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CUR INTER VIVOS QUAERITIS MORTUOS? *

THE MACHINE BEHIND THE INTEREST RATES

Where does authority terminate?

Last week I described what looked like a simple event: an interest rate doubling overnight on a consumer credit card.

Most people see that as a customer service issue. A mistake; a frustration; something to argue about on the phone.

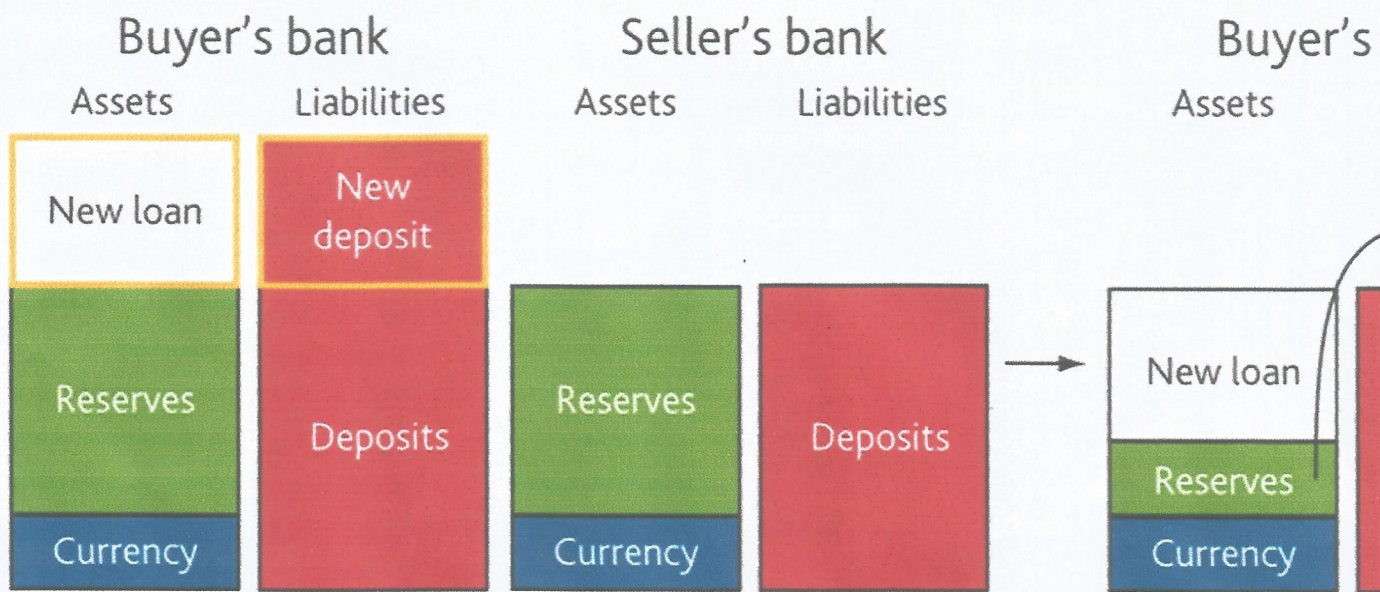
It isn't.

It is a glimpse into the machinery of modern money.

In 2014 the Bank of England published a paper titled *Money Creation in the Modern Economy*. It stated, without ambiguity, that commercial banks create money when they issue loans. They do not lend out pre-existing deposits in the way most people imagine. The act of lending simultaneously creates the deposit. What is extended to you is not existing money transferred from elsewhere, but a newly created balance – an accounting entry on the bank's books.

That single accounting reality changes everything.

This isn't an obscure opinion. A 2015 working paper from the Bank of England explicitly dismantles the traditional "loanable funds" notion taught in textbooks. It states that banks do not intermediate existing savings. Instead they finance through the creation of new deposits when they issue a loan – and are constrained by statutes, rules, capital and profitability, not by someone else's cash waiting in an account.



If money is created at the point of lending via your signature, then the familiar story – that banks carefully parcel out scarce savings – falls apart. The constraint is not piles of gold in a vault. It is regulatory capital, risk modelling, and internal balance sheet management.

So when a retail interest rate doubles, the relevant question is not, “Have funding costs doubled?”

They haven't.

The question is: what changed in the model?

Retail pricing today is not a simple reflection of central bank rates. It is the output of layered systems – behavioural scoring, capital allocation, stress testing assumptions, portfolio margin targets. When your rate moves, it is because the institution has moved you from one profitability bucket to another.

The cost of money did not suddenly become twice as expensive; your position in the hierarchy shifted.



After 2008, banks were recapitalised. Systemic risk was stabilised with public balance sheets. Capital buffers were raised. Conduct regimes were tightened. The narrative was reform. In the UK, structural “ring-fencing” was introduced, legally separating retail banking from investment activities under post-crisis legislation. Large institutions were reorganised into new legal entities – for example, Barclays’ core retail operations were placed into Barclays Bank UK PLC in 2018, distinct from Barclays Bank PLC. On paper, the system had been rebuilt.



Barclays is first UK bank to complete restructure to split retail lending from investment banking

Iain Withers. Tim Wallace


01 April 2018 10:09pm BST

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But what did not disappear was discretionary repricing power.

Most revolving credit agreements contain clauses allowing variation of terms. They are drafted broadly. They allow repricing for “risk” or “commercial reasons.” In theory, this protects the lender. In practice, it institutionalises asymmetry.



The borrower cannot unilaterally reprice the bank.

And because lending creates the deposit in the first place, the dynamic is stranger than most people realise. The institution manufactures the credit, books the asset, and then retains discretion over the yield attached to it.

That is not intermediation. That is structured leverage.

When a rate doubles, nothing tangible has changed in the physical world. No vault has emptied; no shipment of capital has become scarce. What has changed is an internal calculation of expected return on capital deployed against your name.

Higher rate means higher yield per unit of regulatory capital.

You are not being repriced because money is scarce.

You are being repriced because you are now statistically more profitable.

There is also a psychological layer that keeps this system stable. Most borrowers treat credit as money. They experience it emotionally. It feels like access to cash. It feels like liquidity. It feels like ownership.

But legally and operationally, it is a conditional liability instrument created on a ledger.

Once you see that, the tone of the conversation changes. You stop arguing about fairness and you start asking about authority. On what basis can a ledger entry – created digitally, backed by regulatory capital, not hard currency – be altered unilaterally?

This is not about outrage. It is about architecture.

If banks create credit when they lend, and if pricing is model-driven rather than cost-driven, then the central issue is control. Who controls the ledger? Who controls the assumptions inside the model? And what contractual foundation allows that control to be exercised without reciprocal constraint?



The doubled interest rate was not the story.

It was the signal.

Next week we move one layer deeper – into the contract itself. What happens when original agreements cannot be produced? How do statutory information requests intersect with securitisation structures? And why does modern consumer credit rely more on presumption than most people suspect?

Because once you understand how money is created, the next question is unavoidable:

What, precisely, did you agree to?

:grant-andrew© *sui juris*

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- With apologies to Doctor Luke - 24.5 - why seek ye the DEAD among the living?!