Citizens Electoral Council of Australia

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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.

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.

Audit the Big Four banks!

The government should direct the Auditor-General to conduct an independent audit of Australia's Big Four banks, in light of the collapsing property bubble to which the major banks are massively exposed.

Presently the banks are not independently audited. There is an even bigger "Big Four" that sign off on the banks' books, the Big Four global accounting firms, an accounting cartel which audits 98 per cent of the world's largest banks and corporations, and actively covers up the fraud and dodgy bookkeeping that has become the defining feature of the global financial system. The four firms are PricewaterhouseCoopers (PwC), Ernst and Young (EY), KPMG, and Deloitte.

An explosive new report commissioned by the UK Labour Party's shadow chancellor of the exchequer, John McDonnell, called *Reforming the Auditing Industry*, exposes the Big Four accounting firms as complicit in the crimes of banks and big corporations. These Big Four are supposed to conduct the independent audits of companies mandated by law, but they make two-thirds of their tens of billions in revenue from consultancy services to those same corporations. The banks that triggered the 2008 crash in London and on Wall Street had all received clean bills of health from Big Four auditors—some, like Northern Rock in the UK, just days before they collapsed. The report also documents a "parade of scandals" involving UK and multinational corporations which have collapsed after being looted by their management and major shareholders, robbing employees, pension funds and small creditors of enormous sums of money owed to them. In every case, the Big Four firms covered up the looting. And the Big Four firms have captured governments and regulators, the most glaring example being their influence over tax laws, which they help to write so that they can help their corporate and super-rich clients avoid paying them.

The report calls for the establishment of a statutory (public) auditor, to conduct truly independent and honest audits of all financial companies and the largest corporations, to which the regulators would have complete access. It also calls for the Big Four and all accounting firms to be broken up, to end the conflict of interest of firms that audit companies also providing consultancy services.

Independently audit Australia's banks!

The Big Four global accounting firms also dominate Australia's financial system. Most worryingly, PwC audits CBA and Westpac, EY audits NAB, and KPMG audits ANZ. Given their track record laid bare in *Reforming the Auditing Industry*, the Australian government and public can have no confidence in the Big Four auditors' reports of Australia's Big Four banks. Last year's banking royal commission has already shredded confidence in the major banks, proving that they are not the best banks in the world as was claimed. It's a small step to go from lying about their behaviour to lying about their financial position, assisted by their corrupt auditors. As the four major banks control 80 per cent of the banking system, and each have over 60 per cent of their assets concentrated in mortgages, with house prices plunging the government must direct the Auditor-General to conduct independent audits of each of the Big Four, to ascertain their true financial position and the level of risk facing the Australian economy.

Such audits would also expose more details of the criminality of the Big Four global accounting firms in Australia. On 29 November 2017, the Greens and the National Party agreed to include the Big Four auditors in their terms of reference for a banking royal commission to investigate; the next day, 30 November, a panicked then-Prime Minister Malcolm Turnbull hurriedly called the royal commission with different terms of reference, approved by the banks, in which the Big Four accountants were not included.

Conducting audits of the private banks was once a standard function of the Auditor-General. It was recommended in the report of the 1937 Banking Royal Commission, and first legislated in the 1945 *Banking Act*, and reaffirmed in the 1953 and 1959 *Banking Acts*. It remained a function of the Auditor-General until the establishment of the Australian Prudential Regulation Authority (APRA) in 1998, when the *Financial Sector Reform (Amendments and Transitional Provisions) Act* amended the 1959 *Banking Act* to allow APRA to appoint any firm to audit the banks. And which auditors has the failed and discredited regulator APRA chosen to use? You guessed it—the Big Four.

The reason the 1937 Banking Royal Commission report recommended the Auditor-General regularly audit the private banks was so the government bank, the Commonwealth Bank, would know if it needed to take over a failing private bank to protect its deposits, by either fixing up the private bank or closing it down and taking over its customers. Australia must face the reality of likely banking failures today: Australia's banks are more exposed to the collapsing housing bubble than their US, UK, Irish and Spanish counterparts were in 2008, when they were wiped out in large numbers. No other banks in the world have come close to having 60 per cent of their loans in mortgages; before their crashes, US and UK interest-only lending peaked at 25 and 18 per cent respectively of all mortgages, compared with almost 50 per cent in Australia in 2016; and Australia's household debt at 190 per cent of household income is much higher than in those other countries in 2008.

The Citizens Electoral Council has issued a five-point program for Australia to survive economic catastrophe, which includes a call for a moratorium on home and family farm foreclosures, to stop the banks from executing a US-style mass-eviction of homeowners in a housing crash. The policy would require the government to take the measures recommended by the 1937 Banking Royal Commission and know if it needs to take over the banks to protect the public's deposits, and either reorganise them or shut them down. Accurate audits of their books are therefore essential.

Demand your MP support independent audits of the Big Four banks!

Forward this release to your local MP and Senators with the message that they must demand an independent audit of the banks. (Follow up with a phone call to make sure they received it.)

Labor MPs especially should be challenged: with the ALP expected to win the election this year, will they follow the lead of their UK counterparts and take on the real Big Four, or will they let this global criminal racket go untouched?