Australian Citizens Party

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MEDIA RELEASE

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Panicked financial authorities order the banks to return to mortgage fraud—restructure the banks instead!

Treasury has now joined the central bank and bank regulator in urging the private banks to reopen the floodgates on mortgage lending to avert a housing bubble crash.

The Australian reported on 3 January that Treasurer Josh Frydenberg "has called on the banks to reignite 'affordable and timely' lending after new figures revealed national house prices suffered their worst year since the global financial crisis."

According to CoreLogic figures cited by *The Australian*, nationally house prices fell 4.8 per cent in 2018, while Sydney fell 8.9 per cent and Melbourne 7 per cent. The falls accelerated in the last quarter of 2018, with Sydney plunging 1.8 per cent in one month—an annualised rate of more than 20 per cent!

Clearly panicked, the government and regulators have one objective—reinflate the bubble. On 19 December it was revealed that Reserve Bank of Australia governor Philip Lowe had personally spoken to each of the major banks, urging them to increase their mortgage lending. And in an Australian Prudential Regulation Authority press release the same day, APRA chairman Wayne Byres announced the regulator had dropped the limit on interest-only (IO) lending it had imposed in 2017 when IO loans had reached nearly 50 per cent of all lending (almost double the 25 per cent IO lending reached in the USA in 2006 before the 2007-08 crash).

The problem is that thanks to the banking royal commission and the efforts of the Banking and Finance Consumers Support Association's (BFCSA) Denise Brailey, and LF Economics and others, we now know that the "affordable and timely" lending the authorities are urging banks to return to constitutes mortgage fraud. Anywhere from 50 to 80 per cent of the loans were never affordable, but the banks doctored the paperwork to make it look like they were.

And it's not as if banks have actually stopped lending mortgages. While the growth rate in mortgage lending has slowed from an average of 8.1 per cent over the past decade, even with the extra scrutiny on paperwork it is still growing at 4.4 per cent—yet house prices continue to plunge. What hasn't grown in the last year is investor lending, which probably explains the falls, as it's always investors/speculators who are the first to stampede for the exits when prices fall.

Treasury, RBA and APRA are not intervening out of concern for homebuyers getting trapped in negative equity. (If they were they would change the law to end full recourse lending in Australia, which allows banks to chase borrowers to the grave for their debts.) They are concerned about the Big Four banks, which would be annihilated in a housing bubble crash. With more than 60 per cent of their total lending in mortgages, Australia's Big Four have the highest exposure to housing of any banks in the world, far higher than even the banks which crashed in the USA, UK, Ireland and Spain when their housing bubbles burst in 2007-08.

One of the Liberal Party's big business backers, Hugh Morgan, told *The Australian* on 3 January that Frydenberg was also sending a message to Commissioner Kenneth Hayne as he prepares his final report of the banking royal commission, to not recommend anything that would disrupt bank lending. That means telling Hayne not to crack down on mortgage fraud.

We are witnessing a repeat of the panic in 2008 when the Rudd government intervened to stop the housing bubble from crashing by tripling the First Home Owner Grant. Rudd falsely announced it as a housing affordability measure even though he consciously did it to drive prices back up. All they achieved was a postponement of the inevitable crash—to now. In the meantime the bubble has doubled in size, and Australians are trapped in the highest household debt in the world.

Restructure the financial system!

Australians need to recognise that the banks, regulators and Treasury are preying on their fears. Nobody wants a crash which destroys the value of their house and leaves them in negative equity owing hundreds of thousands of dollars more than the house is worth. Continuing the practices that created the bubble will not prevent a crash, however, but cause a bigger crash down the road. A massive crash is inevitable, for one undeniable reason: the amount of debt in the system is unpayable.

It’s not just that a crash of the bubble will damage the economy; the bubble itself already has. It has turned homebuyers into speculators. It has made housing unaffordable for millions of Australians, especially young people. It has concentrated economic activity in real estate and construction, which has distorted the natural development of cities, artificially increasing the density of slip-shod housing and apartments (experts fear many more Opal Towers), and traffic congestion, as developers have rushed to claim all available land. Banks have concentrated their lending into mortgages at the expense of the rest of the economy, especially small business.

What is needed is an orderly restructuring of the financial system to keep the economy functioning as the bubble crashes, clean out the debt and put the economy on a more productive footing. Besides a Glass-Steagall separation of banks to cut out speculation in the financial system, the CEC proposes a national bank that can direct credit into the neglected productive areas of the economy, but also oversee the needed restructuring of the banks. This would begin with an audit of the Big Four banks to ascertain their true financial position, and, if insolvent, allow the national bank to take over the Big Four and honour their deposits—as the 1937 banking royal commission recommended—while overseeing a moratorium on home foreclosures and write-downs of the mortgage debt to match the lower property prices. (CEC leader Craig Isherwood explained these necessary measures in his presentation to the CEC’s 1 December Victorian seminar, which can be viewed here.)

Anything less than a proactive intervention along these lines is not just kicking the can down the road, it is giving the banks the green light to return to the criminal mortgage fraud that fuelled this bubble in the first place.
