Lending Ratios

How Lending Ratios affect your portfolio.

What is a Lending Ratio?

- It is the maximum amount we will lend you on a security expressed as a percentage
- It forms the basis for your total Lending Value
- Lending Ratios can be standard or diversified, and different Lending Ratios can be applicable on the same security
- The Lending Ratio is sometimes referred to as the 'Loan to Valuation Ratio' or 'LVR'.

Lending Ratios

The Lending Ratio on a security or 'Acceptable Investment' (a lendable security which we accept as part of the Secured Portfolio, as specified in the Acceptable Investment Lists on our website) is expressed as a percentage and determines the maximum level of lending permitted in most cases. It determines the margin the customer must maintain as their own equity in a position.

In the below scenarios, the amount of lending available on each security is shown as a dollar amount based on the Lending Ratio. This then determines the total Lending Value and maximum Gearing Ratio of the portfolio.

The Lending Value of the portfolio is derived using the aggregate Market Value of the Acceptable Investments which is generally based on prevailing market prices.

Standard and Diversified

An Acceptable Investment which we offer lending on will either have the standard or diversified Lending Ratio applied, or a combination of both.

Standard Lending Ratio

The standard Lending Ratio is applied to Acceptable Investments in accordance with the Acceptable Investment List. It is not subject to any Concentration Limit.[1]

Diversified Lending Ratio

A diversified Lending Ratio will apply if the Lending Value of the Acceptable Investment is less than the allowable Concentration Limit permitted in the Secured Portfolio (calculated using Lending Value only).

Any surplus Market Value not eligible for the diversified Lending Ratio may receive the standard Lending Ratio.[2]

Often the diversified Lending Ratio is higher than the standard Lending Ratio, offering greater borrowing capacity against a security. However, for diversified Lending Ratios to apply you must remain below the required Concentration Limit.

The standard and diversified Lending Ratios and the Concentration Limit for Acceptable Investments are published in the Acceptable Investment Lists available on the Leveraged website.

Concentration Limits

The Concentration Limit is the maximum percentage holding of a security within the Secured Portfolio that we will apply the diversified Lending Ratio to.

Any amount that exceeds the Concentration Limit then has the standard Lending Ratio applied, which could be a lower Lending Ratio including zero.

1) The lender may cap the amount of lending you will receive at its discretion regardless of the Lending Ratio published on the Acceptable Investment List

2) Bought Puts, cash and cash like investments are excluded from the calculations

Case Study 1

Scenario A

If a customer wishes to purchase a $10,000 parcel of Share X using their margin loan and the standard Lending Ratio offered on the Acceptable Investment List is currently 75%, we will lend the customer up to $7,500 to make the purchase provided they contribute the remaining 25%. The amount the customer must contribute is $2,500 ($10,000 x 25% equity = $2,500).

Scenario B

If the customer then proposes to purchase $20,000 of Share Y and the standard Lending Ratio is 60%, we will lend the customer up to $12,000 toward this purchase. The customer will need to contribute the remaining 40% being $8,000 ($20,000 x 40% equity = $8,000).

Scenario C

When combining the two scenarios above, the portfolio is now valued at $30,000. The total Lending Value offered is $19,500 ($7,500 + $12,000). This means the Gearing Ratio on the portfolio with both securities is 65% ($19,500/$30,000 = 65%). The Gearing Ratio is the total amount owing divided by the sum of the lendable Market Value of all items in the Secured Portfolio expressed as a percentage.

Case Study 2

Cindy is considering creating a portfolio of five holdings as listed below each with a different Lending Ratio offered. Some have a standard and diversified Lending Ratio, others have no standard Lending Ratio. The standard and diversified Lending Ratios for the Securities are listed with the maximum Concentration Limit.

Cindy considers that she might like to invest $20,000 in each security, creating a $100,000 portfolio. She needs to know the minimum equity amount she needs to contribute for this portfolio.

