Why thousands of retirees should not have lost their savings

Investors have lost billions of dollars which will never be recovered. This because banks have insisted on property sales to bring LVR's down which was really not needed. This has resulted in a wealth transfer from "mums and dads" property investors and superfunds directly to the banks and their executives. (through super profits and mega bonuses)

Why must banks insist that Property Trusts liquidate assets which in many cases are fully tenanted, who pay rent and are still within reasonable LVR's. The enforcing of sales of commercial properties has had the effect of a permanent reduction in net worth of retirees in the billions of dollars. The cost to the community in mental stress is unmeasurable but will be enormous. This all on top of the financial losses.

In the meantime these properties have now been picked up at the depth of the property cycle by hedge funds and opportunistic investors mostly from overseas.

Restraint by the local banks would have saved many innocent investors financial ruin and would have kept ownership and wealth within Australia.

Boards have been far to obliging in serving the banks by liquidating assets in these funds. Of course covenants require that to happen. But covenants were written in times of a property boom. The GFC is a special event requiring special solutions.

Instead of insisting on forced sales, banks should have showed more restrain and allowed LVR's to temporarily increase perhaps to over 100% LVR. Again why enforce sale of a property which is for instance leased to a government department in Canberra at long term. This should never have happened if LVR's temporarily breached covenants during a property cycle downturn. The banks should lend through the economic cycle when long term rather than short term factors should be considered. Let the banks please remember that we live within economic cycles. What goes up must come down, but vice versa will inevitably happen as well.

Most people invest in property for the long term. Retirees are often advised to set aside 25% of their super in property to create a stable income stream. Then these funds should be financed with longer term loans and not have to go through a finance renewal cycle every three or four years.

Now when LVR's were breached , funds were hit by penalty interest rates and increased fees. Exacerbating the pain already suffered by investors. When LVR's are breached distributions could have been halted. This would already hurt retirees many of whom are dependent on this for their income. But sales should not have been enforced destroying capital forever.

Domestic property sales are not forced unless there is default such as non payment of interest. So why enforce sale of commercial properties when they are serviced properly with regular interest payments. It just does not make sense other than providing the banks with an opportunity to exploit their position of strength and employ the returned loan monies at better terms and higher fees. No liquidations occurred in the mining or industrial sectors of the economy during the GFC. Why were the property trust targeted by the banks. Well they are an easy target. Most of the funds are managed by obliging managers and Boards. The investors are caught unaware in most instances, and only become to understand their losses long after the damage has been done. Many investors do not seriously look at the value at their “safe” property investment other than at annual reporting time. The damage has than long been done and to their shock is irreversible.

When property funds are forced to sell, they will commence with selling their best quality properties. This will lead to more strain on the rest of the portfolio and a deterioration of the quality overall. We now see a situation in Australia that some of the prime real estate has come in overseas hands at rock bottom prices. Whilst Funds are left with a mediocre quality rest portfolio. All because the banks enforce the reduction of LVR’s under ill faithed covenants. In fact this is also not in the best interest of banks as the quality of what remains of the portfolios has deteriorated. LVR’s also go unnecessarily down as valuers panic in times of economic downturn and exacerbate the downturn with cautious valuations.

It is to be remembered that it were these very banks who were throwing money at the same Funds prior to the GFC. In particular a number of overseas based banks one the biggest being Bank of Scotland International /Lloyds Bank. Which during the GFC had to be bailed out by the British government. The biggest bail out in history. Instead of amassing millions of dollars in extra fees and penalty rates during times of financial strain, the Banks need to be held accountable for their own actions of easy lending which had led to the GFC in the first place (also in Australia)

Why are regulators not protecting investors?? When bank guarantees were given by the Government during the height of the GFC, Treasury should have demanded restraint from Banks in calling their loans. Instead of just protecting the Banks, some of which had been involved in irresponsible lending, ordinary Australians should have been protected. Now Treasury has protected and boosted the profits of Banks to the detriment of its customers . Now thousands of investors through their holdings in retirement funds and otherwise have lost billions. These investments will never recover even when property markets turn as those properties have been sold. The money has been lost forever under the pressure of the same banks which only a few years before could not help themselves by throwing money at the same funds. Of course Boards of the Property Trust could have been more careful and kept LVR’s down to more reasonable levels (say 50-60%). But the call of the banks to sell perfectly good properties has led to an irreversible loss to many innocent retirees and other investors. Certainly the banks have also a responsibility towards the Community at large and not just their shareholders.

I am calling on regulators to protect investors against this mass destruction of capital. It could have been avoided by just more restrained behaviour of the Banks without undue risks . Why has the world's greatest treasurer not protected his support base, the public of Australia. This has got nothing to do with the carrying of risk, if the balance of power lies squarely on the side of the Banks they should have also been held responsible and should have shown restrain at times of stress. Particularly as it would not have cost them much.

Conclusion

Assistance to banks throughout the cycle by governments should allow the banks to offer an extension of property loans at existing terms. Loans should not have been allowed to be called. This in term would help to protect investors (particularly retirees/superfunds) from being sacrificed as an easy source of capital for banks. LVR levels in a fund should start at no higher than 60%. In severe downturns a 25% reduction in valuations should not lead to a mass call on outstanding loans. Higher LVR's must then be allowed for a period of time. We now have seen and still have, forced sales of quality long term assets at the bottom of the cycle which in the process has destroyed the livelihood of thousands of retirees.

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Hans Sprangers