

“Bold measures are needed”

Stringent measures are now required to get banks lending and one way of achieving this is by converting mortgages to long-term, fixed interest loans.

On the global stage, governments and central banks are desperately trying to unblock the frozen credit markets. Through a combination of re-capitalisation, state-guaranteed loans and quantitative easing, the hope is to inject more money into an illiquid banking sector, drive down real interest rates and thus restore the flow of capital to cash-starved businesses and struggling homeowners. However, none of this will work unless and until policymakers address the problem of excessive corporate and private debt that caused this crisis in the first place.

Commenting, Gerald Irwin of Sutton Coldfield based licensed insolvency practitioners, Irwin & Company said, “The debt problem is likely to worsen before improving. Banks and other financial institutions are bracing themselves for another wave of debt defaults from credit cards, car and student loans, corporate bonds, insurance and pension funds.”

Lower real interests alone just will not do the trick because in a falling market, banks have few incentives to lend and every reason to hoard the public money that was injected. Lending will only be restored to adequate levels if and when unsustainable debt is restructured, more demand for goods and services is generated and real interest rates are lowered.

“One radical policy is debt conversion, whereby mortgages and consumer credit are converted into long-term, low and fixed-interest loans which could help minimise home repossessions and stabilise the property market in which more than sixty per cent of the country's wealth is tied up. This sort of state assistance should be made available to individual borrowers but also to housing associations. Similar debt conversion programmes could then be extended to other sectors that are crippled by debt, including consumer loans.”

Debt conversion could address the problem of debt-deflation and put the economy on a more balanced footing.