Moratorium on Debts

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An immediate moratorium on home and farm foreclosures

A housing bubble crash raises the spectre of a social catastrophe in which tens or even hundreds of thousands of people lose their homes. This has already started for some households, while the bad banking practices exposed at the banking Royal Commission have led to a wave of farm foreclosures across Australia.

The government must avert the social chaos of mass homelessness by declaring an immediate moratorium on all home and family farm foreclosures while the banking crisis is sorted out.

“Old Labor” NSW Premier Jack Lang (1925-27, 1930-32) enacted a moratorium on home foreclosures, along with other policies for the Common Good. That’s why the King’s NSW Governor Sir Philip Game sacked him in 1932.

There is historical precedent for this action. 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, including Western Australia’s *Tenants, Purchasers, and Mortgagors’ Relief Act 1930*; Queensland’s *Purchasers of Homes Relief Act 1930*; Victoria’s *Unemployed Occupiers and Farmers Relief Act 1931* and *Financial Emergency Act 1932*; and, the most effective of them all, Jack Lang’s New South Wales *Moratorium Act* of 19 December 1930, which, as amended, ultimately stopped all foreclosures until 1937. 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 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”. One month earlier, he had declared a Bank Holiday to allow reorganisation of the nation’s failing banks under Federal protection. The contrast to the neoliberal ideology of modern times is stark: in the 2008 crash and recession, the Wall Street banks that caused the crisis were bailed out and the bankers kept their bonuses, while 5.5 million American households, some 12 million people, lost their homes.

Property bust requires the Productive Industries, Farms and Domestic Debt Moratorium, Crisis Amelioration, and Restructuring Bill 2019

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 Party 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.

As mentioned above, there is historical precedent for a foreclosure moratorium. 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 Party is finalising legislation for such a home and farm foreclosure right now—join us to fight for these solutions!