



# **Guide to BT Margin Lending**

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BT Securities Limited (ABN 84 000 720 114 AFSL No. 233722) trading as BT Margin Lending, is a pioneer of margin lending in Australia and a leading provider of investment financing. Part of the Westpac Group, BT Margin Lending has been helping Australians create and manage wealth since 1985. Westpac has been delivering banking and other financial services to Australians since 1817.

→ **What's a margin loan?**

A margin loan is simply borrowing money to invest in approved shares or managed funds. You use your existing cash, shares or managed funds as security and we lend you money to invest. This form of borrowing is also known as 'gearing'.



## → Why use a margin loan?

Borrowing money to invest can potentially help you increase your returns. It can also be a tax-effective way to achieve your financial goals, and makes it easier to diversify your portfolio.

### Increased returns

Borrowing money to invest in shares and managed funds can increase your potential gains if managed correctly. However, it can also increase your losses if the value of your investments falls.

Table 1 — shows how borrowing money to invest can increase your returns. It compares an un-g geared portfolio with the potential returns from investing using a margin loan.

Portfolio	Un-g geared	Geared (50%)
Own funds invested	\$100,000	\$100,000
Borrowed funds	Nil	\$100,000
Total investment portfolio	\$100,000	\$200,000
<b>After five years</b>		
Value of investment portfolio (10% pa increase in investment value)	\$161,051	\$322,102
Borrowed funds	Nil	\$100,000
Interest paid (8% pa)	Nil	\$40,000
Value of investment portfolio (net of loan only and interest)	\$161,051	\$182,102
Return on investment	61%	82%

Assumptions: Interest rate of 8.00% pa. Investment value includes capital growth and dividends (reinvested) at 10% pa. Franking credits, tax and other fees and charges have been excluded.

Any change in assumptions could significantly change the results. You should also consider that investment returns are highly dependent on economic cycles and market volatility.

### Tax-effective

#### Interest may be tax-deductible

Interest on your margin loan may be tax-deductible. Prepaying interest lets you lock-in the interest up to 12 months in advance and you may also be able to claim a tax deduction for the prepaid interest amount<sup>1</sup> within the current financial year.

#### Capital Gains Tax (CGT)

You're able to borrow against an existing portfolio of eligible shares and managed funds. This lets you increase the size of your investment without having to sell your existing portfolio and potentially create a capital gains tax event.

### Easier to diversify

Diversification is a recognised method of potentially reducing investment risk without sacrificing long-term performance. Borrowing money gives you more money to invest, which lets you spread your money across more investments. The idea is that, should one of your investments fall, there's a chance it will be offset by good returns elsewhere in your portfolio.

<sup>1</sup> Prepaid interest deductions are generally only available to individual investors and are subject to the tax prepayment rules.

The taxation positions described above are general statements and should only be used as a guide. They're not meant as tax advice, so you should speak with a tax adviser to be clear on how a margin loan may affect your tax position.

→ **How does a margin loan work?**

Your investment portfolio of cash, approved shares or managed funds is the security (or collateral) for your margin loan — just like a mortgage on property for a home loan.

**Credit limit**

You'll be assessed for your requested credit limit based on your financial position. The credit limit is the maximum your loan can reach, regardless of your borrowing limit (see below).

**Borrowing limit**

This limit is calculated by multiplying each investment's market value by its loan to value ratio (LVR) (see Table 2 below). As the value of your investments changes every day, so does your borrowing limit. For example, if your portfolio's market value increased by 10% (to \$39,600) and LVRs remain the same, your borrowing limit will also increase by 10% (to \$24,200).

**Funds available**

The amount available for further investment at any one time is called your funds available. It's calculated by taking the lesser of your borrowing limit and your credit limit and then subtracting your loan balance.

**Loan to value ratios (LVR)**

An LVR is assigned to each investment in your loan portfolio. The LVR is the percentage of the investment's market value that we'll lend you. For example, we'll generally lend between 30% and 80% of the value of approved shares and managed funds.

Table 2 — shows how LVRs, borrowing limits and funds available work.

