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5 March 1995

Submission
To the
Prices Surveillance Authority
on
Bank Charges - fees - Interest Rates
and the Cost of funds
Lawrence Hain 5-3-1995

Dr.David Cousins,
Chairman
Prices Surveillance Authority
Level 10, 10 Queens Road
MELBOURNE 3004

Bank fees and charges, interest rates, & the "cost of funds"

Attention: Mr. R. Vigilanti

Dear Mr.Vigilanti,

I submit this short paper in evidence apropos your issues paper recently released.

The heart of the matter

The heart of the matter is neither mitigation for the impoverished and indigent, nor is it in acceding to The Banks' in their claim for what they habitually claim as "fair play", or the spurious "user pays" principal, as regards their continually escalating fees.

The heart of the matter is the **cost of funds of The Banks**.

My submission is in accordance with,

(i) The instrument signed by George Gear, Assistant Treasurer, on 18 January 1995 pursuant to section 18 of the *Prices Surveillance Act 1983* wherein inter alia you were charged to consider the relationship between fees and charges and interest rate margins.

(ii) The Treasurer's press release No.3 dated 19 January 1995 in which it is states inter alia, "This inquiry, approved today, will take into account the relationship between fees and charges and interest rate margins."

(iii) The PSA *Notice of Inquiry Into Bank Fees and Charges*, advertised in *The Australian* on Friday 3 February 1995, in which was stated that your Inquiry was legally charged under the *Prices Surveillance Act* with inquiring into interest margins, social responsibilities of The Banks, and what role, if any, the PSA should play in relation to Bank charges.

Establishing the datum

Before you can assess any evidence one way or the other in relation to justification for charges and/or services provided by The Banks, you first need to establish the datum cost of funds which The Banks purport to be lending to the customers via business loans, housing loans, personal loans and credit card loans around Australia. On this datum hangs the answers to all the questions you pose in your *Issues Paper* dated 14 February 1995.

What *is* the source of funds which The Banks lend to borrowers?

According to the Australian Bankers Association Information Paper No.1 titled *Money - What Is It? - Where Did It Come From?*, p.2., 95% of all loans funds are created "out of thin air" by The Banks as cost-free credit which is then used as "money". Thus, the source of funds is itself a will of the wisp controlled by The Banks and costing not one cent. This startling fact is emphasised in the following evidentiary professional publications which are available through any good library.

* *The Creation of Financial Assets*, R.S.Deane, *Reserve Bank of New Zealand Bulletin*, June, 1978, pp.223-228.

* *The Credit Creation Process, Banks Versus Non-Banks*, R.S.Deane, *Reserve Bank of New Zealand Bulletin*, December, 1972, pp.19-22.

* *Multiple Expansion of Bank Deposits Under Australian Institutional Conditions*, J.D. Stanford, *Economic Record*, June, 1968.

* *Multiple Expansion of Bank Deposits Under Australian Institutional Conditions - A Reply*, J.D. Stanford, *Economic Record*, June, 1969.

* *Sir Robert Clayton and the Origins of English Deposit Banking*, Frank T. Melton, Cambridge University Press, 1989.

* *Money and Banking*, Campbell and Campbell, 1981.

* *Observed Income Velocity of Money: A Misunderstood Issue in Monetary Policy*, Leonall C. Anderson, *Federal Reserve Bank of St.Louis Review*, August, 1975.

* *Non-Banking Financial Intermediaries and the Process of Credit Creation*, F. Argy, *Economic Record*, December, 1960

* *Commercial Banks and Financial Intermediaries - Fallacies and Policy Implications*, Joseph Asheim, *Journal of Political Economy*, vol.LXVII, February, 1959.

* *The Uniqueness of Commercial Banks*, Jack M.Guttentag and Robert Lindsay, *Journal of Political Economy*, vol. 76, 1968.

* *The Definition of Money*, David Laidler, *Journal of Money, Credit and Banking*, vol.1, August, 1969.

* *Banking and Monetary Studies*, Department of Banking and Economic Research, Office of the Comptroller of the Currency, Washington DC, 1963 with the imprimatur of the then soon to be murdered President of the United States, which tells us inter alia that:-

"Whatever their other errors, a long line of financial heretics have been right in speaking of "fountain pen money" - money created by the stroke of a bank president's pen when he approves a loan and credits the proceeds to the borrower's checking account." (p.408)

The above statement of **fact** is proven by the work in 1887 of the eminent London barrister H. D. McLeod who was selected by the Royal Commission for the Digest of the Law to prepare a Digest on the Law of Bills of Exchange. [1] He published a 1400 page tome *The Theory of Banking* wherein we are told inter alia on p.607 under *The Theory of Credit* that:-

"The fact is that bankers are not dealers in money; they never lend money. The sole function of a banker is to create and issue credit; and to buy money debts by creating and issuing other debts in exchange for them."

"Bankers never act as agents between persons who want to lend and those who want to borrow. Bankers buy money from some persons and rights of action from others exclusively with their own credit, or by creating and issuing rights of action against themselves."

And, ***"The fact is that a banker's profit consists exclusively in the profit he can make by creating and issuing credit in excess of the specie he holds in reserve. No bank which issues credit only in exchange for money ever did, or by any possibility could, make a profit. It only begins to make a profit when it creates and issues credit in excess of the credit it creates for the exchange of money; when it begins to buy debts payable at a future time, for which it charges a discount; which according to Mill, as we shall presently see, is robbery!***

[1] Which eventually brought forth the Bill of Exchange Act 1909 which is the law today on Bank Bills and which has been trampled upon by the Commonwealth Bank of Australia in the Muirhead case.

And the whole of a banker's profit consists in the quantity of debts he can purchase with his own credit."

Commercial Bank Management, second edition, 1990, published by Serendip Publications in behalf of the Australian Institute of Bankers (containing a forward by the Managing Director, no less, of the Commonwealth Bank attesting to the truthfulness of the contents) is a Bible for the bankers of Australia.

