



**Banking & Finance
Consumers Support
Association (Inc)**

Financial System Inquiry 2014

Chairman: Mr David Murray AO

BFCSA Response to Interim Report and Submission

Author: Denise L. Brailey

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This submission is presented in a simplified manner for the benefit of people who have been, or are, likely to be targeted by banks with regard to fraudulent lending practises, particularly low-doc mortgages. BFCSA deals with the devastating consequences of the profit- and commission-driven strategies based upon fraud in the banking and financial sector.

The extensive research and work by William K. Black, a litigator and regulator who helped clean up the Savings and Loan frauds during the 1980s and early 1990s in the United States, provides a framework to understand how 'control frauds' develop and spread in a banking system (explained below). Analysts Paul D. Egan and Philip Soos use Black's framework to demonstrate the likelihood that Australia's banking system is also plagued by extensive control frauds.

Disturbingly, in context of the Terms of Reference and in the FSI Interim Report, I have found no reference to the issue of control frauds. For the sake of brevity, yet mindful of the revelations that need to be unmasked, I have relied upon three important references which highlight the similarities between the US and Australian banking systems in relation to control frauds.

Egan, Paul D. and Philip Soos. (2014). *Bubble Economics: Australian Land Speculation 1830 - 2013*. UK: World Economics Association.

Black, William K. (2013). *The Best Way to Rob a Bank Is to Own One: How Corporate Executives and Politicians Looted the S&L Industry, Updated Edition*. Austin, Texas: University of Texas Press.

Black, William K. (2010). "Epidemics of 'Control Fraud' Lead to Recurrent, Intensifying Bubbles and Crises", *Social Science Research Network*, 15th April.

In “Bubble Economics”, Egan and Soos (2014: 644) notes:

William K. Black, professor of economics and law at the University of Missouri-Kansas City, published a book in 2005 called *The Best Way to Rob a Bank Is to Own One: How Corporate Executives and Politicians Looted the S&L Industry*, detailing the fraud committed by S&L management. He was previously the head litigant for the S&L regulators during the 1980s and helped to clean up the industry. Black later developed the concept of control fraud, whereby executives use the institution they manage as a mechanism to commit fraud. The weapon of choice wielded in cases of financial control fraud is accounting, confirming that the pen (or computer) really is mightier than the sword.

In “Epidemics of ‘Control Fraud’ Lead to Recurrent, Intensifying Bubbles and Crises”, Black (2010: 1) explains:

Fraudulent lenders produce guaranteed, exceptional short-term “profits” through a four-part strategy: extreme growth (Ponzi-like), lending to uncreditworthy borrowers, extreme leverage, and minimal loss reserves. These exceptional “profits” render “private market discipline” perverse, often defeat regulatory restrictions, and allow the CEO to convert firm assets to his personal benefit through seemingly normal compensation mechanisms. The short-term profits also cause the CEO’s stock options holdings to appreciate. Fraudulent CEOs that follow this strategy are guaranteed to obtain extraordinary income while minimizing the risks of detection and prosecution.

The optimization strategy for lenders that engage in accounting control frauds explains why such firms fail and cause catastrophic losses. Each element of the strategy dramatically increases the eventual loss. The record “profits” allow the fraud to continue and grow rapidly for years, which is devastating because the firm grows by making bad loans. The “profits” allow the managers to loot the firm through exceptional compensation, which increases losses.

In “Epidemics of ‘Control Fraud’ Lead to Recurrent, Intensifying Bubbles and Crises”, Black (2010: 1) explains:

The accounting control fraud optimization strategy hyper-inflates and extends the life of financial bubbles, which causes extreme financial crises. The most “criminogenic environment” in finance for accounting control fraud will attract an initial cluster of frauds. The factors that make a finance sector most criminogenic are the absence of effective regulation and the ability to invest in assets that lack a readily verifiable asset value. Unless those initial frauds are dealt with effectively by the regulators or prosecutors they will produce record profits and other firms will mimic them. Those control frauds can be a combination of “opportunistic” and “reactive” (moral hazard). If entry is relatively easy, opportunistic control fraud is optimized. If the finance sector is suffering from severe distress, reactive control fraud is optimized. Both conditions can exist at the same time, as in the early years of the savings and loan (S&L) debacle.

