Australia: Rudd pledges billions to protect banks from property crash

Alex Messenger
17 April 2009

As joblessness rises and real estate prices soften, Australia's Rudd Labor government and the country's four major banks (Commonwealth,Westpac, NAB and ANZ) are engaged in panicked attempts to avoid a property crash. Despite Prime Minister Kevin Rudd's claims that the country can levitate above the worst of the global collapse, the government's own manoeuvres confirm that Australia remains at risk of spiralling unemployment and plummeting property prices. Such developments would usher in a new and explosive phase of recession, with all the characteristics of the United States experience: epidemic levels of 'negative equity' (borrowers owing more than their properties are worth) and mass homelessness.

The measures being deployed by government and the banks are not, however, designed to avoid housing repossessions and save jobs. The common theme in recent announcements—including a 'deal' for 12-month mortgage moratoriums and the provision of billions in bail money for the commercial property sector—is the government's commitment to propping up the Australian banks' cartel. If property crashed, the four big banks, which together hold 80 percent of the domestic mortgage market, would lose billions.

Nevertheless, the announcements have been underpinned by a furious propaganda campaign to sell the measures as job-creators and 'assistance packages'. The campaign is waged through and by a media determined to ensure that Rudd's official "popularity" remains high. This, the ruling elite hopes, will leave Labor's hands free to implement its big business-driven response to the financial crisis, including savage cuts to public services.

Rudd's announces fake mortgage deal

The line being pushed publicly by prominent economists, including Australia's Reserve Bank, is that the country is immune from the sort of housing crash that propelled the United States into economic catastrophe. In fact, the opposite is true. Australian Bureau of Statistics figures indicate that Australian housing is more expensive than US housing was before the bubble burst. Indeed, last year, even before the onset of the global crash, the OECD estimated that Australian housing stock was overvalued by 20 percent. Most significantly, Australian homeowners are more deeply in debt to banks than borrowers in nearly every other country. The stage is set for massive price falls as unemployment (now officially at 5.7 percent and widely predicted to hit 10 percent next year) spikes upwards.

Seen in this light, the timing of Kevin Rudd's announcement that banks would grant mortgage moratoriums "in the dark days ahead" was not accidental. Speaking on his return from the G20 summit and on the day before the release of the latest dire unemployment figures, the prime minister told the Australian media that "some time ago I asked the treasurer to negotiate an agreement with Australia's big four banks on a comprehensive package of assistance for working families who lose their jobs." The resulting deal, Rudd said, was that "the banks will now work with borrowers suffering from employment hardship to negotiate postponing for up to 12 months the dates from which payments are due under their mortgage contract, with interest to be capitalised under the loan."

The 'mortgage holiday' announcement was greeted warmly by the media. One of the Australian Broadcasting Corporation's flagship current affairs programs applauded it as a sign of finance sector "altruism". Rupert Murdoch's News Corporation outlets called the plan a "lifeline", designed to "assist families". Finance Minister, Lindsay Tanner, told unquestioning reporters that the government had persuaded the banks that "the community deserved something in return" for the government's October 2008 decision to guarantee all bank deposits, a move that has significantly reduced the banks' risk profile, borrowing costs and therefore enhanced their profitability.

It is often said that "the devil is in the detail". But that is not the case with the mortgage moratorium: there is no detail. Indeed, despite Rudd's language, there is no 'deal' and no 'package'. Neither the banks nor Rudd have given any indication of the circumstances in which the mortgage relief, which is non-compulsory, would, in fact, be granted. In other words, Rudd's announcement was a complete fake, its aim to promote the banks and his government as friends of the working class in anticipation of rising "anti-bank" sentiment as housing repossessions mount.

This is not to say that the banks will resist exercising their moratorium powers. Indeed, they will have few other options for putting a brake on housing sector losses. But the "flexibility" of the policy means there will only be moratoriums where the banks detect that borrowers have a reasonable chance of re-employment. As a result, it will do nothing to prevent the most vulnerable workers, especially the low-skilled, from losing their homes.

