Australia: Families hit by rising bankruptcies and home repossessions

Karen Martin
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An ABC "Four Corners" program recently broadcast on Australian television provided a timely insight into the desperate circumstances afflicting a growing number of ordinary Australians who are mired in debt and threatened with bankruptcy and the loss of their home. Entitled "Debtland" and produced by journalist Stephen Long, the program was aired on March 31 and focussed on the predatory lending practices pursued by banks and financial institutions.

"Debtland" opened with a scene from a family home in Kellyville, one of Sydney's north-western "mortgage belt" suburbs. Dianne Davies and her two young children are cleaning in preparation for their eviction in two days. With Diane and her husband Kevin unable to keep up with scheduled mortgage repayments, their home is to be auctioned off in a fire sale by their creditors. They have nowhere to go. With a record shortage of rental accommodation in Sydney, and the family's bad credit history, Dianne and Kevin have been unable to find another place to live. "Four Corners" showed the couple discussing the possibility of moving into a shelter with their children.

After locking up their home and handing over the keys, the Davies' were permitted to stay in the double garage until the repossession auction, which would determine whether they could clear their debts of about $650,000. "I've had enough now," Dianne said. "All I want is my own place to live in and just so I don't actually have to come home every day and stay here and see my house empty. It upsets me and I'll cry and then I'll stop and then I'll cry. And the kids are pretty similar actually. Charlie goes up and goes to the door and says, you know, 'I wanna go inside'. And I say, 'you can't, it's not our house any more'."

The Davies' were hit hard by rising interest rates and a period of ill health suffered by the family's main income earner, Kevin. In an act of desperation, after defaulting on their original loan they refinanced with loan sharks who persuaded them to accept two mortgage contracts, charging exorbitant interest rates of 10 and 20 percent. Soon they were paying more than $5,000 a month.

"A lot of people don't really know what they're signing and what they're doing, because they [the mortgage brokers] don't tell you," Dianne explained. "They tell you what you like to hear: 'yes, we can save your house, we can get you this loan'. And all you want to do is make sure you have a home and a roof over your head... You think, okay, well maybe if I get another loan, that'll give me time to sell... maybe the market might get better."

An advance blurb for the "Four Corners" program explained: "This isn't America's sub-prime meltdown—it's Australia's debt debacle, the legacy of a credit binge that's sent household debt through the roof and lending standards through the floor. Now the hangover is kicking in. As many as 300,000 Australian households may be at risk of losing their homes. It mightn't take much—another rate rise or two, a family illness or maybe just the car breaking down—to send people under. And for thousands more who are better off but feeling the pressure, this credit crisis is getting too close to home."

The program detailed the new lending practices developed by the banks in recent years.

Kim White, a former employee of the National Australia Bank (NAB), described how the banks pressure staff to foist loans on people who have no possibility of paying them back. "You know that they're not going to be able to afford it," he said. "They're going to be living on their credit card for basic living expenses and getting themselves into worse debt. But the system would say do it, the bank would say do it, or else you're going to be under the gun, you're going to be performance managed out [of a job]. I think they [the banks] were immoral. They were basically targeting people who were desperate for money and they weren't really concerned as long as there wasn't a huge risk."

White resigned from the NAB in protest at these practices. He said he knew of several bank staff who committed suicide because of the pressure to meet "performance targets" in selling credit.

The most economically and socially vulnerable sections of the working class have been especially vulnerable to the relentless promotion of credit. "Four Corners" highlighted the plight of one refugee family from Sudan. After fleeing the war in their home country, Deng Gatluak and his family settled in Melbourne. Despite having no knowledge of English, no understanding of financial contracts, and no job, Gatluak was loaned $20,000 by the Commonwealth Bank. His wife Nyatut, who speaks virtually no English and has no assets, was made the guarantor on the car loan. The repayments destituted the family. The case was just one example of the banks' exploitation of refugees, with another Sudanese family in Melbourne awarded a loan after the family's nine-year-old daughter acted as a translator while the contract was signed.

