Creating a Secondary Mortgage Facility for Jordan

by Douglas B. Diamond

The government of the Hashemite Kingdom of Jordan, in cooperation with the World Bank, is sponsoring the creation of a secondary mortgage facility (SMF). There are three things notable about this statement. First, this will be the first SMF of any type in the Middle East. Second, the government is only sponsoring the privately owned SMF, not owning it. Lastly, the SMF will not function as a secondary market for mortgages but rather as a refinance facility relying on mortgages as collateral, in a fashion similar to the Federal Home Loan Banks in the United States and the Caisse de Refinancement Hypothecaire in France.

Why is Jordan moving ahead with this project now? Are its banking sector and bond markets ready to support such an institution? Is liquidity an important enough barrier to housing finance and will it be significantly improved by the SMF? These are all good questions, for which there are not always clear-cut answers. But, after a discussion spanning over 10 years, the judgment has been made that the likely benefits significantly exceed the costs.

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This article reviews the current structure of housing finance in Jordan, how a secondary mortgage funding mechanism would help, how the planned SMF would operate, and what are the major outstanding questions to be answered.

AN OVERVIEW OF HOUSING FINANCE IN JORDAN

Jordan was long blessed with large net inflows of remittances from expatriate workers. It has also been burdened with sudden inflows of additional people to be housed (due to wars) and general uncertainty about the stability of the economy and the security of investments. Fortunately, the blessings seem to have outweighed the burdens so far in Jordanian economic history, and most of the populace is relatively well-housed.

The housing sector has not depended heavily on formal-sector housing finance to accomplish this. In the aggregate, there is a clear reliance on financing through cash and intra-family financing, especially from remittances. However, the opportunities for expatriate remittances has declined, signaling what will probably be a shift towards greater reliance on formal credit for housing in the future.

Most lending for housing and other real estate is currently intermediated through the commercial banking system.[1] There do not appear to be any accurate public data on the stock or the flow of loans for housing, but an informed guess is that the aggregate figure could not exceed JD 200 million for all of the banks (about 6% of bank credit), with up to an additional JD 200 million in directed credits made at concessional terms funded through other channels.[2] This implies a maximum total of JD 400 million, or almost 10% of GDP, in contrast to a figure of 50% in the United States and 25% in Malaysia, a developing country with higher incomes and a more advanced financial sector.

Such small exposure to long-term housing lending presumably is due either to conscious risk management on the part of the banks or a lack of interest on the part of households in using bank credit for housing. Most banks express the view that both factors are at play. After all, the net cost to a mortgage borrower is currently about 13.5% for a loan for seven years, in an economy with inflation under 5% since 1991. The spread, moreover, between the borrowing rate and the deposit rate is usually 5% or more, suggesting that greater equity investment in housing is preferable to accumulating wealth in financial instruments.

For all banks except the Housing Bank (HB), there is the additional consideration that the Housing Bank has a number of special privileges. The most important are a lower required cash reserve at the Central Bank of Jordan and tax exemption on its earnings in proportion to its total housing loan portfolio. These privileges appear to permit the Housing Bank to offer below-market rates on their housing loans and give it a comparative edge in

mortgage origination that discourages active marketing by other banks.

Just as important, the HB appears to be the only bank that extends mortgage loans to the general public for terms of up to 15 years. (It has extended loans up to 30 years when funded by special GOJ programs.) No other bank will exceed seven-to-eight years for any loan. This appears to be because the liquidity fears that other banks express (see below) are muted for the HB by implicit guarantees of liquidity by the government.

The Risks of Housing Finance

What are the risks posed by housing finance in Jordan? The credit risk associated with residential lending appears to be very low. The maximum loan is for 75% of the appraised value of the land and structure; the appraisal is not based on the general prices in the market, however, but rather on an estimate of what the distress-sale price might be. Apparently, the latter figure is usually 20% less than the former, leaving an initial loan-to-value ratio of 60%. This is not necessarily a perfect defense against a major downturn in the market soon after the origination of the loan, but after a few years of appreciation in real estate values, it is highly unlikely that the distress sale value will be less than the outstanding balance.

The legal basis for foreclosure on defaulted loans is relatively strong, but foreclosure has been rarely begun (and only after 18 months of delinquency) and pursued to its conclusion; most defaulted loans have been rescheduled or otherwise compromised. However, stricter rules governing charges against reserves in these cases, combined with growing acceptance of the need for operation on a more commercial basis, seem to have increased the willingness to enforce mortgage contracts.

A second issue dogging past foreclosure efforts has been some provisions of the old Ottoman Law. One provision specifies that interest beyond 9% is not allowed, and another says that the cumulative interest cannot exceed the principal. In practice, these provisions are not effective until a case goes to court, i.e., upon adjudication of a defaulted loan. This served as a deterrent to foreclosing on a default rather than reschedule or otherwise compromise with the borrower.[3]

The second major risk is with respect to liquidity. There is a good reason for the attitude of the banks other than the HB. There seems to be an overarching concern for the potential for major political, economic and demographic shocks to affect Jordan. Most observers seem to see the term mismatch as the most significant risk for lending for housing, creating price and non-price restrictions on access to housing credit. In contrast, the HB need not give liquidity the same concern. In this way, the GOJ has solved some of the liquidity concerns about mortgage lending. It has given these capabilities to a single bank, however, thereby precluding market-expanding competition.

