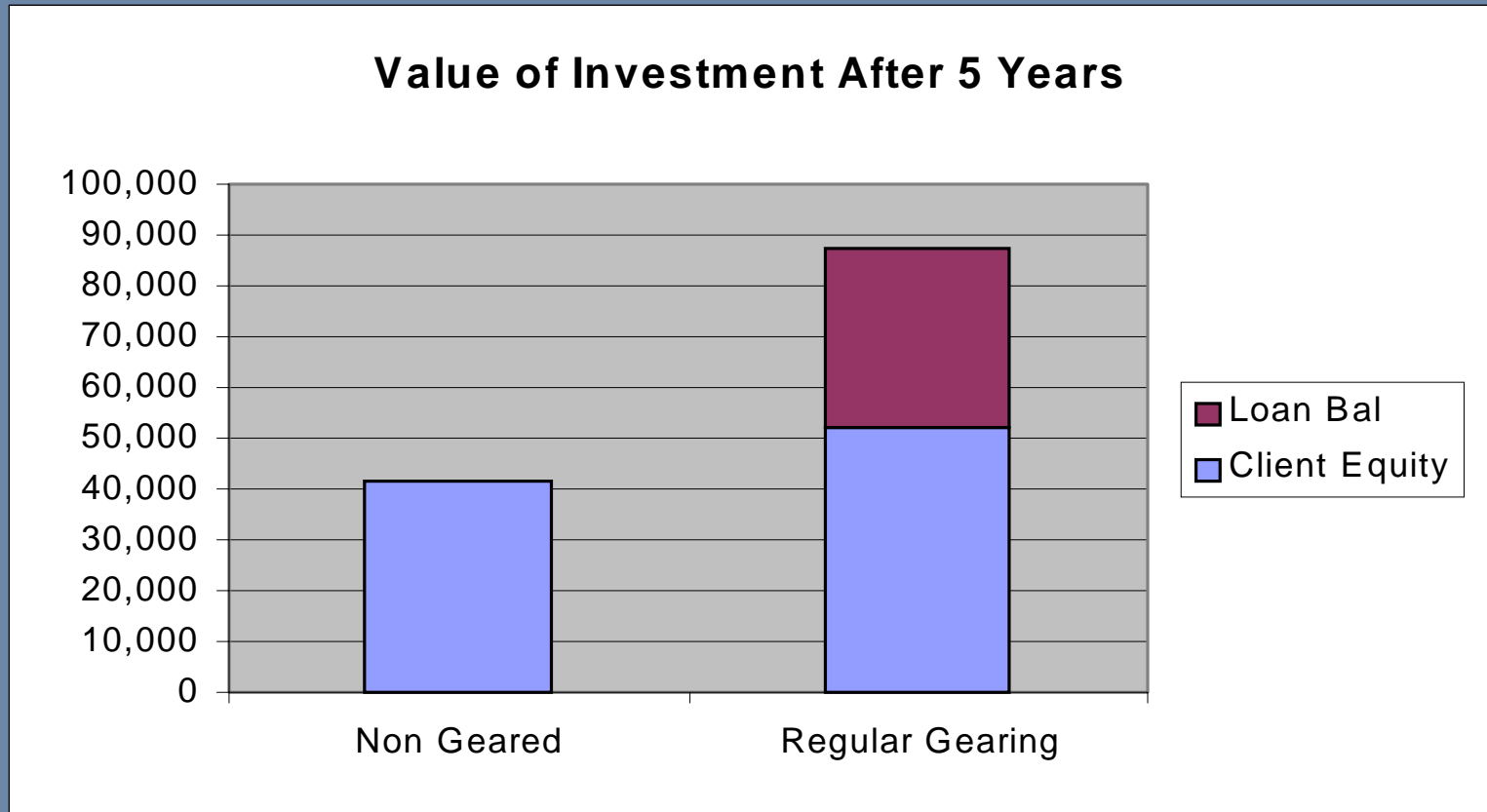
Regular Gearing - mechanics



Case Study - Assumptions

	Initial Equity	Initial Loan	Total Initial Investment	Regular Monthly Investment	Investment Value after 5 years
No Gearing	\$2,700	\$0	\$2,700	\$500 equity	\$41,800
Regular Gearing	\$2,700	\$5,000	\$7,700	\$500 loan + \$500 equity	\$87,200 (\$35k loan)