It contains the following profound evidentiary statements of fact:-

"Credit Creation

Banks play an important role in the economy as creators of credit which differentiates them from other financial institutions." (p.16)

Secondary Credit Creation

"Secondary credit creation refers to the expansion in the volume of money resulting from lending by financial institutions.

The importance of secondary credit creation is starkly illustrated in Table 3.3. The table shows the consistently larger growth in lending compared with the growth in the money base." (p.56)

Who rightfully owns that credit?

That cost-free credit is the Public Credit of the People of Australia. It does not belong to The Banks. It has ***never*** belonged to the privately owned Banks. The PSA is hereby challenged to provide any document which lawfully and rightfully gives The Public Credit of The People to The Banks.

That cost-free credit should be and could be made available to The People of Australia at only 2% to cover administrative costs, and if made available would transform Australia to the benefit of all the citizens of Australia.

What is the evidence for it being cost-free?

Mr.Justice Napier found in his final report on the 1935-37 Royal Commission into Australian Banking sitting in Melbourne; at para.504 as follows:

"Creation of Credit

Because of this power (to create credit "out of thin air"), the Commonwealth Bank is able to increase the cash of the trading banks in the way we have pointed out above. Because of this power, too, the Commonwealth Bank can increase the cash reserves of the trading banks; for example, it can buy

securities and other property, [2] it can lend to the Government and to others in a variety of way, ***and it even can make money available to the Governments and to others free of charge.***"

Mr.Justice Napier, having been asked to explain this remarkable, if little known fact, then said this:

"This statement means that the Commonwealth Bank can make money available to Governments or to others on such terms as it chooses, ***even by way of a loan without interest, or even without requiring interest or repayment of principal.***"

What is The Banks' public line?

The Banks insist that they are merely interfacing "savers" and borrowers in Australia, i.e., that the loan funds originate from savers in Australia but this is simply not true.

The National Australia Bank Limited, supported by the Australian Bankers Association, lied in its published submission in January 1991 to The Parliamentary Inquiry Into The Australian Banking Industry wherein,

(a) in section 2. it untruthfully states it's role is only that of being an "intermediary between borrowers and lenders" and "savers and borrowers" when in fact the majority of the Bank's loans are credit "created out of thin air" and at no cost to the Bank

(b) in section 5.4 it untruthfully states that it is obliged to set its interest rates (to its customers) dependant on the interest rates it pays out on deposits whereas the Australian Bankers Association Information Paper No.1, *Money - What Is It? Where Does It Come From?* confirms that 95% of all Bank deposits are created by the Banks themselves by nothing more than a book-entry or computer keyboard entry " out of thin air".

Savings in Australia

Savings in Australia are at an all time low, being only some 15% of the GDP, "lower than it has been since Federation, except in times of world war and the Great Depression. *Prima facie*, there is cause for concern - particularly since we already have a very high foreign debt and a high current account deficit constantly adding to it." [3] The data from *A Report To The Treasurer, National Saving Executive Overview*, 1993, V. W. FitzGerald, The Allen Consulting Group Pty. Ltd., with relevant pages reproduced as an appendix herein by permission of the Commonwealth of Australia, Australian Government Publishing Service, proves conclusively that it is impossible for The Banks to be using the savings of savers to on-lend to borrowers because the volume of savings is simply not there.

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[2] Bits of paper.

[3] V.W. FitzGerald, *National Savings Report*, p.1.

The Banks finally exposed

Australia's current GDP [4]	$426,297 million
Savings @ 15%	$ 63,944 million
Bank lending [5]	$384,318 million
Difference	$320,374 million

Thus, the evidence is before the PSA that:

(a) The Banks lie when they say that they are on-lending from savers to borrowers

(b) The Banks are creating credit "out of thin air" and at no cost to themselves and *that* is what they are lending to The People.

On 20 February 1995, Mr.Howard Pender (Centre for International and Public Law, ANU) and Mr.Steven Ross (EPAC) released the latest report for the federal government from the Economic Planning Advisory Commission (EPAC) and that report proved that Australia has a higher tax impost on savings than any other country. The Australian tax rate on savings is, after allowing for inflation, 27% higher than the OECD average and 50 times higher than the Asian average. Only the Netherlands applies a higher average tax rate on savings. Hence, Australians don't save, and the central government clearly isn't encouraging them to save.

How can savings equal Bank loans?

They can't, and they don't.

Thus, The Banks ***can't*** possibly be loaning The People the savings of The People.

The Banks' credit creation ratio

The figures according to the RBA issued on 10 February 1995 are:

Currency in Australia	$17.774 billion
Credit created by The Banks	$383.719 billion

i.e., $22 of <u>cost-free</u> credit for every $1 of currency.

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[4] Australian Government Statistics, original series (income) 1995.

[5] *Financial Aggregates: December 1994*, Reserve Bank of Australia, 10 February 1995, table 2.

Interest rates

Don't for one moment think that governments set them. The Banks decide what the interest rates are to be and you can now see that it has nothing whatever to do with the "availability" of "money" because The Banks also control that. The nonsense that Banks have to pay high interest rates to "savers" in order the lend to you and me is a lie, a profound and obvious deception of The People. In the writer's *How To Screw Your Bank* were published three confidential internal memos from the Commonwealth Bank (and the infamous Westpac Papers) which prove that The Banks set their own interest rates to suit themselves, and that they act illegally and that they cheat and lie *all the time.*

How *do* The Banks set charges and fees?

They go for whatever they can get away with. The latest additional hard evidence of unilateral setting of fees and charges to come to light is from the Sydney *Telegraph Mirror* which on 12 January 1995 published a front page story about how Westpac had secretly singled out 5,000 unwitting customers in the Newcastle and Hunter region of NSW "for an experimental test of sharply higher bank fees." The newspaper said that the Bank had asked them to keep the story secret "so that market research into the experiment would not be compromised." In the subsequent public uproar it became clear that Westpac was trying the higher fees on, hoping that they either wouldn't be noticed or would be accepted by the sheep-like customers.