There appears to also be some interest-rate risk associated with housing loans in Jordan. All of the loans have rates that are legally subject to change if the bank's cost of funds goes up, but this flexibility has never been tested and could be limited by both legal and political considerations. As it is, small swings in the cost of funds are apparently simply absorbed by the lenders, who prefer this to provoking controversy by changing rates. The net effect, however, is to create a reason for banks to limit their exposure to housing loans.

Leveling the Playing Field

The government has articulated a medium-term strategy for reform of the financial sector. There are components for adoption in 1996 and in 1997–98 related to enhancing the efficiency and competition in banking and the long-term financial markets. One of the key areas for action concerns removing the special privileges available to the Housing Bank. The specific privileges to be removed include the unconditional guarantee of HB liabilities, certain tax exemptions, certain fee exemptions and certain advantages in foreclosure situations. The HB would retain the tax exemption of income earned from housing loans and its lower statutory reserve rate, but only for a "limited" period.

As these reforms take effect, the HB should find that it too has to be more concerned with liquidity risk, as well as face a higher cost of raising deposits. In principle, the HB will lose its cost advantage in offering long-term housing loans and has stated it may pull back to the same seven- to eight-year norm as other banks, as well as stop offering below-market rates to moderate income households.

Developing the Financial Market

The government of Jordan is also intent on making major improvements in its financial market, especially with respect to medium- and longer term finance. In this regard, the government is steadily implementing a number of changes in the legal and market structure of the debt market (to complement an already well-functioning equity market). In addition, for at least 10 years, there has been discussion in Jordan about the need for a method of gathering long-term funds for use in housing loans, so that the terms of such loans could be extended. In the mid-1980s, visiting experts explained how the secondary mortgage market (SMM) accomplishes this purpose in the U.S. In 1988 a committee was established by the GOJ to explore creating a SMM in Jordan. The committee eventually ceased operating, but there remained a keen interest in the general topic.[4]

Clearly, it makes the most sense to view the development of a solution to the term mismatch problem in housing finance as part of the overall development of mechanisms for intermediating funds on a longer term basis than typical bank finance. Another key part of

that process is developing an active market in some form of intermediate debt instrument, in order both to generate information for borrowers on the current cost of capital in the money market and to provide holders of longer term securities the option to liquidate them at an appropriate price.

It has been found in the development of other financial markets that market activity is very much self-reinforcing. In other words, if there is a fair degree of liquidity for security, more investors and traders are willing to participate in it, further enhancing its liquidity, and encouraging liquidity in similar securities.

In most developing countries, government securities are already the most liquid form of debt instrument and thus the focus of efforts to increase the liquidity of a market. In Jordan, however, the level of government debt to GDP is relatively low (external debt is five times the internal debt) and not growing at all. In addition, the CBJ has only slowly moved towards creating a climate of market pricing of government debt. The result is that there is almost no real trading in debt securities of any kind and no information about the market yield curve beyond one year (banks offer deposits out to one year but do not actively seek them).

THE POTENTIAL BENEFITS FROM SECONDARY MORTGAGE FUNDING

Creation of a mechanism for facilitating intermediation between truly longer term financial investors and housing borrowers would permit the banks to reduce or eliminate the liquidity risks of housing lending and also the interest-rate risk by generating a source of fixed-rate funding. Moreover, if this intermediation takes the form of homogeneous, nearly riskless securities issued on a large scale, the securities can serve as the basis of expanding the range and capacities of the money market.

Such mechanisms are generically known as secondary mortgage funding sources, whether through sale of the mortgages, through their use as collateral, or through other forms of large scale, longer term fund raising (in contrast to "retail deposits") directly or indirectly backed by the mortgages. Under this broad understanding of secondary mortgage funding, there is a wide range of alternative approaches being practiced around the world. The appropriateness of any system depends on the circumstances prevailing in the housing and financial markets of the individual country.

A secondary mortgage mechanism that pools together loans as collateral and issues its own bonds on a large scale is often referred to as a secondary mortgage facility or SMF (see Lea [1994]). Several countries have created such a special institution, usually sponsored by the government, which performs the useful functions of checking on the quality of the mortgages that back the bonds, creating economies of scale in issuance and management of mortgage-related debt, and providing its own blanket guarantee (based on its capital) to the bonds.

One way of viewing an SMF is as a separate institution that pools together as collateral the very best mortgages from several banks or other lenders and uses the collateral to offer bonds that are nearly risk-free to long-term investors. The ownership of the mortgages stays with each lender, and the lender and investors conclude their long-term funding arrangement under the auspices and supervision of the SMF.

The presence of a secondary market source of funding for mortgages can, in principle, reduce the costs and liquidity risks that Jordanian banks face in funding housing loans. It could even permit the operation of non-bank financial institutions specializing in housing finance (e.g., mortgage companies). There will be an increase in the access of households to housing if the rates on mortgages are lower, the terms are longer, or simply the banks market and originate housing credit more aggressively because they feel more comfortable with their liquidity situation.