Case Study: How gearing can work for you



Assumptions

Interest Rate of 7% pa paid by the client, Distributions are reinvested, Capital growth of 5% pa and Distribution Yield of 4% pa, Marginal Tax rate(including Medicare Levy) of 48.5%

How regular gearing can work for you

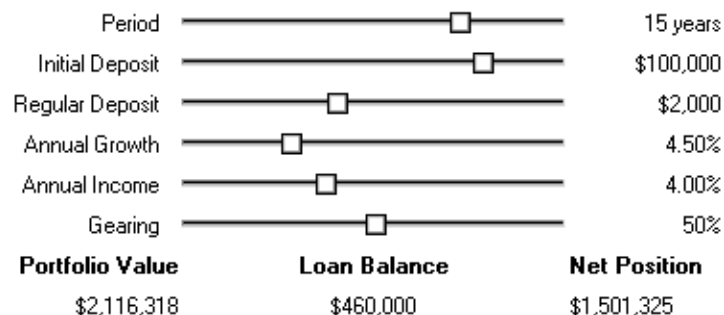
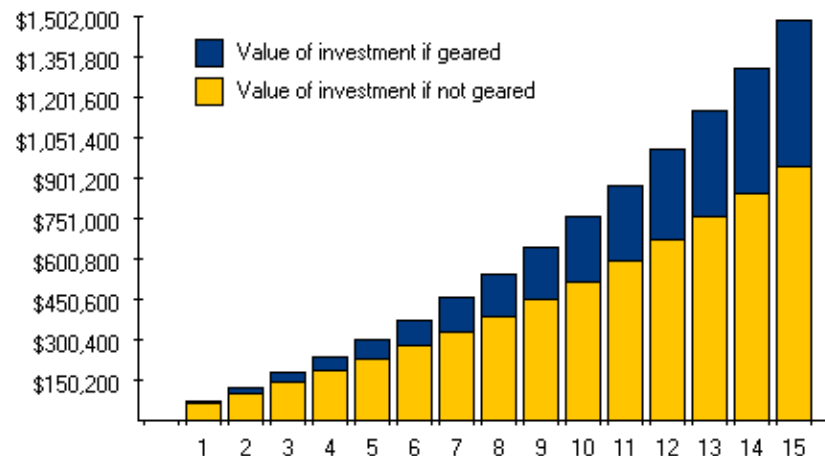
	Client Equity Cont.	Investment less Borrowings	Interest Paid	Tax Benefit	Equity Return
No Gearing	\$32,700	\$41,836	\$0	\$0	\$9,136
Regular Gearing	\$32,700	\$52,234 (\$87k - \$35k)	(\$7,000)	\$3,395	\$15,929

Online Client & Adviser Loan Calculator

This calculator can be used to show your clients how gearing their investment can help them build their wealth faster. The simple chart shows how margin lending can quickly and dramatically increase their net wealth position. The results show the value of their investment after they have repaid borrowings and paid tax on the income generated from the investment.

Simply drag the squares along each line until they correspond with the period (length of time your client will remain invested), their initial deposit, regular monthly deposit, the annual growth and income returns of their investment, and the gearing ratio they would like to maintain.

The graph will update automatically to show the total value of the investment, with or without gearing, after repaying the loan and tax.



