Dawn of a new legislative era for housing finance

Building societies and savings associations operate under specialist legislation, which has largely confined them to raising deposits and making loans for house purchase. In all of the English-speaking countries, that legislation either has been, or is about to be, changed, so as to allow institutions to adopt wider functions, and in most cases also to convert from mutual to company status. This article, by the editor of *Housing Finance International,* Mark Boléat, describes legislative developments in the UK, USA, South Africa, Australia, the Irish Republic and New Zealand.

IN the 1960s and early 1970s, building societies and savings associations increased their share of the savings and housing finance markets. They were able to take advantage of a rapidly growing demand for housing finance loans and increasing standards of living, which in turn led to a stronger demand for savings facilities. Their success came in an era when there were government controls on the financial markets.

Partly, these controls were intended to promote monetary policy. The money supply was taken to be synonymous with bank deposits, and therefore the control of the money supply meant the control of bank deposits. There were, therefore, often special controls on the banking system which inhibited their ability to compete with more specialist deposit-taking institutions.

In many countries, housing finance was also thought to require some protection from normal market forces. Governments felt it politically wise to prevent fluctuations in market interest rates fully feeding through to the housing finance market, and in some countries the policy seemed to be little more than keeping the mortgage rate at the lowest possible level.

This led to special tax advantages for housing finance institutions, such as the ability of the South African building societies to offer tax-free deposits, to limitations on the ability of banks to offer interest on some of their accounts, as in Australia, and to a statutorily imposed interest-rate differential between savings associations and commercial banks, as in the USA.

By the 1970s, these various instruments were coming under pressure. Inflation and rapidly fluctuating interest rates had made a nonsense of some regulated interest rates, and, not unnaturally, devices were developed which enabled the statutory controls to be overcome.

By the early 1980s, the development of automated teller machines, and developments in computer technology generally, made it easier for non-traditional banking institutions to offer a full retail banking service, together with an attractive rate of interest on deposits. Specialist housing finance deposit takers found themselves left behind in this race, often because they were restricted in the extent to which they could offer money transmission services.

Simultaneously, non-traditional institutions have moved into the housing finance market, often offering a package of services, not all of which have been open to the specialist institutions. This trend became more marked when the banks were freed from the balance sheet constraints which they had operated, and also sought to attract mortgage business, partly because it was thought to be profitable in itself and partly because the banks knew it could lead to the attraction of related business.

The specialist building societies and savings associations therefore found themselves under pressure. It was no longer sufficient merely to offer a good rate of interest on savings, but money transmission had to be offered as well.

Mutuality also came under challenge as being an old-fashioned way to run a modern financial institution, and certainly inappropriate for very large institutions.

One can see all of these trends in the large English-speaking countries. Certainly the trends are not identical in each country. In the USA, an additional factor has been the earnings crisis of the savings associations, caused by them being forced to borrow short and lend long. In both Australia and New Zealand, the entire financial markets have been or are being deregulated. In the UK, the main factor has been the removal of

the previous constraints on the clearing banks.

In most of these countries, there have been official enquiries of one form of another. In some cases, for example the Wilson Committee in Britain, they have been merely of academic interest, while in others, in particular the Campbell Committee in Australia and the de Kock Commission in South Africa, the reports have been a blueprint for subsequent legislative reform.

Such is the legislative process in the USA that the country's financial system is almost permanently undergoing an inquiry from Congressional Committees of one form or another. However, in the early 1970s there was also a more formal inquiry in the form of the Hunt Commission.

In Britain, the Committee to Review the Functioning of Financial Institutions (the Wilson Committee) was established in January 1977, primarily to inquire into the banking system, and in particular the provision of funds for industry and trade.

Australia produced perhaps the most impressive and influential report on its financial institutions. The Campbell Committee was set up in 1979, and it produced an interim report in May 1980, with a final report at the end of 1981 (*Australian Financial System, 1st Report of the Committee of Inquiry,* Australian Government Publishing Service, September 1981).

The report favoured the deregulation of the previously heavily regulated interest rates paid and charged by Australian building societies. It also favoured giving building societies and savings banks greater freedom to broaden their sources of funds, and generally it was against the segmentation of financial markets.

In 1983 the newly-elected Labour Government established a new committee, the Martin Committee, charged with considering the implementation of the Campbell proposals, but taking account of the Government's social and economic objectives. The report favoured the abolition of interest rate controls, and it called for a relaxation of existing restrictions on the disposition of building societies' assets. Specifically it recommended that societies should be allowed to offer consumer credit.