When many firms follow the same optimization strategy in the same financial field a financial bubble will arise, extend, and hyper-inflate. This further optimizes accounting control fraud because the rapid rise in values allows the frauds to hide the real losses by refinancing the bad loans. Mega bubbles can produce financial crises.

In “Bubble Economics”, Egan and Soos (2014: 645) notes:

According to the four-part strategy detailed by Black, it appears control fraud is present within Australia’s banking system. The mortgage loan book has rapidly grown over the last two decades, indicated by the exponential rise in the mortgage debt to GDP ratio. Episodes of predatory lending have been well documented by the BFCSA, but the true extent has yet to be revealed. The Big Four have employed extreme leverage, especially against the residential loan book and have minimal loss reserves. While data on three of the four strategies are publicly available (growth, leverage and loss reserves), less is known about the scale of predatory lending in the mortgage market.

In “The Best Way to Rob a Bank Is to Own One”, Black (2013: 270) explains:

Bankers, economists, and their political allies proved that they did not “know better.” Instead, they have confirmed the title of my book – *The Best Way to Rob a Bank Is to Own One*. Indeed, the change since the time I wrote this book is that officers controlling a bank now possess a vastly superior means of looting the bank because they can now do so with near immunity from prosecution. Policy makers have not simply failed to learn from experience and been condemned to repeat financial crises. They aggressively did the opposite of what experience suggested. They made the financial world far more criminogenic. The incentives they created through the three D’s (deregulation, desupervision, and de facto decriminalization) proved so perverse that they increased the epidemic of accounting control fraud that drives our recurrent, intensifying financial crises.

In “The Best Way to Rob a Bank Is to Own One”, Black (2013: 279) explains:

We have known for a century that a home lender that does not underwrite a loan, including verifying the borrower’s income, will produce endemic “adverse selection.” That means that the lender will have a “negative expected value.” In plain English, it means that such loans will cause severe losses to the lender. An honest home lender does not make liar’s loans. While the phrase “liar’s loans” may suggest to the reader that the borrower was lying about his income, our experience was that it was overwhelmingly the lenders that put the lies in the loans. Our experience confirmed our theory – lenders engaged in accounting control fraud deliberately made bad loans in accordance with the accounting control fraud recipe for a lender.

In “Bubble Economics”, Egan and Soos (2014: 640) notes:

Government agencies, regulators and EDRs (ASIC, APRA, ATO, RBA, Treasury, FOS and COSL) have extensive political, economic and legal power to investigate the workings of the banking system and financial markets, even if the area under investigation is not in their direct jurisdiction. Executive public employees with taxpayer-funded salaries of over half a million dollars could wield their immense power and influence to carry out an extensive

examination of the alleged fraud, but none appear willing to tackle the FIRE sector heavyweights. The failure to conduct an investigation to date leads one to question why these organisations are funded, if serious allegations of white collar crime, backed by thousands of evidentiary documents, are not taken seriously.

In “Bubble Economics”, Egan and Soos (2014: 647-648) notes:

Political and regulatory reticence to act on allegations of widespread lending fraud is a scathing indictment on the state of modern democracy. The creeping plutonomy is further leveraging its political influence to cement an ‘untouchables’ financier status that pardons criminal activity. Financialisation of the economy has granted immense political and economic power to the FIRE sector in direct proportion to their growing share of economic activity. Regulatory capture has led to government-appointed guardians playing the role of impotent patsies, refusing to take substantive action against FIRE sector offenders, even when abuses are flagrant.

The world over, regulators with considerable political, economic and legal power have either sidestepped or directly refused to investigate the FIRE sector. This non-committal stance may relate to public executives sharing a value system more aligned with the wealthy and powerful elite than the common people they are supposed to protect. While the fallout from fraud has hurt those at the margins, it has not yet led to observable macroeconomic effects across Australia; thus, the attitude among regulators is to not ‘rock the boat’ and let business continue as usual. This decision may come back to haunt regulators if the extent of fraud poses future danger to the financial system. Indeed, some senators have expressed alarm about alleged systemic fraud and are calling for a Royal Commission to investigate the actions of lenders and brokers.

