

SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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There are grave risks ahead economically, politically and socially. These risks are directly related to the policies of the banks, their lending practices and the government's reluctance to pre-empt and act on the potential risks prior to them becoming a reality.

The Glass Steagall Act undoubtedly served a purpose for many years but eventually banks found ways to become involved in the Investment Banking sector that they Act was supposed to prevent them from doing. If an Act like the Glass Seagall Act was introduced today it is highly unlikely that it would prevent the banks from being involved indirectly in Investment Banking again.

There is in all probability that very little that can be done to prevent the next Global Financial Crisis however there is action that the government and the banks can take to lessen the impact on one of the most important industries in the Australian market the construction industry and specifically housing market and its related mortgage debt.

Non-Recourse Lending could be the solution, if all mortgages could be converted either by government legislation or the banks then defaults on mortgage debts could be negated. The legislation would need to include the freedom for banks and mortgagees to enter into extended mortgage agreements over longer time frame like fifty years thereby reducing the short term interest payment obligations but preventing the possibility of thousand of foreclosures and the resulting economic consequences to both the banks and mortgage holders.

The risks economically and politically under the worst case scenario of another Global Financial Crisis are self evident but the risks to the social stability are potentially far worse. Should, as was the case during both 1929 and 2007/8 depressions and recessions the financial sector is in danger of causing a global economic collapse, governments, including the Australian government may be forced to activate the emergency Bail In legislation to protect the banking sector.

Although it is unthinkable that social unrest would ensue, the risks of this happening during the next GFC are great, especially if the Bail In legislation is activated by governments. The cost, and I am not referring to the financial costs would be horrific as governments would have to use force to quell the violence that will be the outcome of the Bail In legislation.

The Glass Seagall type legislation is not the solution to the current threat of global instability and more important stability within Australian economically and socially when the next Global Financial Crisis becomes a reality.

Changing all home loans to be Non-Recourse loans could be the very act that prevents home owners losing their home, banks becoming embroiled in another financial crisis and the government facing hostility from the electorate because they were forced to save the banks instead of saving the home owners through the activation of the Bail In Act.