South African building societies had to experience not one, but rather two reports. The *du Plessis* Report, which was specific to building societies, was published in 1982, and was against the trend of other reports by arguing for a continuation of the financial sheltering of building societies, together with a restriction on the scope of their activities. In the event, the report has had little impact.

More important have been the reports of the *de Kock* Committee, which published an interim report dealing with building societies in December 1982, and its final report in 1985. The report favoured the removal of the special tax advantages which building societies enjoyed, together with a relaxation of the controls on their assets. It has strongly influenced the legislation currently before the South African parliament.

Finally, in the Republic of Ireland an inquiry into building societies was announced in September 1985, this partly stemming from controversy surrounding the effective takeover of one building society by a bank and a proposed merger between two of the largest societies.

US system deregulated

IN THE USA, savings and loan associations (as they were then known) prospered throughout the 1960s and most of the 1970s. They enjoyed a statutory interest rate advantage over the banks, and although their loans were at fixed rates, this did not present any problems, as interest rates were stable, and in any event the rate

→ 6

Ed Gray, Chairman of the Federal Home Loan Bank Board:

‘In 1982, the landmark legislation that Congress passed and the President signed into law — the Garn-St Germain Depository Institutions Act — made abundantly clear the intent of Congress. The preamble of that legislation, in a single sentence, calls it "an Act to revitalise the housing industry by strengthening the stability of home mortgage lending institutions and ensuring the availability of home mortgage loans." Indeed, it talks straightforwardly about the housing industry by name and about savings institutions by name.

This simple, clear statement of Congressional intent acknowledged the lack of stability present in the savings institutions industry at the time. With portfolios full of underwater, long-term, fixed-rate mortgages, savings institutions — which repeatedly had been denied the opportunity to make genuine adjustable-rate mortgages by the federal government throughout the decade of the seventies — desperately needed a way to restructure their portfolios.

Congress — whose purpose was to "strengthen the stability" of these "home mortgage lending institutions" — provided in the legislation new authorities by which these home mortgage lending institutions could achieve a measure of diversification. The new operating authorities that Congress granted on the asset side were characterised by far shorter maturities than the long-term fixed-rate mortgage loans maturities on the books of these institutions.

The new short-term maturity investment and lending instruments — that is to say, greater consumer lending authority, commercial lending authority, and commercial real estate lending authority — that Congress granted were not intended to change the fundamental character of savings institutions — which Congress called "home mortgage lending institutions" — but, instead, to help these institutions restructure the maturity balance of their portfolios over time.’

← 5

of interest which they could obtain on their long-term loans was substantially above that which they had to pay on their short-term deposits. Clearly the system was vulnerable to a sharp rise in market interest rates, which would expose the associations to the consequences of borrowing short and lending long.

That sharp rise in market interest rates duly occurred at the end of the 1970s. The regulation of bank and savings and loan association interest rates was not sufficient to protect them, as money market mutual funds were rapidly established, which enabled the ordinary investor to take advantage of money market rates that were at times three times as high as those which the deposit-taking institutions were allowed to pay.

Gradually, the liabilities side of the balance sheet of the associations was freed, and they were allowed to pay market-related rates on an increasing proportion of their funds. However, there was no liberalisation of the asset side of their balance sheet. New mortgage loans were made at market-related rates, but existing loans still carried the rates of interest at which they had been made, and these were by then well below market levels. Profits dropped alarmingly in 1980, and by 1981 a huge loss for the industry as a whole was recorded.

The first legislative response was the Depository Institutions Deregulation and Monetary Control Act (DIMCA) of 1980. This had two major features. The first was a planned phase-out of the interest rate ceilings imposed for certain categories of deposit, this automatically involving the ending of the differential which the savings associations enjoyed over the commercial banks.

The second feature was a significant increase in the powers of the associations, including: (a) authorisation of interest-bearing checking accounts; (b) authorisation of investment of up to 20% of assets in consumer loans, corporate debt securities and commercial paper; (c) the easing or removing of lending restrictions; (d) expanded authority to invest in service corporations; (e) authority to invest in mutual funds, to issue credit cards, and to engage in trust operations.

In the late 1970s and early 1980s, the associations were gradually allowed to introduce some element of variability into their mortgage loans, but this was far from adequate to cope with rapidly fluctuating interest rates. In 1981, a major step forward was taken when the Federal Home Loan Bank Board, the regulatory authority for the savings associations, authorised them to issue adjustable rate loans on whatever loan terms they thought appropriate.