The People revolted, this writer was interviewed by five leading radio stations, and the Bank, shamefaced, cancelled the "market research". The sneak attack on The People was nothing new.

From the State Bank of NSW, courtesy of the Victims of the State Bank of NSW Association's [6] *Victims News*, Issue Three, 30 October, 1993, we are given a copy of an internal confidential memorandum No.194 dated 2 December 1988 titled **PROFIT 1988/89** signed by one I.C. Husking, General Manager, and a letter dated 6 December, 1988 from Mr.Paul Sheehan, Assistant Manager, Tuggeranong Branch of that Bank. The Bank's confidential memorandum instructs all staff in all branches to unilaterally increase the interest rates on all accounts, including Bankcard and Visa rates substantially. Mr.Sheehan's letter in reply, sent to The Editor, *State Banker,* said this:

"After reading the above Memo, two questions immediately spring to mind. Where has the integrity of the State Bank gone? Has fair pricing of products and truthful "straight down the line" dealing with the general public gone out of the window to make way for record profits? I am appalled to find that, because the Bank is not heading to achieve its estimated profit performance they have decided to increase their lending margins, not to mention credit card interest to a whopping 23%. Not only do they want to increase any future loans, but they also want to increase the existing accounts accordingly, "should documentation permit" as stated in paragraph 5 of the memo. Does this mean that State Bankers now have the right to say one thing and then do another?

[6] PO Box 230, Bondi Beach NSW 2026, (02) 365 1256, fax (02) 365 4458.

It seems to me that we can now increase an interest rate that has already been agreed upon as long as there is nothing in writing to support what was agreed. I really don't think that this kind of practice is good for public relations. Another main concern is, who is going to "cop the flack"? It seems to me that as usual the Branch staff at the "front line", which will soon become known just as the "front", will be the ones to again "cop it sweet". Most complaints are sent to Head Office, but they always seem to end up in the Branches lap whether it was their fault or not. In the past I have defended the bank's position regarding cost of funds and costs to run such a large organisation as efficiently as it does, and still post good profits. However, with increasing our margin and hiking the credit card interest rates to 23%, words such as "money grabbing" and "profiteering" immediately come to mind. If these words spring to my mind so readily I don't think that it will take long for the general public to catch on, if they have not already done so.

If the bank cannot reach the profit it budgeted for, why not set new targets that are easier to obtain. It is felt that an increase in interest rates, especially by the bank's margin, is at this stage most unfair and will not be great publicity. I believe it is about time the larger organisations of this country, which includes the State Bank of NSW, should start to pay its way and not heap it ALL onto the man in the street as has been the case in most recent times. Past experience has shown that with the hiking of interest rates customers find it increasingly difficult to meet their commitments and as a consequence loans fall into arrears and in some cases, ultimately to sale action. This results in higher administration costs and in some cases sale of assets and property only results in covering interest owed to the bank. This type of action does not go over well with the public either.

I think we can all remember the Roger Maloney affair that resulted in the bank "starring" on Willesee at Seven and various other television networks in 1986. I therefore cannot agree that this interest rate increase can be justified by simply saying that we must exhibit a strong profit performance in 1988/89, however if circumstances were that the bank was going to make a loss, then and only then would this action be deemed necessary. I feel the existing structure of adding a minimum of 0.5% for Term loans and 1% for Overdrafts is already readily accepted by the general public dealing with the State Bank as being FAIR."

The man showed courage. Imagine what he *might* have written had he known that his beloved State Bank creates the loan funds "out of thin air" and the margin of which he so bravely complains (and the secrecy of unilaterally increasing existing loans) is merely icing on the cake they have already cooked up in-house in the first place. If their loan funds don't cost them one cent then they are a mile in front at the outset. The Banks decide what their interest rates are to be and The Banks impose them ruthlessly on The People. So what's it all about? The Banks don't want to be paid in devalued money so they have quite deliberately imposed a zero inflation rate on the Western world which is controlled by them and that little exercise is called deflation.

The reason is obvious once we think about it. If a Bank loaned you enough to buy your dream home and charged you whatever it could squeeze out of you by way of interest, and if the inflation rate was high, then you can see that in a few years time you would need *less* money to repay your debt, i.e., that inflation lessens the original debt. You are well aware that in days past we could buy a house and rely on the inflated value of that house to pay for the borrowings and still leave us with a capital gain which we usually put into another (better) house and so on endlessly into the rosy future. No more. The Banks won't allow it.

That's why real estate is dead, say the experts, until 2000.[7] We will continue to be seduced by wise financial observers trotting out The Banks' line in this such as this gem from well respected Max Walsh: [8]

"The real killer in reducing Australia's relative standard of living has been the falling exchange rate. While this has, in part, been an inescapable price to be paid for falling commodity prices, the major culprit has been fiscal management; running through most of the 1980's the Australian economy at an inflation rate far higher than the rest of the world." [9]

Compare that pearl of wisdom with this:

"Central banks, by virtue of their monopoly over the creation of high-powered money, can control very short term money market interest rates in their domestic markets with great precision and can use this power to influence the path or range of one other financial variable: a money aggregate, the exchange rate or even, to a limited extent, a long-term interest rate." [10]

That's the real truth of the matter and couldn't be more simply stated.