TOR 1: Fraud Creates Adverse Competition and Mirroring

We can never achieve a fair and efficient financial system if those involved in the manufacture of profitable yet intentionally faulty products and the engineering of the sales-orientated structures are engaged in fraud. The avoidance of liability as a contractual condition is evidence of a clear intention to deceive the public on many levels.

The manufacture of a single faulty loan product (known as low-docs or even alternative docs), the development of unsafe policies in the line of distribution, and/or the weakening of verification processes, can entice all other players in the same market to develop similarly bad behaviours in order to compete (a race to the bottom).

In this way, the producers of financial products and services adopt a cartel-like structure, all with similar offerings and behaviours. Consumers are then targeted for their assets, primarily their home; within 4 to 5 years of a 30-year contract, the loan intentionally and knowingly collapses. Why would lenders operate in this manner?

- 1) Persistently above-normal (and obscene) profits can be derived from fraud, a concept understood in any country.
- 2) Deregulation, self-regulation, regulatory desupervision and de facto decriminalisation are key factors in contributing to fraud and the GFC.
- 3) William K. Black labelled these types of lenders as control frauds (noted above).

Fraudulently tampering with loan application forms (LAFs) by internal bank staff (under instruction) and aided by the use of secret service calculators, demonstrated that those who were taught to use these tools were trained in a certain way so as to not easily arouse suspicion; essentially hiding the actions of 11,000 sellers of financial products and 4,000 internal bank support staff. The fraud is subtle and not easily recognisable.

Whilst we have collected copies of the bank computer-generated form, lenders refuse to hand over this page, citing the “Privacy Act” and “commercial sensitivity” so as to not reveal

their content. This is a suspicious course of action. The information contained on this specific document is personal to the borrower, as it relates to the borrowers' financial position at the time of approval, yet borrowers have never sighted or ratified this document. The Net Servicing Ratio may have been sensitive at the time but that sensitivity no longer applies; like an out-dated LIBOR figure.

This crucial document, developed by lenders, must be attached to the LAF, as clearly stated by emails from banks to the seller channel. We have obtained copies of these emails. In a court of law, the documents are indeed discoverable. When mired in debt, however, people do not have funds to seek legal advice, creating an easy path for lenders to deny access to the documentation sought by the borrower and/or seller.

1.2 Domestic Competition. In order to maximise profits, commissions and bonuses drove production to 'pump up the volume' in the name of competition. The weakening of lending standards prompted the lenders' product designs, the distribution network (including 36% bank staff, that is, no agent involved). Lending Policy Guidelines (we have copies) were attenuated in general practice. The Big Four banks have a stranglehold, with a mortgage market share of 88%. They announced to sellers that all loans, including full-docs, were to be unverified as of 2008.

Cheating is attractive as it will lead to massive profits for lenders, otherwise unachievable if adhering to the rule of law and operating ethically with integrity. Fraudulent lending practices by lenders have led to similar product offerings, behaviours and rampant control frauds, run and promoted at the top levels of our banking institutions.

Lenders profiting from low-doc loans, or subprime loans as they are known globally, encouraged competitors to behave in a similar manner, and we found the same two law firms involved as word spread. Weak regulators contributed to the spread of these cancerous loans. Simply put, profits have been put before people. The target market was identified, in 2005, as 'Asset Rich and Income Poor' (ARIPs), mainly pensioners who had equity "and a pulse" as suggested in industry circles. Lenders told the sellers: we never reject loans, just keep on selling.

1.3 Cost and Safety. The control frauds have created the perfect product: 30 year low-doc interest-only loans set to implode within 4 to 5 years. These toxic loans are purposefully designed to be unsustainable. Control frauds are those persons who create, manufacture and engineer faulty products and then target vulnerable people in order to maximise firm profits and executive bonuses.

TOR 2: Review of Philosophy, Principles and Objectives

There cannot be a well-functioning financial system when substantial profits are derived from mass marketed fraudulent products, in full knowledge of the subprime lending model. Our banking system is driven by profits before the financial well-being of the public. The banks' objective is to be the beneficiary of unverified lending practices, viewing the lack of oversight of the financial system as a loophole to be exploited. The engineers of these lending products and services have profited from unaffordable interest-only loans since 1996, and perhaps earlier.