These measures were not sufficient to restore the industry to health, and in 1982 came the far-reaching Garn/St Germain Depository Institutions Act. This included the following provisions:

(a) authorisation of a new savings account, directly competitive with money market funds;

(b) the pre-emption, or severe limitation, of state-imposed restrictions on the ability of associations to enforce due on sale clauses in loan contracts (mortgage contracts had generally included a provision whereby the loan had to be repaid in the event of the house being sold. Where loans were at low fixed rates, obviously it was advantageous for these to be passed on to the purchaser of the new home, the benefit being capitalised in the house price. Some states had limited the ability of the associations to enforce these clauses, thereby posing financial problems for them);

(c) completion of the phasing-out of the interest rate advantage enjoyed by the associations by the beginning of 1984;

(d) capital assistance for institutions with deficient net worth;

(e) an easing of the requirements for conversions from state to federal charter and vice versa and also from savings associations to savings banks;

(f) expanded authority to invest in consumer, commercial and agricultural loans and other investments.

Many associations have taken advantage of the legislation to convert from mutual institutions into stock corporations, often with a new federal savings bank charter which gives a wider range of powers than those open to savings associations. What were the largest savings associations are now for the most part diversified retail financial institutions and, indeed, some also have a substantial commercial banking element.

UK legislation enacted

IN THE United Kingdom, the realisation that new legislation was needed came gradually during the early 1980s. In 1980, the last significant balance sheet constraint on the banks was removed, and they moved rapidly into the mortgage market, accounting for 40% of new business by the end of 1981.

Building societies found themselves, partly as a result of new technology, able to offer a wider range of services to their customers, but they were heavily restricted by legislation, which basically tied them down to taking in retail savings and making loans for house purchase.

The somewhat archaic constitutional provisions for the control of building societies were also causing some concern, and there were those who thought that building societies were not sufficiently accountable to their members.

The first steps towards new legislation were taken by The Building Societies Association, which published a discussion document, *The Future Constitution and Powers of Building Societies* in January 1983, and then detailed proposals in *New Legislation for Building Societies,* published in February 1984.

The report stressed that societies had no wish to depart from their primary functions, and that addi-

→ 8

← 6

tional powers should be incidental to these and should enhance their achievement. It argued that societies should have the power to hold land for housing development, and that they should be able to offer services related to house buying, including estate agency, structural surveys, conveyancing and insurance broking.

On financial services, the report stressed that societies had no wish to become full-scale bankers but rather wished to confine their services to retail banking. It said this could be achieved by enabling them to have a limited percentage of their assets in unsecured loans and that modest overdraft facilities should also be allowed on certain types of account.

In July 1984, the Government published a consultative document on building society legislation, *Building Societies: a New Framework* (Cmnd 9316). This commented that the law governing societies was not designed for institutions as large as societies had become, and that the limitations imposed on their business made little sense today.

It stressed that the purpose of the Government's proposals was to ensure that societies continued primarily in their traditional roles, while loosening the legal constraints under which they had operated so that they could develop in other fields. Most of the proposals in the Green Paper, some with modifications, appeared in the Building Societies Bill.

The Bill went through the upper House smoothly and became law on 25 July, 1986. Most of the provisions will be implemented on 1 January, 1987.

The new Act establishes a completely new legal framework for building societies for the first time since 1874. Societies will remain as mutual institutions specialising in the provision of housing finance and subject to special rather than general legislation. Their supervision will be placed in the hands of a new Building Societies Commission based on the present Registry of Friendly Societies.

The most important part of the legislation is the granting to societies of new powers to hold assets. Currently, societies are allowed to lend only on the security of freehold and leasehold estate. The new Act will create three categories of commercial asset (that is, total assets less fixed and liquid assets):

- Class 1 assets, which basically are loans secured on first mortgage to owner occupiers of residential property.
- Class 2 assets, which are other forms of secured lending, for example, lending on commercial property and lending on second mortgage.
- Class 3 assets, which are unsecured loans (subject to a maximum of £5,000 per person), ownership of land for residential purposes and investments in subsidiaries and associates which, broadly speaking, can do only those things within the powers of societies themselves.

Initially, at least 90% of assets must be in class 1, and within the 10% maximum for non-class 1 assets not more than 5% can be within class 3. There is provision for the non-class 1 total to be increased to 25% and for the class 3 total to be increased to 15%.