In Britain and Australia the *Statute of Monopolies 1623-4* is still the Law, though completely ignored by the judges, and that Law forbids the very monopoly which the Swiss based central Bank at the centre of the spider's web openly admits they are enforcing around the Western world. The Banks have imposed a strict programme of *deflation* for their own selfish reasons and this is going to bring on the great collapse. The signs abound as any *unbiased* journalist can tell you, e.g.:

"With Britain mired in recession, yet obliged to peg the pound closely to other European currencies, selling pounds had meant easy money for traders and punishingly high interest rates for British businesses. Finally, on Sept.16, 1992, a humiliated British government was forced to abandon Europe's Exchange Rate Mechanism (ERM). The pound promptly tumbled about 20% against other European currencies. A year later, Prime Minister John Major's ERM failure looks like his biggest economic success. The devaluation of the pound - which Major shunned just days before he took the plunge - and the subsequent slide in British interest rates have pulled the economy out of one of its longest slumps since the 1930's. The British Treasury is $20 billion poorer because of its earlier efforts to support the pound. The Banks' base lending rates were sliced to a 15 year low of 6% from 10% last September, industrial production was up 3.2%. Unemployment declined for five straight months before edging up by a scant 200 people in June. Now, manufacturers are using a weaker pound and lower British (interest) rates to carve a bigger slice of European markets." [11] [12]

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[7] For the last three years The Banks switched their credit loans in the aggregate to private housing financing and with initially nominally lower interest rates lulled many people into thinking that "all is well" but it was nothing more than a passing phase. The Banks soon tightened up their interest rate regime and their little game goes on.

[8] Who should know better; in his regular *Sydney Morning Herald* column (yes, he's a Fairfax employee) on 11 June, 1993, headed *In the snake pit everyone covers their own asp*, he tells us the sadly familiar story of when he was a director of a public company a few years back, Westpac put his company into receivership and lied and deceived the company about it en route to the dustbin. Max provides the Bank with an escape hatch and suggests that it was a passing phase of human organisational politics but exactly the same conduct is evident in thousands of on-going cases in our experience with all The Banks.

[9] *Sydney Morning Herald*, 1 July, 1993, p.29.

[10] *62nd Annual Report of the Bank for International Settlements* (IBS), 1st April 1991-31st March 1992, Basle, Switzerland, 15 June, 1992, p.228; the IBS is *the* controlling central Bank for the Western world Banks; it is the black heart of the whole rotten system.

[11] *Financial Post*, 18 September, 1993, David Gillen.

[12]

The foregoing tells you why Britain has been in recession for years, why at least one million British peoples' home mortgages now exceed the value of their homes, and why their unemployment has been so high all this time.

"It is a terrible situation when the Government, to ensure the National Wealth, must go into debt and submit to ruinous interest charges at the hands of men who control the fictitious value of gold. Interest is the invention of Satan." [12]

The central government Banks in every Western country, which are *supposed* to control The Banks, have embarked on a quite deliberate and very costly campaign world-wide to crush inflation and thereby to deflate their economies, and they are doing it at the demand of and in the best interests of the private Banks. This is the real cause of the growing misery around us and which is going to get worse. The Banks set the interest rates and it has nothing whatsoever to do with the availability of money and absolutely nothing whatever to do with what "savers" are paid. It is important that you are not deceived by purely *temporary* low interest rates. The Banks are merely luring you into dealing with them on their terms which they will subsequently change.

This is how you prove it for yourself:

1. Before you sign a mortgage and loan agreement with any Bank or finance house, carefully read the documents and you will find that they can ***increase*** the interest rate whenever they like, and,

2. They can call up the (principal) loan even if you are up to date with your payments, and,

3. They can also call up all the interest even if you are not behind in payments, so,

4. Insist that the contract documents be changed to eliminate the above conditions and watch "your" Bank's reaction.

5. If they won't amend the contract documents then what do you think is in store for you?

Amended mortgage clause to be inserted

"Notwithstanding any other condition stated therein, the borrower shall not at any time be liable to have the principal loan and/or the interest component and/or any combination thereof unilaterally recalled, demanded or legally sought and/or obtained by legal process by the Bank unless and until the borrower is in default of the mutually agreed payments for this loan."

[12] Thomas Edison, speaking on project mis-management in the United States.

If "your" Bank will not agree to that simple amendment then ask them why they need their two little clauses which enables them to foreclose on you whenever they like.

If "your" Bank doesn't have your economic demise in mind then why do they need their two clauses in your mortgage at all?

Think it through for yourself.

HISTORICAL LENDING INTEREST RATES [13]

The ANZ Bank said that it charges a margin of 2.25% ***on top*** of the General rate shown in their list below.

Date Effective	Minimum	General	Maximum
4/2/72	7.25	7.50	7.75
18/9/7	9.00	9.25	9.50
9/7/74	11.00	11.25	11.50
4/3/75	10.50	10.75	11.00
1/2/76	10.00	10.25	10.50
1/12/78	9.50	9.75	10.00
3/3/80	10.00	10.25	10.50
8/12/80	11.50		12.50
13/4/81	11.50	12.00	12.50
21/8/81	13.00		13.50
26/3/82	14.00		14.50
1/2/83	13.00	13.50	
4/4/85	13.50	14.00	14.50
24/5/85	14.00	14.50	15.00
7/6/85	14.00	15.00	15.50
2/8/85	15.25	15.75	16.25
9/9/85	15.50	16.25	17.2
18/11/85	15.75	16.50	17.5
22/11/85	16.00	16.75	17.75
9/12/85	16.75	17.50	18.50
23/12/85	17.50	18.25	19.25
24/2/86	17.75	18.50	19.50
18/8/86	18.25	19.00	20.00
22/9/86	18.25	19.50	20.50
9/3/87	19.25	20.00	21.00
25/5/87	19.00	19.75	20.75
29/6/87	18.75	19.50	20.50
3/8/87	18.25	19.00	20.00
14/8/87	17.50	18.25	19.25
5/10/87	16.50	17.25	18.2

[13] Courtesy of the ANZ Banking Group Limited, 1993.