2.1 Consumer protection is not possible in a deregulated financial market as there are no checks and balances in processing of mortgage applications, no honesty in manufacturing and distribution of subprime loans. Borrowers are led to believe that consumer protection laws and complaints agencies will treat their complaints in a fair and honest manner.

The customers trusted the lenders, but that trust has been exploited. The 'complaints' industry has been hijacked by lenders. The Ombudsmen's services are run by seconded or ex-bankers, with consumer complaints channelled to the EDR's. Consumers then protest that the determinations made tend to ignore the fraud.

Deregulation of the banking system ignores conflicts of interests throughout the competing interests of financiers, developers, building and real estate industries. Deregulation also results in economic destabilisation when trust and confidence in the 'non' regulator is shattered.

2.2 Systemic risk is rife yet has been downplayed by the regulators, effectively concealing bank fraud and the extent to which these criminal activities have spread within the banking system. For example, during 8th – 10th August 2012, the Senate Economics Reference Committee Inquiry into the post-GFC banking sector had the Australian Office of Financial Management (AOFM), Reserve Bank of Australia (RBA), Australian Securities and Investment Commission (ASIC), Australian Prudential Regulation Authority (APRA), Federal

Treasury and the Big Four CEOs all claiming there are “no systemic issues relating to low doc lending.”

These institutions and government agencies were called in to answer the evidence we had presented to Parliament as a grass roots consumer advocacy service. At that time, we presented 400 fraudulent LAFs; altered by bank staff after borrowers had signed a three page document, which then materialised as an eleven page copy. All agencies were misleading Parliament as to their own knowledge of this scandal.

I suggested in evidence, that “do we wait until we have 100,000 people outside Parliament – all with the same raft of complaints against bank lending practices and approval of unaffordable loans?” Now we have uncovered close to 1500 and rising. We do not advertise and therefore are a comparatively small group, yet the key indicators of fraud, forgery and maladministration in lending are on most of the documentation uncovered.

Since 2012, more people have come forward and the sample size is indeed alarming. I also suggested “Government cannot profit from a fraud... relating to AOFM’s \$24 billion investment of taxpayer dollars into RMBS packs.” Shortly after, the Treasury questioned the investment and the policy was scrapped, despite its profitability.

2.3 There is a strong case for reregulation, given the subprime lending time bomb in the midst of the \$1.4 trillion mortgage market. Our concern is highlighted by asking ‘how does the targeting of 200,000 families and loss of their homes assist the economy?’ The victims of this banking scandal are people who owned their homes and were debt-free but on a moderate to low income.

The Big Four banks have posted annual profits close to \$30 billion. How is that possible for a nation of 23 million people? It would suggest the combination of extreme lending and control fraud, as we have uncovered through extensive research into low- and full-doc lending. Over 18% of loans are toxic full-docs according to our member surveys. 36% of writers/sellers of the loans are internal bank staff – not planners or broker agents.

All these key indicators suggest extensive control frauds are plaguing the banking system. This will be catastrophic for the banking sector if not investigated immediately via a Royal Commission. The recent dilution of consumer protection laws is abhorrent and shows we have transitioned back to the 1950's 'Buyer Beware' regime. Unfortunately, our regulators are not advising consumers of these risks. If the FSI truly wishes to clean up the banking industry to restore confidence and trust, reregulation is imperative.

2.4 ASIC's neglect of defrauded borrowers came under heavy criticism from aggrieved consumers in the recent Senate inquiry into the performance of ASIC, demonstrating their anger in a record-breaking 474 submissions. How many complaints have to be received from consumers for real change to take place in regulatory action against lenders? ASIC was targeted for its lack of policing in this area by using the excuse that lenders are self-regulated.

One ex-fraud staffer from a major bank gave evidence that the bank only hires 1.5 persons (FTE) for 7000 complaints. ASIC has cut a deal with banks and insurers regarding the use of fraudulent service calculators, granting an exemption through Class Order #1122/05. Evidence was presented to the Senate that lenders engineered service calculators to have sellers use the tool in order to create futuristic and blatantly inflated incomes. This tool is causing further strife, as borrowers are sold a risky product: a 30-year loan designed to implode within 4 to 5 years.