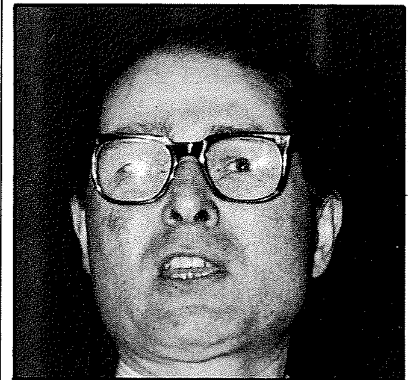
On the liabilities side, building societies will be able to raise up to 20% of their funds from wholesale sources with provision for this figure to be increased to 40%.

In addition to being able to have new asset powers, societies will also be specifically empowered to provide a range of additional services. These include money transmission services, foreign exchange services, making or receiving of payments as agents, management as agents of mortgage investments, management as agents of land, arranging for the provision of services relating to the acquisition or disposal of investments, arranging for the provision of credit, administration of pension schemes, arranging for the provision of insurance, estate agency, surveys and valuations of land.

The Act makes statutory provision for an investor protection scheme which will replace the present voluntary arrangement run by The Building Societies Association. The statutory scheme will provide for share accounts of up to £10,000 to be 90% protected. Provision is also made for a statutory Ombudsman scheme to consider complaints.

Few changes to the constitution of building societies are enacted. A common threshold of £100 is introduced for entitlement to vote and to receive documents. For the first time, borrowers are given, by statute, a right to vote on merger proposals.

A procedure is laid down by which



Ian Stewart, Economic Secretary to the Treasury, the government minister responsible for the legislation:

'This is the most fundamental legislation on building societies for over a century. It gives them new powers and will enable them to compete more effectively in a changing marketplace.

The emphasis will still be placed firmly on the provision of services for savers for house purchase, but I hope that the Bill will also enable building societies to face the future in the confidence that they will be able to continue to serve the public as they have done for many generations.'

building societies may convert to company status. However, the requirements that will have to be met are very severe and may deter societies which wish to consider converting from doing so. At least 20% of qualifying shareholders (broadly speaking those who have held an account of at least £100 for two years) must vote, and of these 75% must vote in favour.

In addition, 50% of borrowers voting must vote in favour. There is provision for limited bonuses to be paid to shareholders on the conversion. For a conversion combined to outright sale to a third party, then either 50% of qualifying shareholders must vote in favour, or the holders of 90% of share capital must vote in favour.

The consensus is that the new legal framework will give building societies adequate powers to expand in a rapidly evolving financial services market over the next 10 years. Generally, the prudential supervision of banks and building societies is being brought into line and this theme is apparent throughout the legislation. Further convergence of legislation for financial institutions is confidently expected.

Legislation for New Zealand societies to follow general financial deregulation

NEW ZEALAND has had one of the most regulated financial markets of the industrialised countries. In particular, there have been controls on interest rates, and state intervention in many other ways. In the housing finance market, the largest single lender is a government body, The Housing Corporation of New Zealand, which obtains its funds largely from the national budget and is therefore able to make loans at below market rates of interest. It is intended that from next year the Corporation will have to obtain its funds from the private market. Building societies have about a quarter of the mortgage market.

It was the election of a Labour Government in July 1984 that precipitated major deregulation of the New Zealand financial system. The Government removed controls on interest rates for deposits and mortgage loans, removed the 30 day rule on paying interest on trading deposits, and removed the limitation on the interest rate payable on passbook savings accounts.

In the unregulated financial environment, the building societies operating under the Building Societies Act 1965 were severly constrained. The New Zealand building societies have decided that an exhaustive overhaul of their legislation would be inappropriate as it would not be possible to gain the necessary place in a legislative programme, and therefore the Building Societies Association (NZ) has sought the removal of those constraints on the competitive position of societies. Also, the Government has wanted to reduce the element of discretionary power which governments and the Registrar have had over building societies.

Murray Coppen, Executive Director, Building Societies Association (NZ):

‘The changes in the financial market place have been generally welcomed by building societies, although their resources and management skills will be fully tested. In the deregulated environment the Building Societies Act often places societies in an uncompetitive position with regard to other financial intermediaries offering similar but extended services. The Association is seeking the removal of the constraints on the competitive position of societies.’

Like British building society legislation, the New Zealand Act limits societies to doing those things which are specified in the Act. This means, for example, that they cannot operate in a secondary mortgage market; they cannot offer cheques; they cannot offer ancillary customer services unless these are consequential to the main purpose of building societies; they are restricted in the type of lending which they can undertake (societies are restricted to a maximum of 5% unsecured and 10% commercial lending, the other 85% having to be secured by way of residential mortgage); and they cannot change to being anything other than a building society.