16/11/87	16.25	17.25	18.25
21/3/88	15.75	16.75	17.75
6/6/88	16.50	17.50	18.50
12/9/88	17.25	18.25	19.25
3/1/89	17.75	18.75	19.75
30/1/89	18.25	19.75	20.25
13/2/89	18.75	19.75	20.75
20/2/89	19.25	20.25	21.25
20/3/89	19.75	20.75	21.75
22/5/89	20.25	21.25	22.25
5/6/89	20.75	21.75	22.75
3/7/89	21.25	22.25	23.25
29/9/89	21.50	22.50	23.50
9/4/90	20.50	21.50	22.50
1/5/90	19.25		
23/7/90	18.75		
13/8/90	18.00		
10/9/90	17.50		
24/9/90	17.00		
8/10/90	16.00		
4/2/91	15.50		
6/5/91	15.00		
11/6/91	14.50		
16/9/91	13.50		
18/11/91	12.75		
6/1/92	11.75		
1/6/92	11.00		
10/8/92	10.25		
27/4/93	9.75		
23/8/93	9.25		

Keep in mind that the ANZ, and all the other Banks, themselves set the interest rates and they create the "money" out of thin air; they are ***not*** borrowing money for loans from savers or anyone else. Note the steep climb in self-regulated interest rates after Bank deregulation in 1983. If we lay the then prevailing high inflation rate over the above interest rates you would readily see that The Banks increased their interest rates in accordance with the climbing inflation rate to keep their loans at par value. But, at the moment, with deflation being The Banks' policy (i.e., low inflation) you notice that they are still raising the interest rates and that can only mean that they are pulling on a depression. The ANZ Bank changed its cover heading for their interest rates twice during the period shown, finally ending up with the one rate called the "Index" from 1/5/90.

To arrive at the effective ***nominal*** lending rate add 2.25% to the above. The Banks say that ***that*** is their margin above borrowing but *that* is an outright and outrageous lie. Their margin is the "Index" figure ***plus*** 2.25%.

Remember, the real interest rate is the nominal rate less the inflation rate.

This, apart from the taxation scandal with The Banks, is why they insist in public that they are not creating credit "out of thin air". Even someone as dense or venal as a politician can see that if The Banks are creating credit "out of thin air" and flogging that to you and me as "money" then, as icing on their own little cream cake, they also run this beautiful little interest rate scam.

The reality of interest

Most people around the world know of the Sydney Harbour Bridge, a magnificent piece of British and Australian engineering work. It cost $16 million sixty years ago. It earns, after all costs, over $1 million p.a. from toll payments. Over $40 million has been paid to the London financiers and we are informed the debt will not be paid until 2005.

In 1888 the NSW government raised a loan of $32 million for the State railways. The loan fell due in 1924; NSW had by then paid $52 million in interest which was originally 3.5%. The loan was "converted" (which is what governments are doing all the time) and the interest jumped to 5%. The loan was redeemed in 1955. NSW had paid a whopping $100 million in interest and still owed the original debt of $32 million. Thus the London bankers made a cool $132 million on a nominal loan of $32 million which was only cost-free book-entry credit in the first place and which the Commonwealth Bank of Australia could have loaned to the NSW government at no charge and without requiring a cent in return.

And in the home of free enterprise?

"In February 1850, our State of California issued bonds in the sum of $943.40 to pay for a granite slab to be placed at the 120 foot level inside of Washington's Monument on the grounds of our National Capital. Our Golden State issued short term bonds bearing interest at the rate of 36% annually. In 1873 new bonds, in the amount of $2,277,500 were issued to retire the original bonds. Since that time the State has paid over $10,000,000 in interest but not one cent on the principal" [14]

The insanity of such a system *must* be obvious to you. That State increased its rates and taxes through all those years and denied its citizens much needed public facilities, such as low-cost housing and other desirable items, so as to pay $10m interest on a piece of rock worth $943.40 and *still* owes the original debt! This is why no less than 20 States in the USA have petitioned to end the Federal Reserve System of institutionalised thieving from The People. Yet in Australia all the major political parties endorse exactly the same insanity.

[14] *We Bankers*, Andrae Nordskog.

Answers to your questions

5.3.12: ***"What level of profitability is "reasonable" for banking as a whole? Is there some objective measure such as cost of capital against which the adequacy of profitability is assessed over time?***

If the "capital", whether expressed as "deposits", housing loans or retail banking transaction approvals, e.g., credit card loans, is cost-free to The Banks as proven herein then *any* profit, no matter how low, is more than reasonable. It is important to keep in mind that the Bank "deposits" are themselves nothing more than credit created "out of thin air", i.e., they are themselves cost-free to The Banks.

The so-called "Bank assets" and the loans (debts on the borrowers) generated by the Bank are equal ***and are one and the same thing***, i.e., the "Banks assets" are the credit created "out of thin air" by The Banks and at no cost to The Banks.

5.5.1: ***"What factors are important determinants of the net interest margin (total interest received less total interest paid divided by total assets) on personal loan products?***

(a) The most important factor is that "total assets" is a figure comprising credit created "out of thin air" by The Banks, i.e., the "deposits" and "assets" and cost-free loans are one and the same thing. Thus, if The Banks are charging a nominal 24% on credit cards then the formula looks like this:

Total interest received, less	24%
Total interest paid	0%
Net interest margin	24%
Divided by total assets (nominal cost)	0
Net interest margin	**24%**

If one had access to the true Bank figures across the board of interest paid on accounts then the *lowest* net interest margin on this type of account would probably be 19%. That, in anyone's book, is extortionate interest. Usury par excellence.

This is where the cost of funds becomes of crucial importance, i.e., if The Banks are creating credit "out of thin air" and using that as "money" which is cost-free to The Banks then there is no cost of funds and there is no justification for any margin whatsoever.

The illegal Bank insurance scam; the first home buyers' rip-off

(b) The Banks need to be compelled, by an open Royal Commission, into disclosing ***all*** of their interest margin of interest, e.g.,

(c) it is a fact that if a borrower telephones any one of The Banks, a building society or another NBFI for a housing loan the lender will tell the borrower that they require a 20% deposit on the home loan.

(d) Many if not most of the first home buyers who borrow from The Banks (or NBFIs) for housing loans do not have a 20% deposit.

