Citizens Electoral Council of Australia

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Independent Political Party

19 March 2019

Property bust requires urgent moratorium on home and farm foreclosures

Australia is on the edge of a 2008-style property bust suffered by the USA and Ireland, which is a grave threat to both homeowners and banks. To avert a social catastrophe, the government must learn from the 2008 experience and impose a moratorium on home and farm foreclosures, while putting the banks through reorganisation to clean out the build-up of speculative debt that threatens to crash the economy. Reorganisation must include a Glass-Steagall separation of traditional banking from dangerous speculation.

The banks must not be allowed to victimise people for a problem they created. Over the last two decades, many homeowners have made foolish decisions to borrow far more than they could afford. But they are not responsible for this building crisis. Pre-deregulation, the banks would not have deliberately loaned money to people who couldn't repay, recognising the risk in such loans. However deregulation allowed banks to scheme up ways to actually profit from bad mortgage loans, through securitisation and derivatives.

With the Australian Prudential Regulation Authority's (APRA) approval, the big banks set their own risk-weights to be able to hold less capital against mortgage loans, and thus make them far more profitable than lending to small business and farms. The banks went on a mortgage-lending binge. Working with spruikers and brokers they preyed on borrowers, convincing anyone they could to borrow recklessly. The banks quickly ran out of borrowers who could afford their loans, and, like their international counterparts, started making sub-prime loans.

Prior to the 2008 GFC, sub-prime lending in Australia took the form of low-doc and no-doc loans. These loans went from one per cent of all mortgage lending in 2000, to 20 per cent by 2008. A secret 2007 APRA report warned that the lowered lending standards had allowed banks to lend more than three times for mortgages what they otherwise could have, which would lead to rising defaults and eventually recession. APRA suppressed that report. In February 2008 JP Morgan/Fujitsu Consulting forecast that skyrocketing mortgage stress would lead to more than 300,000 foreclosures in 2008. That same year Australian house prices started tanking, putting Australia's banks in the same danger as their American and Irish counterparts. But then Lehman Brothers collapsed in September 2008, and the ensuing global crisis gave the Rudd government, the Reserve Bank and APRA the excuse they needed to save Australia's banks and the housing bubble they had created. The RBA averted the expected foreclosures by slashing interest rates from 7.25 per cent to the "emergency level" of 3 per cent in a few months, and Rudd tripled the First Home Owner Grant to herd more buyers into the market.

The banks did not change their behaviour, however. They went bigger on sub-prime lending, this time in the form of interest-only (IO) loans, especially to over-indebted investors who couldn't afford a normal loan repaying interest and principal. From 2012 to 2016 IO lending shot up, from about 30 per cent of all mortgages—already very high—to almost 50 per cent.

On top of that, the banks resorted to outright fraud. They doctored the loan applications of borrowers to grossly understate their living expenses and overstate their income, and/or used a "benchmark" of living expenses instead of actual expenses, which claimed the expenses of all borrowers to be only $32,000 per year. This allowed the banks to increase the average size of their loans by hundreds of thousands of dollars.

Protect households

With prices in Sydney and Melbourne falling fast, all indications are that the bubble is now bursting, and this time it may not be possible for the government and RBA to stop it. It's time for real solutions, that involve a reorganisation of the banking system to clean out the bubble of speculative debt and protect the functioning of the real economy in the crash, starting with a Glass-Steagall banking separation.

One measure that is increasingly urgent is an immediate moratorium on home and farm foreclosures, which the Citizens Electoral Council has called for in its five-point program for Australia to survive the crash. The alternative is social catastrophe. Australia must not experience anything like the wave of mass home foreclosures in the USA in the wake of the 2008 crash, when upwards of 12 million people were unjustly evicted; nor a repeat of the social misery of the mass evictions in the 1892-93 depression, also from a housing bust. We must keep families in their homes while we reorganise the banks.

There is historical precedent for a foreclosure moratorium. In the emergency caused by World War I, Australia's federal government passed the *War Precautions Act 1916* and its Commonwealth Moratorium Regulations, to stop foreclosures until 1920. In part modelled upon that precedent, every state in Australia enacted legislation during the Great Depression to stop home and farm foreclosures. The intent of all of this legislation was to protect the common good, as summed up in the paper, "Moratorium Legislation", read into Hansard on 15 November 1935: "It was not expedient in the national interest that the welfare and comfort of the community should be unnecessarily imperilled by allowing debtors to be crushed out of existence…." All parties agreed, conservative as well as Labor.

In the United States, President Franklin Roosevelt in April 1933 introduced legislation for the Home Owners' Loan Corporation to stop home and farm foreclosures, declaring it "national policy … that the broad interests of the Nation require that special safeguards should be thrown around home ownership as a guarantee of social and economic stability".

The moratorium should only protect households, not investments, so it should only extend to the family home or family farm, which is the principal residence, not investment properties. Tenants must also be protected from eviction. This moratorium must be implemented parallel to the government using its powers to step in and take temporary control of the banks, in order to reorganise their finances, write off unpayable debts, and write down the value of mortgages to the old affordability measure whereby household repayments do not exceed 30 per cent of household income.

The Citizens Electoral Council is finalising legislation for such a home and farm foreclosure right now—join us to fight for these solutions!

Make a submission before 12 April 2019

Get involved in the fight, starting with the immediate campaign for a Glass-Steagall banking separation. The CEC drafted legislation that Pauline Hanson introduced in Parliament on 12 February, the Banking System Reform (Separation of Banks) Bill 2019, into which the Senate Economics Legislation Committee is now conducting an inquiry. Make a submission to that inquiry in support of banking separation today.

This inquiry is the chance for the Australian public to force the debate on banking separation that the royal commission was not allowed to have. The Senate Economics Legislation Committee is taking submissions from the public, so every concerned Australian should make a submission.

Here are some points to note about the Glass-Steagall principle of full banking separation:

- It works, as proved by its success for almost 70 years (1933-99) in America;
- It ends the conflicts of interests of vertical integration, which is the only way to ensure the misconduct exposed by the royal commission can't happen again;
- It protects deposits from the dangers of speculation, which boosts confidence in the banking system;
- It stops banks from diverting credit into unproductive financial speculation, thus making more credit available for lending to neglected sectors such as small business, industry and farming.

The submissions deadline is 12 April, but don't delay— make your submission today!

How to make your submission

Written submissions can be delivered to the Committee in two ways:
1) by physical post; 2) online.

1. Post your written submission to:

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Phone: 02 6277 3540; Fax: 02 6277 5719

Email: economics.sen@aph.gov.au

or

2. For online submissions, which the Committee prefers, click on this link for the contact details of the Committee, a copy of the Bill and Explanatory Memorandum under "Information about the bill", and information on how to upload a submission: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/BankingSystemReform