Another source of escalating personal debt is the growth of deposit-free purchase arrangements promoted at more than 10,000 shops, including large department stores such as Myer and Harvey Norman. Many offer four-year interest-free deals. Financing for nearly all these store credit cards is arranged through the former US manufacturer turned financial giant, General Electric (GE). Store deals hit people hard if they fail to pay back the loan within the interest free term. Interest rates are as high as 28 percent, and in some instances apply to the whole value of the original amount loaned rather than the sum left unpaid when the interest-free period expires. This translates into an enormous debt for people who typically borrow thousands of dollars, and sometimes tens of thousands, on items including furniture, electronics, and household appliances and renovations.

"Four Corners" pointed out: "There's so many outlets where you can get a GE card, it seems the company itself can't keep track." Debt management support agencies reported that their clients have been issued new GE financed loans even when they were in default on previous loans.

Carolyn Bond, of Melbourne's Consumer Action law Centre, explained the logic of GE's lending practices. "At 28 percent [interest] you can afford to have quite a number of consumers fail to pay before you lose money," she said. "It really doesn't matter if they have a high level of defaults as long as they've priced for the risk, and while consumers might suffer, the company doesn't necessarily lose from that."

"Four Corners" identified some of the reasons for the rapid escalation in personal and household debt in recent years: "Behind the lending frenzy was a business imperative. To deliver the rising profits and earnings per share that investors demand year on year, banks had to find ways to sell more and more credit to more and more people. And if they didn't, someone else would."

Home mortgages remain the primary source of household debt. Rising interest rates have plunged hundreds of thousands of families into "housing stress".

Professor Terry Bourke and the Australian Housing and Urban Research Institute surveyed nearly 400 households that recently purchased homes in the "mortgage belts" of Brisbane, Sydney and Melbourne. "What we found was that almost 50 percent of all households were relying on either overtime or a second job of the main income earner to sustain the mortgage," Bourke told "Four Corners". "Now that's fine so long as the economy is still steaming along at full speed but any slowdown in the economy [and] that's what will go, the part-time job, the casual payments, overtime, and then you're in trouble."

Workers have been forced to take second jobs and work longer hours to pay escalating housing costs. Official Treasury figures released on April 2 showed that housing affordability for first home buyers is now the "worst on record". Phil Garton, manager of Treasury's household and labour unit, told a Senate inquiry that buying a first home had become significantly less affordable since the mid-1990s, based on the share of income spent servicing a loan. He attributed this to rising demand driven by higher incomes and employment, population growth, and smaller households which has left an annual shortfall in supply of between 30,000 and 40,000 dwellings.

The housing market remains highly polarised. Homes that are reasonably close to Australia's city centres tend to now be out of reach for ordinary working people, while those in the outlying suburbs have seen their value stagnate or decline in recent years. Sydney's western suburbs have seen the sharpest falls in value. "Four Corners" reported that houses in these areas, which were purchased for $900,000 a few years ago, have since been sold for not much more than half that amount. This collapse in value has meant that many families defaulting on their mortgage repayments are unable to recover any of the equity in their homes and are left with crippling debts.

The Treasury figures provided some startling insights into the reality of Australia's increasingly polarised society. Older people are increasingly affected by the housing affordability crisis, with many now heading into retirement without having been able to pay off their mortgage. According to Treasury, the share of 55- to 64-year-olds who are home owners dropped sharply in the decade to 2005-06, from 72 percent to 54 percent. Over the same period, the proportion still paying off a mortgage more than doubled, from 13 percent to 27 percent. By 2006, one in ten of those aged over 55, compared with one in seventeen a decade earlier, were forced to spend more than 30 percent of their income on housing.

The latest data from Treasury and the Australian Housing and Urban Research Institute, taken together with the "Four Corners" program, give a glimpse of an emerging social catastrophe for which the Labor government has no answer. Working people are being hit by rising costs of living in areas including fuel, food, and housing. At the same time, the previous individual coping mechanisms based on home refinancing and personal loans are rapidly exhausted themselves, lending a politically explosive character to the unfolding debt crisis.