(e) If, however, the borrower tells the lender that they have only $5,000 deposit (5%) on a $100,000 house price then The Bank (or NBFI) will then tell the borrower that The Bank (or NBFI) will actually loan up to 95% of the home purchase price providing the borrower takes out mortgage guarantee insurance.

(f) The borrowers are told that,

(i) the mortgage insurance is a condition of the loan, i.e., it is compulsory

(ii) the mortgage insurance must be taken out with a specified insurance company and the full premium paid up front

(ii) the mortgage insurance covers the borrower in the event that they are unable to pay their mortgage payments, and thus the borrower will not lose their home.

(g) It is on that contractual understanding that the borrowers borrow for their first home.

(h) The borrower is then actually loaned 14% ($14,000) at high interest to bridge the gap in the required (mandatory) deposit.

(i) The borrower is also loaned the premium for the mortgage insurance, which is there only to protect the lender, at high interest.

(j) The borrowers are ***not*** told that The Bank (or NBFI) is receiving a secret commission on all their compulsory mortgage insurance contracts.

(k) The borrowers are ***not*** told that the mortgage guarantee insurance is to the benefit of The Bank (or NBFI) and is not to the benefit of the borrowers.

(l) The truth is that the mortgage insurance covers only the lender and in no way protects the borrower.

(m) In the event that the borrower is unable to make the loan repayments then,

(i) the mortgage insurance covers only up to 14% of the loan

(ii) The Bank (or NBFI) is paid up to 14% by the insurance company

(iii) The Bank (or NBFI) then evicts the borrower from their home and sells it

(iv) if there is a shortfall, and there inevitably will be on the compounding interest on the two levels of financing and all the charges, then the borrower is sued by The Bank (or NBFI).

(v) The borrower is then left in the gutter penniless (unless of course he is Skase or Bond for whom separate rules seem to apply).

(n) Since The Bank (or NBFI) is using credit created "out of thin air" for the first home loan, i.e., it is cost-free to The Bank (or NBFI) then The Bank (or NBFI) has made a fantastic profit, the components being:

Typical first home loan of $100,000

Borrower pays 5% deposit	$ 5,000
Borrower pays 2 years @ $600 pm	$14,400
Borrower's equity	$19,400
Lender takes all of the borrower's equity	$ 19,400
Lender gets 14% of $100,000 payout	$ 14,000
Lender sells the house and pockets the loot	$100,000
sub-total	$133,400
Lender gets secret commission from insurance company $1,500 x 15%	$ 225
Total	$133,625

The actual (real) profit for The Bank (or NBFI) is deduced from the fact The Bank (or NBFI) has used credit created out of thin air" for the loan funds which were cost-free to The Bank (or NBFI), and at best, The Bank (or NBFI) deployed only 4% of the loan funds, i.e., the RBA statutory reserve requirement; thus,

Actual funds loaned was $100,000 x 4% = $4,000

Total income for The Bank (or NBFI) = $133,625

Profit for The Bank (or NBFI) = 2,993%

<u>And this is only *one* housing loan</u>.

(o) All such first home loans are illegal, and are unenforceable.

(p) This ***illegal*** income needs to be assessed as part and parcel of The Banks' net interest margin.

(q) The building societies are, by virtue of them using The Banks for cheque clearances, associated companies of The Banks under the *Companies Code*.

5.5.2: ***"How does the net interest margin on personal loan products compare with margins on other bank lending? What is the relationship between margins and risk in the respective areas?***

In regards to personal loans The Banks have recourse to the judicial system which, from my personal experience in court, habitually obliges The Banks in enforcing The Bank's position vis a vis the consumer customer, i.e., The Bank recovers payment via court judgment and the sheriff. The fact is that even though the consumer obtains a benefit, by obtaining goods and/or services, The Bank obtains a payment, usually 5% from the provider of those goods and/or services, in addition to the high real interest charged to the consumer and then, at the end of the paper trail, The Bank simply cancels its own cost-free debt as evidenced in the 1939 Canadian Bank Inquiry quoted herein.

In regards to other loans The Banks have an even better scam operating, i.e., they lock up the applicant in interlocking mortgage and guarantee conditions which are like a spider's web, i.e., difficult to see but as strong as steel and deadly if one is caught in the web. Consider the figures in the usual commercial loan situation.

Take, by way of example, a farm on which The Banks loans $1.5m. The farmer will, over a period of years, pay The Bank $1.5m in interest payments but will still owe the original amount. This is due to the fact that The Banks compound the original debt and that debt is an exponential curve which means that the borrrower can never (ever) meet the rapidly rising debt and that sooner or later the borrower is forced to do on of three things, i.e.,

(i) sell up, or,

(ii) obtain an injection of debt-free capital, or

(iii) the awful third (and in many cases inevitable) alternative is that The Bank will step in with a receiver and throw the borrower into the gutter, penniless.

The best description of the exponential treadmill is contained in *The Truth in Money Book*, by Theodore R. Thoren and Richard F. Warner, and I have enclosed photo copies of pages 86-116 for your edification.

The relevance in this matter is as follows:

The Bank, in the above hypothetical but typical example, has received $1.5m in interest payments but it has also asset stripped the farmer so The Bank has received twice the original debt and the loan itself was credit created "out of thin air" and at no cost to The Bank, and The Bank doesn't pay any taxation whatsoever on the assets of the farmer who is now living on the dole or being "re-trained" to keep him off the unemployment statistics.

Thus, in this example the customer has "paid" the Bank $3m and at worst The Bank had to find, or have readily available if required by the RBA, only 4% of the original $1.5m, i.e., $60,000.

Thus, the *maximum* cost of funds is only $60,000 against a gross profit of $3m and that constitutes 5,000% interest on this one loan transaction.

Total interest received, less	5,000%
Total interest paid	0%
Net interest margin	5,000%
Divided by total assets (nominal cost)	0
Net interest margin	**5,000%**

And, taxation is paid on only the $1.5m interest creamed off the customer over the years so the Bank gets $1.5m cost-free and tax-free.

