



T24 Margin Lending

Overview

Borrowing to invest has long been a popular wealth creation strategy. Margin lending is a form of gearing wherein loans are availed using the customer's existing investments as the security for the loan. By combining the margin loan with the customer's own funds (equity), the amount that can be invested is increased. This can help in diversifying the portfolio as the amount available to invest is more. In simple terms, the investors can increase their potential returns by using their existing investments. While a margin loan can increase the returns in a rising market, the losses can potentially increase as well.

T24 Margin Lending is an integrated front to back office solution which provides sophisticated functionality for the setting up and administration of Margin Loans. By leveraging T24's real-time valuation capability, banks can have access to real-time margin portfolio status reports which will help them in identifying margin call situations as and when they arise. It is a flexible and easy to configure solution and a comprehensive offering when combined with T24 Arrangement Architecture (for loan product creation and administration) and T24 Private Wealth Management/Securities (for valuations, performance monitoring, order management, settlements and corporate actions).

Margin Lending – How it works?

David has an investment portfolio whose market value is \$72,500 but the Security (Margin) value is only \$57,000.

Instrument	Market Value (\$)	Margin Rate (LVR) (%)	Security (Margin) Value (\$)
ABC Corp	10,000	70%	7,000
XYZ Inc	50,000	80%	40,000
FIX Tech	12,500	80%	10,000
Total:	72,500		57,000

David now wishes to buy BHP stock (LVR of 75%) by availing a margin loan. The maximum amount that the bank will lend against the security value of \$57,000 for an instrument that has a LVR of 75% is calculated using the formula:

Buying Power = Security Value / (1-LVR) = \$57,000 / (1-75%) = \$228,000.

The portfolio's security value after the purchase will be \$228,000 against which there will be a margin loan of \$228,000.

Instrument	Market Value (\$)	Margin Rate (LVR) (%)	Security (Margin) Value (\$)
ABC Corp	10,000	70%	7,000
XYZ Inc	50,000	80%	40,000
FIX Tech	12,500	80%	10,000
BHP Common	228,000	75%	171,000
Total:	300,500		228,000
Margin Loan			228,000
Surplus/(Deficit)			0

Key Benefits

- **Flexible** - Provides for different methods of margin loan eligibility/ buying power calculation with a framework to apply different rules based on portfolio type (diversified/ concentrated).
- **Real-Time** - Through use of T24 Real-time valuation capability, banks can have real-time margin portfolio status reports and track margin call situations as and when they arise, thereby leading to effective management of calls.
- **Comprehensive** - A complete Margin Lending solution when combined with T24 Arrangement Architecture (for loan product creation and administration) and T24 Private Wealth Management/ Securities (for valuations, performance monitoring, order management, settlements and corporate actions).
- **Risk Management** - Includes a number of methods through which the chances of a margin call can be minimised – gearing, facilities, initial and maintenance margins. Includes margin call tracker for effective management of margin calls; suggests action required (top-up, sell-out, hold and watch) based on the type of margin call.
- **Easy To Implement**



Features

T24 Margin Lending is a fully integrated solution comprising the following features:

- Online buying power checks at the time of order placement.
- Margin rates (LVRs) set-up at various levels - instrument, asset type and portfolio.
- Eligibility calculators (to determine loan eligibility for a given portfolio based on security to be purchased).
- Real-time Portfolio status reports with details like market value, security (Margin) value, loan availed, gearing and surplus/deficit (margin value over loan).
- Margin call trackers with provision to trigger margin calls after applying buffer/top-up and sell-out margins.
- Framework to determine eligibility based on type of portfolio – diversified, concentrated or standard.

If the stock prices drop, the security value will fall below the loan amount which will result in what is known as "Margin Call".

\$228,000 is the maximum amount that the bank will lend in this case or in other words, it is David's buying power. If David is not comfortable borrowing \$228,000, he can choose his desired gearing level and the buying power/amount of loan will be limited to the extent of gearing chosen.

When an order is placed in T24, the buying power calculation engine will determine whether there is sufficient buying power to meet the cost of execution. This is done by simulating the execution amount and comparing it with the buying power calculated.

Customer Facility

Another method through which the lending amount can be determined is through use of "facility".

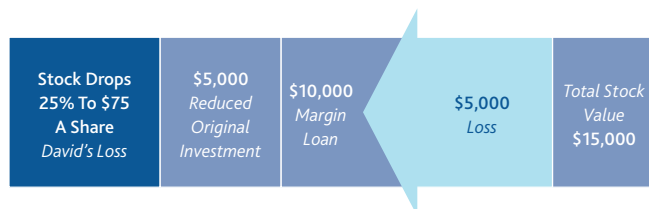
David enjoys a facility of 50% with the bank and wishes to buy 200 shares of AMB stock at \$100 each. As the "facility" is 50%, the bank will grant a loan of \$1 for every \$1 that David contributes. So, for a purchase of \$20,000 worth of stock, David's contribution has to be \$10,000.





If the stock value increases, David will make a profit.



On the other hand, if the stock value decreases, David will make a loss.



For more information on T24 Margin Lending please email marketing@temenos.com

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