Sample portfolio	Market value	Loan to value ratio	Borrowing limit
ABC Fund	\$20,000	65%	\$13,000
DFG Ltd	\$10,000	60%	\$6,000
XYZ Bank	\$6,000	50%	\$3,000
<b>Total</b>	<b>\$36,000</b>	<b>61%</b>	<b>\$22,000</b>
Maximum amount you can borrow (funds available to invest)			\$22,000
<b>If you had a 10% increase in market value</b>	<b>\$39,600</b>		<b>\$24,200</b>

Note: This example shows the borrowing limit only; a credit limit also applies  
Assumption: Credit limit is greater than borrowing limit.

**The multiplier effect**

If you use your funds available to buy approved investments for your loan portfolio, then your borrowing limit also increases — potentially giving more funds available to invest.

This multiplier effect means you could potentially borrow up to four times the amount of your original funds available, depending on the LVR of your new investments and your credit limit.

So, your \$22,000 funds available — with the multiplier effect — could be used to buy \$55,000 LMN Ltd shares (see Table 3 below), with an LVR of 60%. You now have a loan balance of \$55,000. But by adding the new shares to your loan portfolio, the borrowing limit also increases by \$33,000 ( $\$55,000 \times 60\%$ ) to \$55,000.

Table 3 — shows how using your funds available for further investments can create additional funds available, which is known as the multiplier effect.

Sample portfolio	Market value	Loan to value ratio	Borrowing limit
ABC Fund	\$20,000	65%	\$13,000
DFG Ltd	\$10,000	60%	\$6,000
XYZ Bank	\$6,000	50%	\$3,000
LMN Ltd (additional purchase)	\$55,000	60%	\$33,000
<b>Total</b>	<b>\$91,000</b>	<b>60%</b>	<b>\$55,000</b>
Loan balance (to fund additional purchase)	\$55,000		
Funds available	\$0		

Note: This loan balance has reached the maximum gearing level available.



→ **Managing risk,  
not taking risks**

Like any investment, a margin loan involves some risks. While borrowing to invest more money in shares and managed funds increases your potential returns, it can also increase potential losses.

However, careful management of your margin loan can help to reduce the risks.

Common risks are:

- market falls
- interest rate rises
- LVR reductions or removal
- dividends from investments not received
- taxation law changes.

The key risk with margin lending is where your loan balance exceeds the limits set and you will receive a margin call where you have to take action to restore your account position.

**What's a margin call and the buffer?**

A margin call is triggered when your loan balance exceeds your borrowing limit by more than the buffer we allow. If you get a margin call, you need to bring your loan balance back under your borrowing limit within a short period.

Our buffer is generally 10% of your portfolio market value. This means that small changes in the market or your loan balance won't trigger a margin call.

There are two ways to clear a margin call:

- add more approved security, which can include cash
- repay part of your loan.

Table 4 — shows the impact of market falls.

In the buffer and margin call	Opening position	Example 1 10% fall in market	Example 2 20% fall in market
Value of investment portfolio	\$50,000	\$45,000	\$40,000
Borrowing limit (assuming an LVR of 70%)	\$35,000	\$31,500	\$28,000
Loan balance (amount you have borrowed)	\$35,000	\$35,000	\$35,000
Buffer (10% of portfolio market value)	\$5,000	\$4,500	\$4,000
Remaining amount in buffer	N/A	\$1,000	Nil
Margin call	N/A	N/A	(\$7,000)

→ **Example 1 — in the buffer**

In Table 4, say your portfolio's market value falls by 10%, resulting in a corresponding fall in your borrowing limit. Your borrowing limit's now \$31,500, however, your loan balance is still \$35,000. While you're \$3,500 into the buffer, the buffer is \$4,500 so there's no margin call. You don't necessarily need to take any action but it may be a good idea, as you won't be able to borrow more while you're in the buffer and you may avoid a margin call.

→ **Example 2 — in margin call**

In Table 4, the margin call amount of \$7,000 needs to be paid by 2.00pm (Sydney time) the next business day. We'll try to contact you in the case of a margin call but the responsibility for your loan is yours. If a margin call isn't satisfied by the time specified, we may reduce your loan balance to below your borrowing limit — usually by selling security.