All your remaining questions in that section, i.e., 5.5.3, 5.5.4., 5.5.5., 5.5.6 and 5.5.7 are, thus, non events.

5.6.1: ***"To what extent is there competition in the provision of transactions services for personal customers? What pre-conditions are required before greater competition is likely?***

There is no competition between The Banks. They all belong to the Australian Bankers Association.

They are belong to and control the cheque clearing system for all banking, *and all cheque transactions from Non-Bank Financial Institutions* in Australia which means they have the nation by the throat.

The pre-condition for any competition is that The Banks must disclose their source of funds to the customer. Disclosure brings competition.

5.7.4: ***"Are the provisions of the Code of Banking Practice adequate to ensure that all the information customers need to make informed decisions is disclosed to them? What specific changes, if any, should be made (e.g. to enhance the ability of customers to make comparisons)?***

No, the provisions are inadequate.

The Banks should be compelled to disclose the source of funds and the real cost of funds.

5.7.7: ***"What are consumers attitudes to fees and charges on retail transaction accounts, as revealed by customer surveys, focus groups and complaints?"***

The most succinct answer, which is somewhat rude and which I convey to you only as it was given to me by any number of Bank customers, is:

"What is the difference between a cactus and a Bank?.....with a cactus, all the pricks are on the outside!",

and I dare say that if you ask the majority of Bank customers they would agree with that peculiarly pungent but deadly accurate Australian assessment of The Banks.

5.7.11: ***"Are social security recipients exempt from account maintenance and transaction fees? Should they be, to the extent that they are required by the Government to have an account for payment of their benefits?"***

The most obvious reason for the requirement for all social security and other government recipients to have their funds paid into a Bank account is for the convenience of The Banks.

The Australian Government issues a petty cash docket every week to The Banks for the total amount to be transferred to the recipients around Australia. The Banks then issue that cost-free credit through the recipients Bank accounts, and then debits the Australian Government a hefty interest charge which, of course, is transformed into rising taxes and charges by the Government to The People who thereby pay dearly for their own cost-free Public Credit. Thus, The Banks make a very hefty net profit on the transactions at the outset.

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MISSING

McGEER: "Now on page 112 of the McMillan Report - we find the following: "The sole use gold reserve is, therefore, to enable a country to meet its deficits in its international balance of payments, until the appropriate measures can be taken to bring it again into equilibrium". And it could be done under the administration we have, and the attitude of our government, without weakening our internal currency system?"

TOWERS: "Assuming that the need for expansion was a justifiable one, I would hope and expect that would be the case, yes." (p.278)

McGEER: "....having the huge available money resources which we are neither using or abusing, the elimination of our gold reserve provision in our *Bank of Canada Act* would not alter the policy of the Bank of Canada or the Government at all?"

TOWERS: "No, in other words, that gold reserve provision is in no sense a hampering one and I would not expect it to be one in the visible future."

McGEER: "And if we eliminated that from our *Bank of Canada Act*, the gold provision of 25% against as against Bank of Canada note issues, it would not effect the monetary policy or the monetary situation in Canada at all?"

TOWERS: "It should not." (p.279)

McGEER: "....the findings of the McMillan Committee, in other words, they made a finding that the volume of the purchasing power to be issued through the banking system was not necessarily to be limited by the supplies of gold - and I think we are in general agreement on that?"

TOWERS: "Yes."

McGEER: "12% of the money in use in Canada is issued by the Government through the Mint and the Bank of Canada, and 88% is issued by the merchant banks of Canada on the reserves issued by the Bank of Canada?"

TOWERS: "Yes."

McGEER: "But if the issue of currency and money is a high prerogative of government, then that high prerogative has been transferred to the extent of 88% from the Government to the merchant banking system?"

TOWERS: "Yes." (p.286)

McGEER: "When $1 million worth of Bonds is presented by the government to a bank, a million dollars of new money or the equivalent is created?"

TOWERS: "Again, assuming that there is no decrease in its investments or loans."

McGEER: "I mean at the time, at the moment."

TOWERS: "Yes."

McGEER: "Is it a fact that a million dollars of new money is created?"

TOWERS: "That is right." (p.238)

McGEER: "Now, the same thing holds true when the municipality or the province goes to the bank?"

TOWERS: "Or an individual borrower."

McGEER: "Or when a private person goes to a bank?"

TOWERS: "Yes."

McGEER: "When I borrow $100 from the bank as a private citizen the bank makes a book-keeping entry and there is $100 increase in the deposits of that bank, in the total deposits of that bank?"

TOWERS: "Yes."

McGEER: "At the present time in Canada there is in the bank portfolios $1,400,000,000 in Bonds?"

TOWERS: "Yes."

LANDERYOU: "If the government wished to pay off the bank loan - that is, retire that $1,400,000,000 - at the moment they would have to tax $1,400,000,000 away from the people, is that not right?"

TOWERS: "Yes."

LANDERYOU: "Now, we are going to tax the people because under the proposition I am trying to work out we are going to retire those Bonds?"
TOWERS: "Yes."

LANDERYOU: "At the moment there is $2,500,000,000 bank deposits?"

TOWERS: "Yes."

LANDERYOU: "And we are going to tax the people $1,400,000,000 to retire the Bonds?"

TOWERS: "Yes.....the Government gives the bank a cheque for $1,400,000,000 extinguishing the deposits and removing the Bonds."

LANDERYOU: "What has happened to the $1,400,000,000 in the form of a cheque that comes to the bank?"

TOWERS: "The cheque is drawn on the Government account at the bank."

LANDERYOU: "Is it cancelled by the bank?"

TOWERS: "Well, naturally."

LANDERYOU: "Well, then, that much money goes out of existence?"

TOWERS: "Yes."

DUBUC: "If the Government by some means could tax the $1,400,000,000 so that they could buy the Bonds that are in the hands of the bank, then the depositors would have to give a cheque out of their bank deposits to transfer it to the Government and there would remain only $1,100,000,000 on deposit?"

