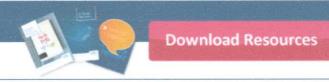
## **Download FREE Business Resources**



Sign up now to get instant access



## Frozen redemptions — it all comes down to too much debt

Crikey founder Stephen Mayne writes:

Australia's Big Four bank cartel might be in good shape, but the rest of Australia's credit markets are under pressure.

The AFR splashed today's paper with the freezing of redemptions at the \$2.9 billion Challenger Howard Mortgage Fund. Combine that with *The Australian's* splash about the Reserve Bank opposing the unlimited guarantees on deposits and the government should come under severe pressure today.

Whilst Challenger is the biggest so far, freezing redemptions is now common place in Australia and New Zealand this year. We're already well into double figures and rising fast. Check out the <u>full list</u> (<a href="http://www.maynereport.com/articles/2008/08/28-0958-6879.html">http://www.maynereport.com/articles/2008/08/28-0958-6879.html</a>) because it includes marquee brands such as AMP, AXA, Macquarie, Blackrock, Mirvac and Tower Limited (New Zealand).

If Kevin Rudd wasn't obsessed about buttering up media moguls such as Rupert Murdoch, James Packer and Kerry Stokes, he would probably launch an attack on Challenger Financial Group today, even though James Packer is the largest shareholder with 20%.

This is a complex, highly geared paper shuffling company which paid former CEO Mike Tilley \$8.1 million last year and then <a href="flicked him">flicked him</a> (<a href="http://www.crikey.com.au/Business/20080825-Challenger-plunges-to-loss-as-overpaid-CEO-departs.html">http://www.crikey.com.au/Business/20080825-Challenger-plunges-to-loss-as-overpaid-CEO-departs.html</a>) one year into his new five year contract with a \$1.75 million termination payout.

The Australian's Adele Ferguson (http://www.theaustralian.news.com.au/story/0,25197,24240930-5012439,00.html) neatly explained the Challenger and Tilley situation on August 26.

Whilst Challenger claims to have minimal debt at the holding company level, there is \$4.5 billion in liabilities spread through the subsidiaries. Now, lenders to the big mortgage fund want their money back and Challenger can't deliver.

The government is partly to blame for ignoring the advice of the Reserve Bank on blanket deposit guarantees. However, at the end of the day Australia is suffering because our \$620 billion foreign debt is rising by \$60 billion a year and households are lumbered with \$1 trillion in debts.

The Financial Times published the following (http://www.ft.com/cms/s/6a4c038e-9b79-11dd-ae76-000077b07658,Authorised=false.html? i location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F1%2F6a4c038e-9b79-11dd-ae76-000077b07658.html& i referer=http%3A%2F%2Fwww.ft.com%2Fhome%2Fasia) in its influential Lex column on Friday:

Since the start of the year foreigners have sold a net \$US24 billion of Korean shares, helping drive the won down by a third against the dollar. Like other emerging market economies with current account deficits and short-term external debt, Korea will have difficulty rolling over its borrowings.