The Risks of Gearing

"Growth demands a temporary release of security"

Gail Sheehy



- Diversify your Investments
- Margin Calls – don't borrow to the maximum
 - Build your own safety buffers into your own investment borrowings
- Pay interest or add equity regularly
- Invest for the long term
- Monitor your margin loan – via the internet

www.btonline.com.au

Conclusion

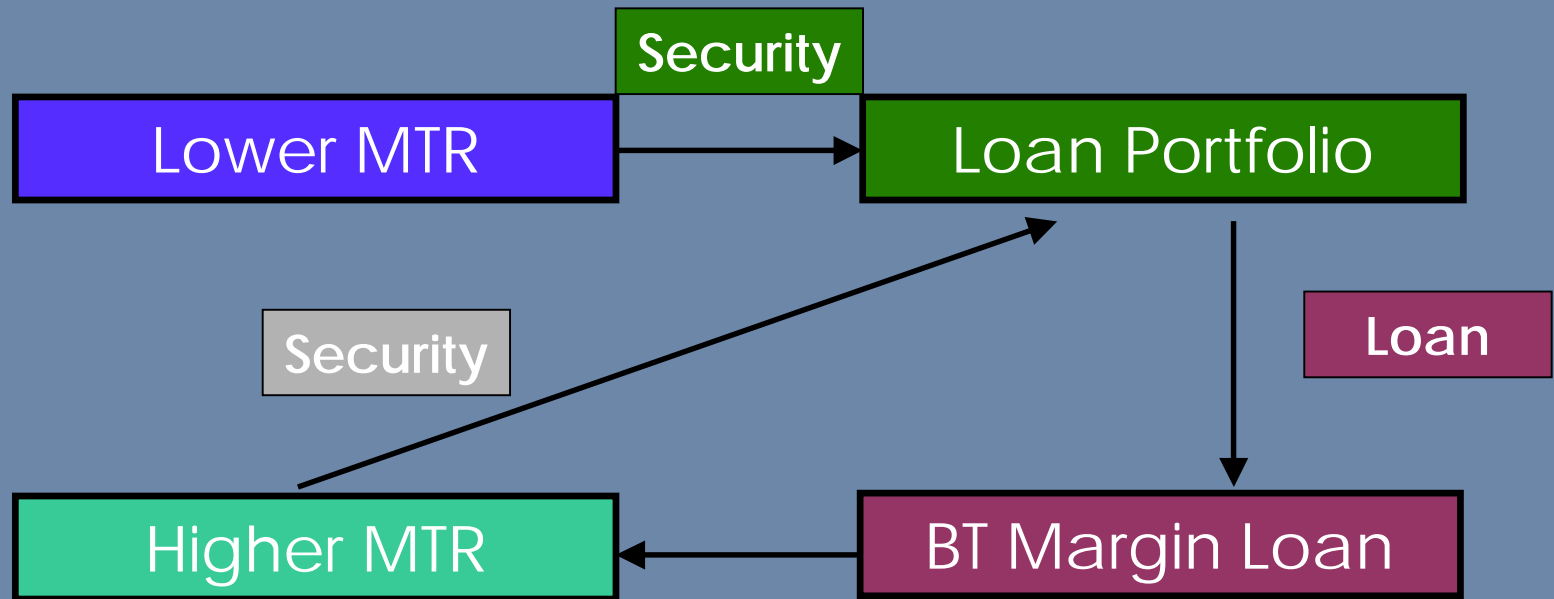
“Regular Gearing can significantly grow your potential returns by combining the power of borrowing through a BT Margin Loan on a regular basis”

Income Splitting Strategy

Gearing Strategies – Income splitting

- Couples may have different marginal tax rates
- The loan portfolio can be split into two parts
 - Partner with the lower MTR uses their own money
 - Partner with higher MTR uses loan to purchase investments
- Higher MTR partner is 100% geared
- The Interest is only deductible where some of the income producing assets are in the borrowers name