The loans were exacerbated by the bankers' use of buffer monies to 'assist' borrowers in making mortgage payments with more bank debt. Reregulation is the only answer to policing the banking and financial sector in the future. Rampant control frauds are a grave threat to the stability of financial markets, especially considering the links between lenders, developers, builders and real estate agents.

Consumers need a 'Federal Bureau of Consumer Protection' - funded by a sizeable levy on lenders. The evidence gathered by the BFCSA is shocking as to warrant a Royal Commission into the banking and finance industry. Witnesses must be compelled to hand over documents, give evidence and be subjected to cross-examination. Also, commissions and

bonuses should be banned, along with buffer loans, and mortgages currently the subject of fraud allegations should be considered.

2.5 Financial Regulators. In 2012, APRA sent letters to the CEOs of the major banks, pertaining to my own evidence to Senators of misleading figures and data being supplied to Treasury regarding defaulting loans. This requires further investigation and can only be done via a Royal Commission. Since subprime lending has adversely affected many of the developed nations in recent years, it is even more important for an in-depth study to examine these faulty products and the extent of predatory lending in Australia that continues to this day.

In reality, all no- and low-doc loans default on day one in terms of unaffordability, but the default rate is hidden by the use of additional buffer loans to mask loan impairment rates and the unaffordability issue in the EDRs. Control frauds are skilled at hiding incriminating factors. The buffer loans comprise critical data that ought to be investigated and the findings made public, especially given its role in keeping the Ponzi structure afloat.

Australian lenders are control frauds, intentionally engaging in widespread deceit by failing to furnish borrowers with a complete copy of the LAF, leaving it open to modification by bank staff. No victims Australia, New Zealand or other developed countries received a copy of this document at the point of signing. I have received many calls and emails from overseas pertaining to this issue.

In recent times, lenders are saying the “documents are missing,” and therefore claim to have no proof of what was a prudent loan and what was later altered without the borrower’s authority after the signature was obtained. Alarming, these nefarious practices have become “standard industry practice,” as one bank suggested in a letter to a borrower. In such cases in the US, State Attorney Generals sued those banks, with court decisions reflecting similar abhorrence at the shredding of documentation, finding in favour of the victims: such loans should be extinguished due to “inability of the lender to establish the loan was of a prudent nature.”

The main difference between US and Australian subprime predatory lending is the former tended to target the “no income, no job” clientele, whilst Australian lenders have and continue to target ARIPs; people who had equity in their home and were debt-free. Most were pensioners or families on low-incomes. The banks boasted of a \$50 billion market in 2005, teaching their managers and agents to go after this particular market. Borrowers were given buffer loans to mask unaffordability issues.

There has been no oversight by regulators into these disgraceful and abhorrent activities. These ‘liar loans’ have reached epidemic proportions and most are linked to the residential property market. Lenders also intentionally engaged in ‘third line forcing’ in relation to credit cards. These loans continue to be sold in 2014, with the post-2010 NCCP loans now coming to light as expected. The six cases where funds were raised to take these issues to court were successful against lenders.

TOR 3: Things Likely to Drive Change

Unfortunately, change will be influenced by the possibility of tens of thousands of families losing their homes, and a lack of confidence and trust in the banking and financial sector. The 1930s depression resulted in long-term repercussions against banks for over three decades. People who have been wiped out financially by bankers can never recover and never forget, with the children recalling those hard times. With buffer loans continuing to be extended, the magnitude of unaffordable defaulting loans will be known to the public only once the mortgage Ponzi scheme collapses.

These are 30 year loans set by lenders to implode within 4 to 5 years. The same law firms are responsible for acting for the banks whilst sending contracts with yellow stickers to the customers. These firms then receive the work for repossessions and also send legal advice to the EDRs. These links need to be examined and addressed. The backroom low ball deals with “take it or leave it offers of settlement”, however, are accompanied by thinly-veiled threats to the elderly, and a deed of confidentiality. The victims are deliberately silenced and the ‘repossession’ intentionally goes unreported.

A Royal Commission will assist in identifying these challenges ahead and bring about reform in the banking and financial sector. We would ask for an examination of all persons receiving gratuitous 2% loans. We also wish to publicly examine all those who benefitted from criminal activity by way of bonuses and commissions that were not subject to claw-backs. The aim is to uncover the facts and prevent this horrific loss of homes from happening to future generations. There has to be transparency. COSL acknowledged in letters to our members that “we have found fraud... however we cannot assist with fraud investigations so we are closing your file.”