It's also important to note that a margin loan is a 'full recourse' loan. This means that if the value of your investments falls to zero, you'll still be liable to repay the total loan balance.

**How much does your portfolio need to fall before you get a margin call?**

Table 5 — shows how much the market value of your portfolio needs to fall before you get a margin call. For example, if you invest in managed funds that have a 70% LVR and you only borrow to 50%, your portfolio value would need to fall by 38% before a margin call will take place.

	Personal borrowing level (your gearing level)				
Max. LVR	70%	60%	50%	40%	30%
70%	13%	25%	38%	50%	63%
65%	7%	20%	33%	47%	60%
60%		14%	29%	43%	57%
55%		8%	23%	38%	54%
50%			17%	33%	50%

Assumes a buffer of 10%.

## How to minimise risk

Speak to a financial adviser	As with any investment decision, we recommend you seek professional financial advice to help plan your strategy.
Borrow what you can afford	Limiting the amount you borrow is one of the secrets to successful gearing. It makes it easier to meet your regular interest payments and reduces the risk of a margin call, as the previous table shows.
Diversify	By diversifying your investments across a wide variety of shares or managed funds, you can reduce the risk that poor performance in one investment will reduce your total return.
Repay and reinvest	Paying your loan interest can help keep your loan balance from increasing. Reinvesting your dividends and distributions also increases your borrowing limit, or you can use them to pay down your loan.
Register for electronic buffer and margin call alerts	By registering for email and/or free SMS alerts, we'll contact you wherever you are if your loan balance exceeds 50% of your buffer or triggers a margin call.
Consider your cashflow	You need to ensure you're able to handle significant market falls along with your interest payments. Cashflow is also important for managing any timing issues, such as dividend payments that don't coincide with your interest payments.
Monitor your portfolio	<p>It's important to keep an eye on your margin loan portfolio. We give you online access to all your portfolio details 24 hours a day, 7 days a week.</p> <p>Another strategy for making the most of margin loan benefits while minimising risk is 'regular gearing'.</p>

→ **Start a regular savings investment plan**

While gearing has many advantages, a regular gearing plan can have even more benefits.

**What's a regular savings investment plan?**

Many fund managers offer regular investment plans that let you save a certain amount and invest it each month. Regular savings investment is simply combining this investment plan with additional borrowed funds, which increases the amount you invest each month. It can help you grow your portfolio faster, and lets you take advantage of dollar-cost-averaging — buying more when the market's down and less when the market's up. This can help smooth out market ups and downs.

**Example — how a regular savings investment plan can work for you**

Say you have \$10,000 equity and want to invest into an Australian share fund. If you can afford to invest an additional \$500 per month and want to maximise your return over a ten-year period, you may consider the following options:

- **Option 1 — No regular gearing plan**  
Invest the initial \$10,000 and \$500 per month into the Australian share fund. After ten years the total net value of the investment would be \$125,869.
- **Option 2 — Regular gearing plan**  
Combine the initial \$10,000 with a loan of \$10,000 to make an initial investment of \$20,000. You invest \$500 per month, as well as using regular gearing to invest an additional \$500 per month, ie borrow \$500 to create a total investment of \$1,000 per month. After ten years the total net value of the investment would be \$149,939 after paying back the loan balance of \$70,000.

Table 6 — shows the potential returns from investing using a regular gearing plan.

Portfolio	Option 1 No regular gearing	Option 2 Regular gearing (50% LVR)
Initial investment	\$10,000	\$20,000
Regular monthly investment	\$500	\$1,000
<b>After ten years</b>		
Total amount invested	\$70,000	\$140,000
Value of investment portfolio	\$125,869	\$251,739
Less: loan balance	Nil	\$70,000
Value of investment portfolio (net of loan only)	\$125,869	\$181,739
Interest paid (8% pa)	Nil	\$31,800
Value of investment portfolio (net of loan and interest)	\$125,869	\$149,939
Return on investment	80%	114%

Assumptions: Initial own investment \$10,000, initial borrowed funds \$10,000, monthly own contribution \$500, monthly loan drawn \$500, investment value includes capital growth and dividend (compounding) 10% pa, interest rate 8% pa. Franking credits, tax and other fees and charges have been excluded. Any change in assumptions could significantly change the results. You should also consider that investment returns are highly dependent on economic cycles and market volatility.