The Government has agreed to a series of changes to the Building Societies Act, principally:

Societies will be able to operate in a secondary mortgage market.

Societies will be able to offer customer services such as insurance, real estate agency, valuations and acting as an agent for government in matters such as selling certain savings products.

Societies will have flexibility in the type of lending they will be able to undertake. A minimum of 50% must be in residential mortgage with the other 50% being commercial mortgages or consumer loans, whether secured or unsecured.

Societies will be able to give security.

Societies will be able to convert to some other form of legal entity, for example, a company.

Irish Government issues discussion document on legislative and regulatory arrangements for societies

IRISH building societies occupy a very similar market position to their British counterparts, accounting for over two thirds of new mortgage lending. The industry in Ireland is very concentrated with the five largest societies accounting for 93% of total assets. With one exception the societies are mutual. The exception is the Irish Civil Service Building Society, which has a stock ownership and which has recently been taken over by a commercial bank.

In April 1986, the Government issued a discussion document on the legislative and regulatory arrange-

→ 10

ments for building societies. This stressed the need to improve the efficiency of building societies in channelling funds from savers to borrowers, to ensure that societies are not hampered in remaining competitive in a rapidly changing environment, and that societies are not diverted from lending for housing for which they have developed a special expertise. The report suggests that five factors have called in question the regulatory and legislative environment:

- The proposed liberalisation of banking and building society operations within the EEC will alter the competitive environment for the Irish societies.
- The growth in the importance of societies in the market for deposits has led other institutions to establish a presence in the building society sector, and this points to the need for a rethinking of ownership structures.
- There has been criticism of certain restrictive practices operated by societies.
- There has been a question of how mutuality works in practice.
- Marketing expenditure by the building societies has been criticised as being wasteful.

The report concludes that there is a case for some relaxation of the restrictions on societies' activities and that this can be achieved without weakening their main function.

The report suggests that the following liberalisations would be appropriate:

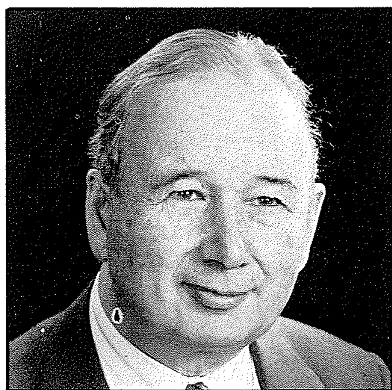
- The provision of unsecured lending, including bridging loans and lending on second mortgages, within carefully defined limits.
- Impediments to institutional borrowing should be removed.
- Societies should be able to give advice on home ownership, home improvements, general financial advice and provide agency arrangements for paying and collecting and related services.

However, the report concluded that societies should not be allowed to diversify into estate agency, conveyancing or insurance broking because it was felt that these services had considerable potential for conflicts of interest.

The report discusses the relative merits of mutuality against equity control but does not come to any firm conclusion on legislative changes.

The supervision of building societies is considered to be complex and uncertain and the report argues that rationalisation is desirable, although it does not suggest how this rationalisation should take place.

It is understood that the Government intends to introduce the relevant legislation before June 1987.



Jimmy Malone, Secretary of the Irish Building Societies Association:

'Irish building societies need new legislation for the same reason as their counterparts in other countries. The 1986 Budget extended to the banks confidentiality of investments for tax purposes, which had previously been given only to building societies. Banks can now offer all the facilities of a building society to their customers, as well as a wide range of other services. However, the government's discussion document is confused and unnecessarily restrictive and societies will be lobbying energetically for greater liberalisation so as to allow them to compete more effectively.'

Australian societies deregulated on a state-by-state basis

AUSTRALIAN building societies account for about a third of the housing finance market. With a few exceptions they are mutual. All are regulated on a state basis and generally operations take place within a state only. Each state has its own Building Societies Act and, although these are broadly similar, there are some not inconsiderable differences between the states.

The reform of the financial system in Australia has been on the basis of a report of a Committee of Enquiry under the chairmanship of J. K. Campbell and the report of the subsequent Martin Committee.

There has been a gradual relaxation of the various interest rate controls which has served to benefit the savings banks which previously were subject to the greatest controls and in April 1986 interest rates on all new housing loans by savings banks were finally deregulated. Existing savings bank loans remain regulated at 2% below the new rates. The banks have been granted a Federal Government subsidy to offset the cost of the remaining regulation.