3.1 Impact of Technology. Lenders used a service calculator as a tool to create futuristic and inflated incomes, suggesting to sellers this was sanctioned by their legal teams. The issue is that all mortgage loans were approved by the service calculated, with the public remaining unaware of this process. No-, low- and full-docs were treated alike with loan

approval “processes” via a policy of fraudulently tampering with LAFs which have rendering all loans unsafe. Insiders tell us the LAFs could be altered without need of further initials and/or signatures.

In our member surveys, 18% of these loans are toxic full-docs and 36% of toxic loans are created inside the banks. Only 64% are sold by seller agents, yet all LAFs are fraudulent and forgeries are common. 100% of the ones we have examined (1500) during the past five years were unaffordable from day one.

3.4 Internal processing structures are unsafe. Key indicators comprise similar models, spiels for sellers, document tampering, forms in play and identical service calculators as mandatory in order to intentionally skew tax advantages. Sellers were neither trained nor qualified to approve loans or give financial advice, but the financial advice generated additional sales. Sellers have told me that “without the service calculator we would not have known what figures to write on the LAFs.” Pensioners were persuaded “do not leave dead equity in your home,” or “we can assist you in becoming self sufficient as a retiree, instead of a pensioner, etc.”

3.5 No Corporate Governance. This is evidenced by the lack of policing of the banking industry. This intentional policy affects all stakeholders: shareholders, sellers, borrowers and taxpayers. The belief in the financial strategies used as a spiel to sell products is of extreme concern. Sellers have also been caught after being told by lenders to “practice on their own parents.” These spiels are issued by the elite control frauds at the highest levels of the banking sector. Ultimately, we will see a new wave of homelessness, just as we witnessed a massive wave of lost retirement funds in the past two decades. Toxic products are deliberately manufactured. All of these factors clearly impact on the economy.

3.6 Coercing Borrowers. Mortgages have been sold with ‘compulsory’ credit cards. People who said no to the cards were then told “it’s compulsory.” If you do not take the cards, you cannot receive the loan. These credit cards were issued for an average limit of \$25,000. Lenders intended that borrowers provided with buffer loans to use the cards when the buffers ran out after several years, resulting in even higher fees and charges. Nasty

entrapment scams within the banks have led to additional debt and high-risk and cost for consumers and the corresponding profit for lenders, and bonuses for executives.

Third line forcing is a breach of the TPA. We have collected over 2,000 internal bank emails showing the spiel involved “ABN’s for a day” to disguise pensioners as businesspeople. Sellers were told to “pump up the volume.” “Quotas” were pushed upon the internal staff to the extent their writing appears on many broker hand-written LAFs. There are, in most cases, unidentified writing and changes and white-out on the documents we have managed to recover. Lenders then advised sellers to “shred the original applications.”

TOR 4: Recommendations

There seems to be a poverty of statistics pertaining to how many no-, low- and full-doc mortgages have been issued since 2004. The BFCSA recommends a Royal Commission to demand this data be released. There are no statistics we are aware of as to how many unaffordable and unverified loans exist in the system. There cannot be a stable and efficient financial system if it is mired in fraudulently manufactured products.

4.1 Since the EDRs admit fraud and forgery exist, along with maladministration in lending, the EDRs should no longer be expected to investigate such cases as we are alleging that criminal activity has occurred inside the banking sector. Therefore, the loans in question cannot be treated as mere disputes. The use of seconded bankers to examine confidential files in FOS and COSL is abhorrent and only serves to inflame anger against lenders.

A Federal Bureau of Consumer Protection incorporating a Serious Fraud Office is the only way to protect our banking industry from control frauds on the horrendous scale we are witnessing today. ASIC has also licensed debt recovery merchants, but not for the benefit of consumers. All these roads lead back to the control frauds causing a lack of confidence in lenders, ASIC, and the tainted EDR system. Lenders pay the EDRs \$5,000 per 'investigation' and the standards of determinations has fallen dramatically since 2009.