→ **BT interest rates and payment options**

**BT Margin Lending offers variable and fixed interest rates**

Interest rate type	Payable	Payment method	Further details
Variable	Monthly in arrears	<ul style="list-style-type: none"> <li>→ direct debit from your nominated bank account</li> <li>→ direct credit and internet bank transfer</li> <li>→ BPAY®<sup>1</sup></li> <li>→ capitalised to your margin loan.</li> </ul>	<ul style="list-style-type: none"> <li>→ interest is calculated daily</li> <li>→ no interest charged where loan balance is zero or in credit.</li> </ul>
Fixed	<p>In advance — fixed rate term can be set for 3, 6, 9 or 12 months.</p> <p>Monthly in arrears — fixed-rate term can be set for terms of one to five years.</p>	<ul style="list-style-type: none"> <li>→ direct debit from your nominated bank account</li> <li>→ direct credit and internet bank transfer</li> <li>→ BPAY®</li> <li>→ capitalised to your margin loan.</li> </ul> <p>Where you don't nominate an interest payment method, interest will be capitalised to your margin loan.</p>	<ul style="list-style-type: none"> <li>→ interest is non-refundable</li> <li>→ \$20,000 minimum loan balance.</li> </ul>

To see our current interest rates, go to [www.bt.com.au/MLrates](http://www.bt.com.au/MLrates).

→ **BT Margin Loans  
at a glance**

Loans	
<b>Standard BT Margin Loan</b>	<ul style="list-style-type: none"> <li>→ minimum loan is \$20,000</li> <li>→ no minimum requirement for cash advances or loan draw-downs</li> <li>→ no minimum amount for loan repayments</li> <li>→ cash advances for investment purposes</li> <li>→ extensive list of approved securities.</li> </ul>
<b>BT Margin Lending_Online Loan</b>	<ul style="list-style-type: none"> <li>→ available to clients who open a BT Margin Loan that is linked to a Westpac Online Investing account — applications must be completed online</li> <li>→ lower interest rate than a Standard BT Margin Loan</li> <li>→ trade online with Westpac Securities</li> <li>→ receive discounted online brokerage rate</li> <li>→ transaction fees may apply, depending on your average monthly loan balance and number of transactions per month.</li> </ul>
<b>Regular Gearing Plan</b>	<ul style="list-style-type: none"> <li>→ available with Standard BT Margin Loan and BT Margin Lending_Online Loan</li> <li>→ minimum loan is \$2,500</li> <li>→ minimum initial investment \$1,000 per managed fund</li> <li>→ minimum monthly loan advance \$250</li> <li>→ minimum monthly investment of \$250 per managed fund.</li> </ul>
<b>Westpac BlueChip20</b>	<ul style="list-style-type: none"> <li>→ Separately Managed Account linked to a BT Margin Loan</li> <li>→ start with an initial investment of \$2,500 and a loan of \$2,500</li> <li>→ minimum monthly loan advance is \$250 with cash contribution of \$250</li> <li>→ invest in the top-20 blue-chip Australian companies</li> <li>→ save on brokerage costs</li> <li>→ full range of investment and loan reporting online.</li> </ul>
<b>Flexibility</b>	No limit to the number of times you can transact.
<b>Tools to manage your loan</b>	<p>Monitor and transact on your loan account securely online 24 hours a day, 7 days a week.</p> <p>Use our online calculators to simulate transactions on your loan and prepaying interest to determine how much of your own funds you need.</p> <p>If you have any questions, call us on 1800 816 222, Monday to Friday, 8.00am to 6.30pm (Sydney time).</p>
<b>Who can borrow</b>	<p>Individuals and joint parties who are Australian citizens and residents.</p> <p>Australian companies and trusts.</p>
<b>Loan approvals</b>	Loans are subject to approval and need a credit assessment.
<b>Fees</b>	No application or establishment fees for individual borrowers.
<b>Loan term</b>	No fixed loan term.
<b>Repayments</b>	<p>The margin loan facility is an open-ended revolving line of credit. There is no set principal repayment schedule.</p> <ul style="list-style-type: none"> <li>→ part or full repayments to the loan can be made at any time by direct credit, BPAY® cheque or direct debit.</li> </ul>