Effective loan structures – Third Parties



Income Splitting

	Higher MTR Only	Splitting Loan Portfolio		
		A	B	Total
Equity	\$50,000	\$0	\$50,000	\$50,000
BT Margin Loan	50,000	50,000	-	50,000
Portfolio	\$100,000	\$50,000	\$50,000	\$100,000
Income (5%)	\$5,000	\$2,500	\$2,500	\$5,000
Other income	80,000	80,000	0	80,000
Interest (7.0%)	-3,500	-3,500	0	-3,500
Taxable income	\$81,500	\$79,000	\$2,500	\$81,500
Tax payable	-26,908	-25,695	0	-25,695
After tax income	\$54,593	\$53,305	\$2,500	\$55,805
Capital gain (5%)	\$5,000	\$2,500	\$2,500	\$5,000
CGT	-1,213	-606	0	-606
Net gain	\$3,788	\$1,894	\$2,500	\$4,394
Total after tax	\$58,380	\$55,199	\$5,000	\$60,199

Conclusion

- Using different loan structures can be tax effective
- Different Loan structures can minimise CGT

Wealth Creation - Property vs Shares

Shares v Property

Shares Versus Property Costs		
	<u>Residential property</u> \$200,000	<u>Shares</u> \$200,000
Entry Costs		
-statutory duty	4,890	nil
-brokerage	nil	3,000
-conveyancing costs, legal fees	500	nil
-letting fees	480	nil
-advertising for letting	200	nil
Total entry costs	\$6,070	\$3,000
Ongoing Costs		
-rental collection fee pa	840	nil
-repairs and maintenance pa	500	nil
-insurance pa	400	nil
-rates pa	1,200	nil
Total first year holding and entry costs	\$9,010	\$3,000

Assumptions

Some costs are approximate. Transfer of land stamp duty varies per state. Figures are based on NSW duty of costs i.e. \$1,290 on the first \$80,000 and 3.5% on the next \$120,000. Brokerage on share acquisition is 1.5%. Letting fees are 4% of rental. Rental collection fee calc at 7% of rental. Gross rental return calc at 6% of property value. Assumes legal advice not obtained on loan documents.

Margin loans vs property loans

Property loans

- Cheaper interest rates
- No margin calls

Margin loans

- Flexible interest rate options
- No need to pay interest
- No principal payments required
- No establishment/ongoing fees
- No stamp duty
- Security revalued daily
- Can liquidate part of the investment
- Use existing investments as security
- Home is separate/safe
- Cash advances allowed

Prepaid Interest

- Prepayment period
 - 3, 6, 9 or 12 months
- Methods of payment
 - Cheque
 - Funds available (I.e compounding the interest)
- Prepayment Discounts
 - \$250K - \$500K 0.25%
 - \$500K – \$750K 0.50%
 - \$750K - \$1.0m 0.75%
 - \$1.0m + 1.00%

Internet Applications

Internet Applications - Clients

Enquiries, loan calculator, cash advances & amendments

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2 September 2003

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 - [Regular gearing](#)
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Margin Lending

Margin lending is borrowing money to invest in shares and managed funds. This increases the total amount you can invest and therefore increases potential returns. It can also be tax effective, can help to diversify your portfolio and is a highly flexible form of investment financing.

BT offers two types of loan with NO application fees, transaction fees or limits on the number of times you can transact.

Suitable for

Margin lending is suitable for a wide range of investors at different life stages including:

- Individuals, joint parties, partnerships, companies and trusts
- Wrap or master trust investors looking to gear their portfolio

Loans Available

- Standard Facility - \$20,000 minimum - (ie. need \$6,670 equity with a 75% gearing ratio)
- Regular Gearing Facility - \$5,000 minimum - (ie. need \$2,200 equity with a 70% gearing ratio, then \$500 monthly minimum loan advance)

Features

- Approval usually within 24 hours
- No application fees or transaction fees
- Lending ratios 30%-75% for shares and 70% for managed funds
- Interest can be prepaid at a fixed rate and/or at the monthly variable rate
- [Full product features list](#)

[Next Steps](#)

News and tips

- [Apply for a loan online or in writing](#)
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BT Financial Group

Margin lender of the year



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Margin Lending Online Application

Margin Loan Details

Please answer a few questions so we can prepare the application

Note : questions marked with * are mandatory.