The invasion of ex-bankers is thought to be the prime cause of sympathetic bankers to bank lawyers' version of legal issues which our members and our lawyer strongly disagree with. The system of complaint handling when involving the loss of one's home is extremely unsatisfactory and biased. We suggest that all bonuses garnered from manufacturing, distributing unverified unaffordable, unconscionable loans be placed into a trust account, pending the outcome of a Royal Commission.

4.2 Promotional material used to procure business from ARIPs must be thoroughly examined by a Royal Commission, including the marketing of online financial products.

4.3 Users of financial products and services have been grossly misled by the control frauds. As a nation, we cannot condone the unfairness and abhorrent industry practice of targeting people who already had prepared a secure financial future, untainted by debt, then placing them specifically in the way of intended financial harm. Homelessness is a key indicator of subprime mortgage activity. Their homelessness and dependency (even more so) on the social welfare system is also valid reason as to why a Royal Commission is of critical importance.

4.4 The BFCSA also recommends a thorough examination of bank culture and policy, which has proven to create an environment conducive to the catastrophic financial losses experienced in developed countries in recent years. Financial product 'innovation' should not be passed off as an efficient and dynamic strategy, when the intention is to, in fact, deceive, when subprime lending became patently obvious in 2002.

TOR 5: General Operation of Companies and Trusts

The initial holders of titles and management tasks were initially confined to three Trust Companies, namely Perpetual Trustees, Permanent Trustees and Australian Executors Trustees. Their profiting from these products also requires a thorough investigation by a Royal Commission. It was this specific design of the control frauds that the initial mortgages emerged with Trustees registered on the titles as mortgagees.

TOR 6: Examination of Taxation Issues

I had a meeting with taxation investigative officers in Sydney in 2005, on this subject. I presented the officers with six files displaying LAF fraud, describing alterations internal to the lenders, after the LAFs had been faxed to the lenders. The tax returns showed the true incomes were vastly different to the income recorded on the LAFs. I also noted the differences in the Net Servicing Ratio on internal and external documentation. Commissioner Carmody suggested that people had cheated on their tax returns, but I knew from my research that the opposite was the case.

The intended public report from the ATO was never released after my attendance and presentation of evidence. The officers agreed that “it was indeed a matter for ASIC.” They had examined over 800 files and found “hundreds of cases” whereby the tax returns showed incomes of \$20,000 to \$50,000 and yet the corresponding LAF claimed inflated incomes of \$180,000 on average.

We now know these fake incomes were generated by service calculators, marked “not to be shown to the borrower.” I reported to the ASIC Chairman that these were indeed disturbing key indicators of mass marketed control frauds. A diligent Royal Commissioner would easily be able to verify these specific indicators promptly.

TOR 7: RBA Conduct of Monetary Policy (Securrency)

The ABC Four Corners expose of the RBA’s involvement in the handling of the plastic notes scandal will resonate with most victims of control frauds, further entrenching the belief that the banking and financial sector cannot be trusted. Additionally, when I sought statistics from the RBA, I was told they came from APRA. APRA confirmed the stats came from the lenders themselves but no checks or audits were carried out to verify accuracy. The RBA, Treasury and APRA must ensure the data they receive from lenders are accurate.

TOR 8: Thank You for the Opportunity

The BFCSA and its members thank the Financial System Inquiry for the opportunity to provide our submission, and the chance to comment on the Interim Report.

TOR 9: Consultation and Feedback

We are not consulted by those in industry, yet our work is respectfully received by the courts, Federal Parliament and the mainstream media as being factual. Twenty years of experience and research as a professional in this field has added to the integrity of the information BFCSA has released to the public.

Despite the predictable utterance that “there are no systemic issues” in lending, our files tell a different story. We have yet to see a clean loan from a pool of subprime mortgages estimated to be valued in the vicinity of \$100 billion. Our message as a grass roots support group is therefore of tremendous importance. We have observed some sinister displays of cover-ups in terms of freedom of information, on the part of conflicted industry actors and regulators.

We look forward to reading the anticipated final report from the FSI. We hope common sense will eventually prevail and criminal charges be laid against all those responsible for these loans at the highest levels of our banking institutions. We also expect compensation for all those affected by this looming crisis.

In conclusion, no government, institution, or agency should be permitted to engage in and/or profit from control fraud.