Table 1

Security	Standard Lending Ratio	Diversified Lending Ratio	Concentration Limit
ABC Corp	0%	50%	20%
XYZ Corp	75%	75%	100%
EFG Limited	50%	60%	50%
LMO Limited	65%	75%	80%
QRS Fund	0%	40%	20%

Table 2: The Lending Ratios Cindy will receive **without** considering diversified calculations.

Security	Standard Lending Ratio	Market Value	Lending Ratio Applied	Lending Value
ABC Corp	0%	$20,000	0%	$0
XYZ Corp	75%	$20,000	75%	$15,000
EFG Limited	50%	$20,000	50%	$10,000
LMO Limited	65%	$20,000	65%	$13,000
QRS Fund	0%	$20,000	0%	$0
Total		**$100,000**		**$38,000**

Table 3: The Lending Ratios Cindy will receive **with** diversified Lending Ratios applied.

Security	Standard Lending Ratio	Diversified Lending Ratio	Concentration Limit	Market Value	New Lending Value	Actual Concentration (Lending Value/ Total Lending Value)
ABC Corp	0%	50%	20%	$20,000	$10,000	16.67%
XYZ Corp	75%	75%	100%	$20,000	$15,000	25.00%
EFG Limited	50%	60%	50%	$20,000	$12,000	20.00%
LMO Limited	65%	75%	80%	$20,000	$15,000	25.00%
QRS Fund	0%	40%	20%	$20,000	$8,000	13.33%
Total				**$100,000**	**$60,000**	

Case Study 2 (continued)

Cindy is entitled to the higher **diversified Lending Ratio** on each security because the actual concentration of each securities Lending Value is less than the maximum Concentration Limit. By diversifying her portfolio this way, she receives an overall total Lending Value boost of $22,000 which would not be possible without diversified lending in place.

Cindy now knows to create this portfolio she must contribute a minimum of $40,000 however this would mean she is geared at the maximum allowable on this portfolio. She might like to contribute more to give herself some headroom if there is a fall in the market.

Other factors to consider

Table 3 shows the diversified Lending Ratios offered if Cindy does not exceed or stays at the concentration limit allowable on each holding.

However, should she re-structure the portfolio and sell some holdings, for example if she sold the three securities with standard Lending Ratios, her remaining two holdings would not be eligible for any Lending Ratio, because the total concentration maximums for the restructured portfolio would only be 40%.

If the concentration maximums in a portfolio add up to less than 100% as a total, no diversified Lending Ratios will be applied. Instead, we will recalculate the position using standard Lending Ratios for each security within the Secured Portfolio. Depending on the Loan Amount, this could potentially result in Margin Call

If you are planning to make changes to your portfolio and need assistance calculating a potential new Lending Value, speak to our Customer Service Team.

The Buffer

The Buffer is an allowance over and above the approved Lending Ratio to accommodate small market fluctuations without triggering a Margin Call. In most circumstances, Leveraged offers a Buffer of 10%. However, if the Lending Ratio is 0% then no Buffer will apply.

Important information to remember when considering the Buffer on a Leveraged margin loan

- Cash and cash like products will not have any Buffer applied.
- Put protected holdings will not have any Buffer applied.
- The Buffer is not intended to provide additional borrowing capacity.

It is important to remember the Buffer will change with market movements. In a falling market, with a falling portfolio value, the Buffer reduces proportionately also.

For the Leveraged Margin Loan and Investment Funds Multiplier products, Leveraged offers Buffer alerts* whereby you are notified when your facility is over 50% of the Buffer amount.

*Alerts are an additional service and not notices the lender may be required to give. The lender provides these alerts on a best endeavours basis and you should always monitor your margin loan.

About Leveraged

Established in 1991, we're proud to be a margin lending specialist in Australia, and a wholly-owned subsidiary of Bendigo and Adelaide Bank.

We offer a choice of multiple margin loan solutions and additional features, a diverse and frequently reviewed investment list and we connect with most major online platforms and selected brokers.

More information: Ask your financial adviser about a Leveraged Equities margin loan, or contact us.

Call 1300 307 807 **Email** customerservice@leveraged.com.au **Visit** leveraged.com.au