Citizens Electoral Council of Australia

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Independent Political Party

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Europe contemplates freezing bank accounts—Glass-Steagall urgent!

In the wake of the collapse of European banks including Spain's Banco Popular, two regional Italian banks, and the bail-in/bailout of the world's oldest bank, Monte dei Paschi di Siena, Europe has been debating new powers to allow bank accounts to be frozen during a financial crisis for between 5 and 20 days.

According to Reuters on 28 July, which reviewed a European Union document on the subject, the proposal has been circulating since early 2017. The paper dated 10 July was prepared by the Estonian Presidency of the EU (Estonia took the rotating EU Presidency for its six month term at the beginning of July). EU envoys discussed the proposal on 13 July, but member states were divided on the proposal. The matter will officially be taken up again in September, but will no doubt be the subject of fierce debate between now and then.

Designed to prevent depositors from withdrawing money and thus jeopardising financial institutions during a crash, the plan may very well trigger a "run" on banks in anticipation. Reuters quotes Charlie Bannister of banking lobby group the Association for Financial Markets in Europe (AFME): "We strongly believe that this would incentivise depositors to run from a bank at an early stage." Previous proposals to suspend withdrawals have excluded insured deposits (up to €100,000) and limited suspension of selected payouts to two days.

This proposal is an extension of the EU's bail-in regime (confiscation of some bonds and deposits to resolve insolvent banks) to apply to bank holdings across the board; the fact that it is temporary (for now) means nothing. Britain made plans at the time of the last crisis to shut down banks and limit or freeze withdrawals. In early 2016, City of London insider Tim Price revealed to *MoneyWeek* magazine ("Martial law in the UK", 17 Jan. 2016) that martial law was close to being imposed during the 2008 global financial crisis. A year later the Bank of England admitted that "they came within hours of shutting down the UK operations of Lloyds and RBS. If that had happened, then I think we would have entered an environment of martial law in the UK." Price went on to describe what would happen when people could not take money from ATMs. "In that kind of potential instability, you're talking troops on the streets", he concluded. This "financial martial law" interfaces with enhanced anti-terrorism powers in the UK and the City of London, including the power to shut the entire square mile of the City off to vehicular and foot traffic, which London Police applied for in June 2016.

Further warnings

In a 24 July speech at the University of Liverpool, titled "'Debt strikes back' or 'The return of the Regulator'?", Bank of England Financial Director for Financial Stability Strategy and Risk Alex Brazier pointed out the dangers of over-bloated household debt in the UK. With the easy-money sluice gates opened after the 2008 crash, a "spiral of complacency" on lending standards developed, and consumer bubbles grew. Household debt is "dangerous in excess", Brazier notes, and with the biggest component being mortgages, the banks are vulnerable. Consumer credit (credit-card debt and unsecured loans) has increased more than six times as fast as incomes and is far more liable to default than the family mortgage. It now totals £200 billion. In the past year, outstanding car loans, credit card balance transfers and personal loans have increased by 10 per cent, while household incomes have risen by only 1.5 per cent. Car finance has grown 15 per cent in the past year and more than 100 per cent in the last four.

"The spiral continues and borrowers rack up more and more debt. Lending standards can go quickly from responsible to reckless. The sorry fact is that as lenders think the risks they face are falling, the risks they—and the wider economy—face are actually growing", Brazier says.

While Brazier understates the impact of this situation, other commentators have not. In the 30 August *Daily Mail* Peter Hitchens wrote of the car loans bubble in the UK: "There is no real money to cover this. It's a gamble on the future being just like the present. It is very similar to the dangerous subprime mortgages that infected the Western financial system with impossible debt ten years ago." Our leaders ought to be preparing for the crash now, Hitchens says: "They'll say it came out of the blue, but it won't have done. It's about as predictable as next autumn, and may not be much further away. We have been warned, and if the Government isn't ready with a plan, then I'm not sure what will save it from the wrath to come."

Ratings agency Moody's has also warned that household debt in Britain has risen to a worrying level, "leaving consumers vulnerable to an economic downturn". It conveyed concern about a house price collapse for those facing foreclosure, especially for highly leveraged and interest-only loans. Moody's also warned about the risks of asset-backed securities based on auto loans, credit-card debt, and investor and high-leverage mortgages, giving them a negative outlook.

A similar crisis point has been reached in the USA. The US$11 trillion commercial real estate bubble, including commercial mortgage backed securities (CMBS), is shaking as default rates rise. The top 20 trans-Atlantic banks hold US$1.4 trillion of these assets, the bulk of which are in securities. The default rate on CMBSs has increased from 4.6 per cent in September 2015 to 5.6 per cent in September 2016, and now 6.4 per cent in June this year.

In his speech, the Bank of England's Brazier listed off all the regulations introduced since 2008, along with a host of new safeguards against "the spiral" of debt, but if they are so effective, why his warning? His call for "a defence line" for the economy in the form of "regulation", can only be truly answered with Glass-Steagall—the full separation of commercial banks that hold our deposits, from speculative investment banking and all other financial services, to protect the real economy from financial gambling.