TOWERS: "In the circumstances you mention....to visualise a sudden move of that kind, a sudden taxation in one year of an extra $1,400,000,000 is visualizing something which simply could not happen."

LANDERYOU: "It could not happen because it would bankrupt the whole nation and destroy the assets of the people?"

TOWERS: "The transfer would dislocate the whole economic system."

LANDERYOU: "It would destroy everything?"

TOWERS: "Yes." [16]

McGEER: "Now, as matter of fact today our gold is purchased by the Bank of Canada with notes which it issues...not redeemable in gold....in effect using printing press money...to purchase gold?"

TOWERS: "That is the practice all over the world." (p.283) [17]

McGEER: "When you allow the merchant banking system to issue bank deposits...with the practice of using cheques...you virtually allow the banks to issue an effective substitute for money, do you not?"

TOWERS: "The bank deposits are actually money in that sense."

McGEER: "....as a matter of fact, they are not money but credit, book-keeping accounts which are used as a substitute for money?"

TOWERS: "Yes." [18]

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[16] This is precisely what Dr.Edwin Viera jnr, American constitutional lawyer says, i.e., "....the government and the banks agree to divide the amount that can be looted from the general public by manipulation of the money supply, and to moderate that looting so that the public never catches on." *The Federal Reserve System: A Fatal Parasite on the American Body Politic*, National Alliance for Constitutional Money, PO Box 3634, Manassas, Virginia USA 22110-0976.

[17] This proves that the Federal Reserve System, controlled by the private banks in New York, is a world-wide game of monumental proportions indeed and that no country's banking is now independant and free.

[18] And *that* is what the judges will not allow to be argued in any Court in the land.

McGEER: "Then we authorise the banks to issue a substitute for money?"

TOWERS: "Yes, I think that is a very fair statement of banking." (p.285) [19]

McGEER: "Will you tell me why a Government with power to create money should give that power away to a private monopoly and to borrow that which parliament can create itself, back at interest, to the point of national bankruptcy?"

TOWERS: "We realise, of course, that the amount which is paid provides part of the operating costs of the banks and some interest on deposits. Now, if parliament wants to change the form of operating the banking system, then certainly that is within the power of parliament." (p.394) [20]

McGEER: "So that with the increase of $500 million of bank deposit money (1934-38) we have not had any inflationary result?"

TOWERS: "We have not...the circumstances of the times have not encouraged it." (p.643)

McGEER: "...so far as war is concerned, to defend the integrity of the nation there will be no difficulty in raising the means of financing whatever those requirements may be?"

McGEER: "....and where you have an abundance of men and materials you have no difficulty, under our present banking system, of putting forth the medium of exchange that is necessary to put the men and materials to work in defence of the realm?"

TOWERS: "That is right." [21]

McGEER: "Well, then, why is it, where we have a problem of internal deterioration, that we cannot use the same technique....in any event you will agree with me on this, that so long as the investment of public funds is confined to something that improves the economic life of the nation...."

TOWERS: "The limit of possibilities depends on men and materials."

McGEER: "....that will not of itself produce inflationary result?"

TOWERS: "Yes, I will agree with that, but I shall make one further qualification, that the investments thus made shall be at least productive as some alternative uses to which the money would otherwise have been put."

McGEER: "You do not suggest that it is necessary that the Government should be able to recover money that they invest in capital works, providing those works are beneficial to the country?"

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[19] Compare *that* with what Latham CJ decided was the business of banking.

[20] The fact that our politicians won't do anything about this rort proves that they are in the pay of The Banks.

[21] Compare Switzerland, the controlling administrative home base of this banking system, and Australia in relation to defence; with a population of only 7m compared to 18m in Australia, they have an army 7 times larger than Australia's, 800 tanks compared to 100 in Australia, the Swiss have a larger air force and are second only the the USA in numbers of 155mm guns, and yet Australia spends $9.4b on defence compared to the Swiss' $5b.....how come, i.e., how do they do it and Australia can't?

TOWERS: "The Government indirectly really does recover because what benefits the country will benefit the Government, and the Government revenue, even though you cannot see that, this specific thing has done it."

Thus, The Banks can (and do) issue cost-free credit and when that credit is used by the consumer in regards to either a credit card or a mortgaged loan, The Banks are paid **twice** for the one transaction, i.e., in the case of a credit card the trader providing the service to the Bank pays the Bank a fee [22] while the consumer also pays an interest fee on credit which didn't cost the Bank a cent in the first place. When the credit slip finally returns to the Bank it is cancelled, having served its purpose, and new credit is created "out of thin air" for the next consumer victim.

5.8: "*Social Responsibilities*"

If The Banks are going to be allowed to use The Public Credit of The People of the Commonwealth of Australia as their own private and cost-free "money" for which The People have to pay a hefty price, then The Banks should be made to take **all** their costs and charges from the obscene profits they make from The Public Credit of The People of the Commonwealth of Australia.

5.9: "*Future Policy Directions*"

5.9.1: No, the Banking Industry Ombudsman Scheme and the Code of Banking Practice is ***not*** adequate and has been designed for and is effectively managed by The Banks [23]

5.9.2: The PSA should immediately require The Banks to disclose to each and every customer the datum information listed below.

Conclusion

The Banks lie when they tell customers that they are only on-lending the funds of "savers" around Australia to the borrowers.

The Banks lie when they say to customers that the interest rates are tied or predicated upon "the cost of funds" when there is no cost of funds at all.

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[22] Plus, of course, all the so-called standard Bank fees for providing the banking service.

[23] Whoever pays the piper calls the tune.

What is called for?

1. Abolition of open ended interest ballooning contracts by The Banks.

2. Abolition of the clauses in Bank mortgages which enable The Banks to foreclose on a customer even when that customer is not in arrears.

3. The Banks should be compelled to disclose the name and address of the "savers" from which the loan funds were made available to the borrower.

Yours faithfully,

Laurence F.Hoins.