1. What type of account are you applying for?
2. Will a third party be providing collateral for the loan?
2a. How many third party security providers are there?
2b. Is the third party a company?
 Yes No
3. Is the loan currently with another margin lending provider? Yes No
4. Do you have an adviser or broker? Yes No
5. Do you want to authorise someone else to operate the loan? e.g. your adviser Yes No
6. Will you be using regular gearing? Yes No
7. Would you like to nominate a bank account for direct debits, interest or regular gearing? Yes No
8. Will you be writing covered call options against the security on your account? Yes No
9. Do you plan to access your margin loan via a Wrap or Mastertrust? Yes No

Note: This online application cannot be used for a geared BT Wrap account application. Please use the concise BT Margin Lending and Wrap Investor Registration Form contained in the WRAP Investor Brochure. If you have any questions or would like further information please contact Wrap Adviser Relations or the BT Margin Lending Adviser Line on 1800 671 409.

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 - **Cash Advance**
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Cash Advance

Investor Number: MTEST 9999-0
Investor Name: Mr Test Margin Lending Client
Account Type: Margin Loan

Choose a payment method

You can obtain an advance from 'funds available' for any business or investment purpose.

All cash advance requests must be received by BT Margin Lending before 10am EST, on a business day, to be processed same day.

Please select method of payment:

Direct Deposit to nominated bank account

Funds available on following business day, no fees charged.

Telegraphic Transfer or Warrant into nominated bank account

Funds available after 3pm, \$20.00 fee applicable.

Cheque

Cheques can be mailed, collected from our Sydney office or from any Investor Service Centre.

Calculate how gearing your investment can build your wealth...

Address http://www.btonline.com.au/education/marginloan_calc.html

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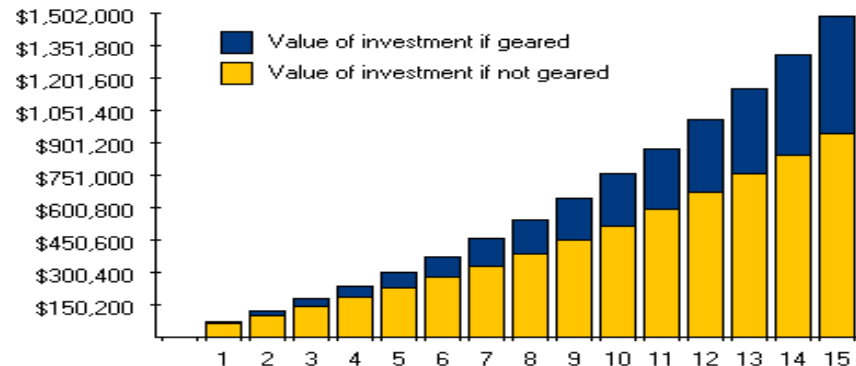
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Margin Loan Calculator

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Period 15 years
 Initial Deposit \$100,000
 Regular Deposit \$2,000
 Annual Growth 4.50%

What does BT Margin Lending offer?

- Margin Lender of the Year 2002
- No stamp duty
- No credit checks
- No account keeping fees
- No transaction fees
- Over 580 approved securities
- Monthly variable & prepaid interest options
- Regular Gearing
- Options
- Discounts
- Experienced & friendly Service
- Internet access to the portfolio
- Monthly statements
- Quarterly newsletter
- First provider in the Australian market - over 23 years
- Five Star Cannex Rating
- Dedicated Customer Relations Consultants

Where to from here?

- To gear or not to gear – It's your choice!
- Read your BT Margin Lending material
- Call us on 1800 816 222
- Visit our website – www.btonline.com.au

Margin Lending - summary

- Flexible financing tool
- Low entry point to Margin lending
- Wealth creation tool
- Tax benefits

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