The deregulation of societies is occurring on a state-by-state basis, although there are many common themes. In Queensland, societies have been given power to:

- Lend for household items such as furniture, white goods and other fittings.

Jim Larkey, Executive Director, Australian Association of Permanent Building Societies:

'Despite deregulatory progress by State governments, rate control and/or suasion remain in key areas. These impinge on societies' ability to respond quickly to changing market conditions and damage from time to time the flow of housing finance and capacity to compete.

The deregulatory moves by the Commonwealth will need to be matched at State levels.'

- Enter agreements with other institutions to lend for larger items, such as cars and boats, or for holidays, and to provide other financial services.
- Seek trustee status, opening up new markets for investments.
- Invest in corporations providing particular services, such as funds transfer companies.
- Participate in the newly developing secondary mortgage market.

In Western Australia, the Building Societies Amendment Act 1984 made the following main changes:

- A 2% net worth requirement, replacing the minimum 1% reserve ratio.
- Societies can offer overdraft or consumer credit facilities provided outstanding commitments do not exceed 5% of assets.
- The Registrar of Building Societies may allow societies to invest in companies which provide services to their members.
- The Registrar may allow societies to hold property for purposes other than for the conduct of their normal business.
- Additional net worth is required before activities can be undertaken. This additional net worth is determined as a proportion of the amount invested in the activity and is, for example, 7.5% for continuing credit arrangement, 10% for investment in subsidiary corporations and 20% for real estate investment other than buildings used as offices and branches.
- The minimum liquidity ratio has increased from 10% to 12.5% of withdrawable funds.

Two building society Bills in South Africa

SOCIETIES in South Africa have operated under the 1965 Building Societies Act. The South African Government has accepted the recommendations of the De Kock Commission of Enquiry that a new Building Societies Act should be implemented. The first draft of the proposed legislation would have required building societies, which operate on a mutual basis, to convert to stock-owned societies over a period.

This concept was not acceptable to all building societies in South Africa and led to a lively debate. The final outcome is that societies will be allowed to remain mutual or to convert to stock status and to cater for these two options, two separate Building Society Bills were being enacted in August 1986. They will be introduced from 1987.

Tim Hart, Secretary of Association of Building Societies of South Africa:

'Meaningful changes to the legislation which has controlled building societies since 1965 has been achieved with the passing of two separate Bills which were approved by the South African Parliament during June 1986. The amendments are designed to give societies the options of remaining "mutual" or converting to "stock-owned" which will, with only one exception, give them parity of opportunity to conduct their business.

The amendments, although continuing to restrict building societies to the function of accepting savings for the financing of home ownership, will bring them more into line with modern business practice and also, should they adopt the equity route, a wide range of diversification of services through subsidiaries.'

The two types of society will have similar powers and these will not be vastly different from the present position. The main changes are:

- Societies are able to advance up to 90% of the purchase price or valuation of properties without additional security instead of 80%.
- Societies will be able to make unsecured advances up to 8% of their total liabilities to the public.
- Up to 5% of deposits accepted by societies may have a maturity of less than 12 months, whereas at present no such deposits may be accepted.
- Advances to purchasers of homes from societies' subsidiary development companies may not exceed 5% of the total annual amount advanced.
- Investment in fixed properties, shares and advances to subsidiaries which deal in fixed property may not exceed the issued share capital and unencumbered reserves.
- Investment in any other associates or subsidiaries, except a banking subsidiary, will be restricted to 5% of their total liabilities.
- Societies will be required to direct 80% of their operating capital into loans secured by first mortgage over urban immovable property. Of amounts secured by first mortgage, 80% will be in respect of domestic dwellings.
- Mutual societies will be required to increase their capital over an agreed period and equity-based societies will be required to comply on conversion with the new requirements (reserves and issued share capital of 4% of liabilities).

Where societies convert to stock status, this will be achieved by the creation of a building society holding company or by converting the existing mutual society into a company which, in either case, will be owned in the first instance by the members of the society before its conversion.

The holding company will have to employ 60% of its capital in its building society, but will be free to diversify into the full range of financial services subject only to obtaining the approval of the Registrar of Financial Institutions. No person, association of persons, or any group may hold more than 10% of the issued shares of a building society or building society holding company.

It is generally expected that most of the major building societies will opt for the equity route as soon as they are able to comply with the 4% reserve ratio requirement. ■