Most importantly, far from demonstrating altruism, the moratoriums will actually increase borrower indebtedness. Because unpaid interest will be recapitalised, those who are not re-employed within 12 months (or within whatever shorter period the bank elects) will still owe the banks their ‘holiday money’. If the property is eventually sold by the bank, the borrower’s equity share will be reduced by a year’s worth of interest payments. For those who do find employment within their holiday period, the recapitalisation means they will pay compound interest on their unpaid interest. In effect, moratoriums involve wringing even more money out of the decreasing number of borrowers who have something left to give.

Australian Business Investment Partnership: a back-door bailout

Similar to the subterfuge involved in the mortgage holiday announcement are government and media efforts over the Australian Business Investment Partnership (ABIP).

In the next two years, $70 billion in commercial property loans will come up for refinancing, and about half of that is from foreign lenders. Under conditions of the global financial crisis, no one expects those lenders to roll their money over, meaning that unless funds are found domestically to fill the gap, there will be massive defaults and write downs. However, it is not just property companies that would sustain billions in write downs and losses. The major banks, which have contributed the bulk of the non-foreign capital, would also suffer huge losses.

So who should fill the gap? The banks, or ordinary people via government money? ABIP, which the media (in lieu of analysis) has dubbed “Ruddbank”, represents the government’s response to those questions.

According to the ABIP bill, introduced into parliament in March (the document is only 10 double-spaced pages), the government and each of four major banks would be one-fifth shareholders in a company called ABIP Limited, which would commence business with seed capital of $4 billion. That fund would consist of $2 billion from government and $500 million from each bank. In the words of the bill’s explanatory memorandum, the fund’s aim is to “refinance loans relating to property assets in Australia where funds cannot be obtained elsewhere and the assets would be financially viable.”

Superficially then, ABIP involves, as its name suggests, an equal joint venture partnership between government and the banks, with limited public/private emergency funds for saving building projects that have fallen foul of the global financial crisis. Indeed, the government’s public line is that ABIP’s chief function is to protect construction industry jobs. Journalists have faithfully repeated this line. For instance, both the ABC and Melbourne’s *Age* newspaper call ABIP a “$4 billion credit-line partnership”.

But the plan that Rudd and the banks have cooked up goes much further. As the ABIP bill’s memorandum coyly puts it, “additional funding...may be required beyond the initial $4 billion and, accordingly, there will be scope for [that amount] to be supplemented by the issue of Government-guaranteed debt of up to $26 billion.” In other words, and despite the hedging language, ABIP actually involves the government kicking in $28 billion to the banks’ $2 billion. Further, the banks’ role in deciding how and where the money is spent could hardly be greater. Under the current plan, and despite the fact that the four bank shareholders will only provide 7 percent of the total available capital, any decision to hand out money requires the consent of all the banks. Further, the government’s vote will apparently be cast by a former National Australia Bank senior executive, Ahmed Fahour, whom the government has already appointed ABIP chair.

In truth then, ABIP effectively means the transmission of $28 billion into the hands of private bankers. Given the prospect of huge bank losses in the commercial property sector, ABIP is a bail-out by stealth.

ABIP should be a major scandal, but with the bill having run aground on Liberal Party opposition in the Senate in March, there is unlikely to be any official or mainstream discussion of the plan in coming months. Instead of trying to negotiate with the Greens and Independents, who hold the balance of parliamentary power, the government has pulled the ABIP legislation and says the bill will be revived later in the year. If the Liberals can be persuaded in the meantime to change their mind, Labor will avoid a full-blown public debate on the details. Ultimately, one can safely predict, the Liberals will take the road no doubt being urged by their business constituency—the big banks and property companies that stand to gain from ABIP’s billions.

Meanwhile, continuing with their all but unqualified support for Labor’s free-market agenda, the Greens have offered their mouse-like critique of the ABIP plan: they call for a $1 million cap on the remuneration of executives whose companies receive ABIP money.

Of course, the real issues surrounding ABIP have nothing to do with executive pay. The banks drove the property boom, profited monumentally from it and now, their profitability already enhanced by a government guarantee on all bank deposits, are determined to maintain those profits. Labor is obliging, but knows, having watched events in the US, that it cannot prop up the banks openly. That would risk explosive consequences, especially as unemployment mounts. ABIP, clothed as a massive job-creation project, represents a clever, “concerned” cover for the handing over of public money.