→ **Applying for a  
BT Margin Loan**

Loans	
<b>Acceptable security</b>	Cash, Australian shares, and managed funds. Securities can be held in either the borrower's name or in the name of a third party.
<b>Loan to value ratios (LVRs)</b>	LVRs are generally between 30% and 80% of the value of the portfolio. LVRs may be reduced where one security makes up a significant proportion of your portfolio. All our LVRs are listed on our Approved Securities List at <a href="http://www.bt.com.au/MLasl">www.bt.com.au/MLasl</a> . These are subject to change at any time.

**Talk to a financial adviser**

If you need help, a financial adviser can recommend an investment strategy that covers tax planning, risk management, choice of investments and the amount of gearing appropriate for your situation. Visit [www.bt.com.au/FindAnAdviser](http://www.bt.com.au/FindAnAdviser) to find a financial adviser that suits you, near you.

We may pay a commission to your financial adviser.

**To apply**

Call us on 1800 816 222, Monday to Friday, 8.00am to 6.30pm (Sydney time).  
Or go to [www.bt.com.au/MLapply](http://www.bt.com.au/MLapply).

**Approved security** — is an approved investment (share, managed fund, cash) that you can lodge as security, or collateral, against your margin loan.

**Approved securities list (ASL)** — is our current list of all securities, and their loan to value ratios (LVRs), that you can borrow against with your margin loan. See it here: [www.bt.com.au/MLasl](http://www.bt.com.au/MLasl).

**Borrowing limit** — is the maximum your loan balance can reach based on the securities in your portfolio (different from your credit limit — see below). It's calculated by multiplying each investment's market value by its LVR. The borrowing limit will fluctuate based on changes in the market value and LVR.

**Buffer** — is an amount above your borrowing limit, which lets you absorb small market fluctuations without triggering a margin call. The current buffer for standard BT Margin Loans is generally 10% of total market value.

**Credit limit** — is the maximum loan balance. The credit limit you request in your application is subject to approval based on an assessment of your financial position.

**Facility** — is another way of referring to your margin loan account.

**Funds available** — is the amount available to draw down from your loan for further investment. This is determined by the lower of your borrowing limit and credit limit, less the loan balance.

**Loan balance** — is the amount you've borrowed.

**Loan to value ratio (LVR)** — is the percentage of an investment's market value that we'll lend you. An LVR is allocated to each of the approved shares and managed funds held on your margin loan. These can be changed at any time without notice.

**Margin call** — is triggered when your loan balance exceeds your borrowing limit by more than the buffer. If you receive a margin call, you need to bring your loan balance back under your borrowing limit — by 2.00pm (Sydney time) the next business day — or we may sell your securities to do this. You can sign up for our email/SMS buffer and margin call alerts to get instant information.

**Security** — is any assets that are offered to secure the loan and which may be sold if the loan balance is not paid back in the event of a default or margin call.

**Third party security** — is simply using another person's (or company's or trust's) investments as security for your loan.





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#### **If you are a direct investor**

→ **Call our BT Customer Relations Consultants on 1800 816 222**  
**Monday to Friday**  
**8.00am to 6.30pm (Sydney time)**

→ **Email us at [client.marginlending@btfinancialgroup.com](mailto:client.marginlending@btfinancialgroup.com)**

#### **If you are a financial adviser**

→ **Call BT Adviser Relations on 1800 671 409**  
**Monday to Friday**  
**8.00am to 6.30pm (Sydney time)**

→ **Email us at [adviser.marginlending@btfinancialgroup.com](mailto:adviser.marginlending@btfinancialgroup.com)**

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