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8 August 2017

Bubble watch: mortgage delinquencies and investor losses on the rise

Each new report relating to Australia's housing market indicates the inevitable, near-term collapse of the property bubble, and the banks that are intertwined in it. The government and banks must treat these reports like gasping canaries in a mine, and act to get the Australian economy out of danger, starting with a Glass-Steagall separation of banking from speculation.

Mortgage insurer Genworth Mortgage Insurance Australia, which has about 30 per cent of the mortgage insurance market, has revealed in its latest half-year results a distinct rise in mortgage delinquencies—borrowers falling behind or defaulting on their payments. Genworth pays out to the banks when borrowers are delinquent on mortgages it insures.

The insurer has experienced a sharp rise in the number of paid claims, and an even sharper rise in the amount of those claims. In the first half of 2017, Genworth paid out 711 claims, up from 566 claims in the first half of 2016, and 633 claims in the second half of 2016. The average dollar value of those paid claims shot up from $72,600 in the first half of 2016, to $102,300 in the first half of 2017.

This rise in delinquencies is shocking, considering that interest rates in Australia have been at record lows for a long time. It demonstrates how even a modest rise in interest rates will cause carnage among overstretched borrowers—as foreshadowed in April by Finder.com.au, which revealed that 57 per cent of mortgage holders would not handle even a $100 per month increase in their mortgage payment.

Genworth connects the rise in delinquencies to the increase in real unemployment, even though that increase is not showing up in official statistics. Delinquencies rose in every state, but official unemployment increased in just two states—Queensland and Victoria. The biggest rise in delinquencies were in Queensland (0.72 per cent of mortgages) and WA (0.86 per cent), where the collapsed mining boom has left many jobless.

While the overall delinquencies are still relatively low, the increase is marked. Most ominous is the increase in the manufacturing areas of Victoria that have started to suffer job losses from the collapse of manufacturing, such as the closure of Ford in Broadmeadows. Manufacturing is a much bigger employer than mining, and is concentrated in the big cities, particularly Melbourne, which are the centre of the property bubble. For every job lost at a factory like Ford, there are multiple job losses in the supply industries. Ford is already closed, but in October 2,600 Toyota workers at Altona and 1,000 Holden workers at Elizabeth in South Australia will lose their jobs when those factories finally close; it is estimated that for every job at Holden there are at least 12 jobs in the supply industry in South Australia.

Big losses on the western front

A new study by ratings agency Moody's shows a rise in losses on house sales in Australia: nationwide, 7 per cent of owner-occupiers and 12 per cent of investors have sold at a loss. In a timely reminder to reckless investors on the east coast that property markets can and do fall, the Moody's study shows that the problem is most acute in Western Australia: 20 per cent of Perth owner-occupiers and 26 per cent of Perth investors sold at a loss, while in rural WA 27 per cent of owner-occupiers and 45 per cent of investors sold at a loss.

ABC business reporter Stephen Letts wrote on 4 August: "And there's little good news for investors under duress about cutting their losses and heading for the exits in a downturn. Judging by results from the west in the first three months of the year, *if you're thinking of bailing out it may already be too late*." (Emphasis added.)

With all signs pointing to a near-term housing bubble implosion, the Australian government must take immediate steps to avert a full-scale crisis among Australia's Big Four banks, which each have more than 60 per cent of their business in home loans. The Citizens Electoral Council has laid out what to do in its "Proposal for a Glass-Steagall separation of Australia's banking system", which it prepared for the Commonwealth Parliament to explain why and how Australia should separate commercial banks with deposits from all other financial services and all forms of speculation.

The USA's *Glass-Steagall Act* of 1933 was the most successful banking regulation in history, under which there were no systemic banking crises in the USA. Its repeal in 1999 led to an explosion of financial speculation, subsidised by deposits, under the weight of which the US and global banking systems melted down nine years later. There is a big push in the USA, UK, Europe and Japan to restore the commonsense Glass-Steagall banking separation, *because it clearly works*; China, the word's strongest economy, already has it.

If the Australian government acts on Glass-Steagall and breaks up the banks now, before the crash, the separation will provide a firewall that protects everyday Australians and their savings from the meltdown; if, however, the government waits for the crash, the Australian people will be forced to suffer unnecessary financial and economic chaos, to which the only solution will be Glass-Steagall anyway.

What you can do

The CEC is calling on all concerned Australians to join the fight for Glass-Steagall. Deliver a copy of the Glass-Steagall "Proposal" to your local MP with the message that that they must read it and give you, their constituent, a response. You can either call 1800 636 432 to order a printed copy to mail or deliver in person, or download an electronic copy to email, at http://cecaust.com.au/glass-steagall/CEC_Proposal_Glass-Steagall_July_2017.pdf.