One of the earliest SMFs, called the Federal Home Loan Bank System, was set up in the United States in 1932 to provide liquidity for housing lenders. It operates by issuing its own debt, without a government guarantee, and then lending the funds to institutions, which pledge as collateral an amount in mortgages greater than the amount of the loan. All of the risks of the loan stay with the lender; the intent is to provide a partial source of refinance for further lending as well as to offer a ready source of liquidity. A similar institution exists in France (the Credit de Refinancement de Hypothecaire) and has been implemented successfully in Malaysia (Cagamas Berhad).

An obvious question is why the stronger banks have not already attempted to issue longer term securities backed by specific mortgages, much as mortgage banks in Germany and Denmark do. There seems to be no obvious answer, other than perhaps the concern of investors that such offerings may not be as low-risk as they appear, whereas an offering by an independent, government-sponsored entity might be more trustworthy. It is notable that the German and Danish mortgage banks are heavily regulated to provide investors just such reassurance.

In addition, even longer term investors prefer to have an option to liquidate an investment before maturity. This becomes much more feasible when the investment is in the form of a security that is homogeneous with respect to risk and is issued on a large scale. An SMF offers greater scale and homogeneity.

The last step from a SMF to a full secondary mortgage market (SMM) is for ownership of the mortgages to effectively pass from the primary lender to the secondary institution or through the secondary institution to investors. This approach has developed most fully in the United States but has also been pursued with

modest success in Britain and France. Although there are some advantages to a SMM, it appears that most of the substantive gains from a secondary market arrangement for Jordan can be made through creation of the simpler SMF.

THE SMF PLANNED FOR JORDAN

The government of Jordan, in cooperation with the World Bank, the commercial banks and the Social Security Corporation (SSC), is in the process of setting up a SMF. From the Jordanian perspective, such an intermediary will be in the position to offer medium- to long-term debt securities to the SSC, insurance companies and other long-term investors that currently have few long-term debt options. For example, currently nearly half of the SSC's portfolio is held in the form of bank deposits. With a SMF, some of the funds would flow to the SMF in return for bonds issued by the SMF. The SMF would then make long-term loans to the banks in return for pledges of residential mortgages as collateral. The full credit risks of the mortgage lending would stay with the banks, but the bank could now finance most of those loans with longer term funds and have access to a tool for more effective asset-liability management.

The SMF would be a relatively simple arrangement. The basic legal requirements already exist in Jordan, including legal and institutional infrastructure for the issuance and trading of long-term bonds and the pledging of mortgages as collateral. It is possible to establish the SMF under existing laws for financial companies.[5]

The Jordanian SMF will primarily make medium-term loans to banks; the funds, in theory, can be used by the bank for any purpose. The bank, however, will have to have originated enough qualifying loans for owner-occupied housing to serve as collateral for the loans from the SMF. In practice, most banks will probably refinance their mortgage portfolio according to their overall need for funds, the cost of alternative sources of funds and their desire to lengthen the overall term of their liabilities.

The term of the loan from the SMF to the bank (the word "bank" refers here to any qualified lender, not just commercial banks) will depend on the term of the bonds issued by the SMF to investors and vice versa. This cannot be known until banks and investors discuss their needs and willingness to pay (or receive) extra for borrowing (or lending) long term. In the case of the Federal Home Loan Banks and the Cagamas Berhad, the terms are usually for three or five years at a fixed rate. In France, the term is usually seven or 10 years. These loans will probably be "bullet" loans, without repayment of any principal before maturity. Thus, even a five-year loan can be very useful in financing seven- to 10-year mortgages.[6]

The loans to the bank will not be prepayable unless the bonds the SMF issues are also prepayable. The conditions of prepayment, just as the tenor, will need to be negotiated by the SMF among the banks and investors.

The term of the interest rate need not be the same as the term of the principal, i.e., the maturity of the bond or loan. At one extreme, the rate could be fixed for the full term of the principal. At the other extreme, the interest rate could be floating, i.e., subject to change every six months or so, effectively as it is today for interest rates on the deposits currently used to fund mortgages. The major difference from the current situation is that a specific formula would have to be set at the time of issuance of the bonds for how the interest rate would be reset. The simplest approach would be to base the rate on the current rate on government debt or the average deposit rate.

Ownership

The SMF has the potential to be a tool for the government to develop the Jordanian financial market. Its debt will withstand close scrutiny as to credit risk, without recourse to a government guarantee. It will offer investors an ideal intermediate-term investment and banks a safe channel to lend excess funds to other banks. With some assistance, the bonds can become much more liquid than previous issues. Lastly, the banks will have an ideal source of funding for mortgage lending, permitting an expansion in competition in this market.[7]

For these reasons, it is desirable for the government, in the form of the CBJ, to take an active role in the establishment of the SMF and a partial ownership position. In particular, it will be useful to have a strong influence of the CBJ on the management of the SMF in the early years, to reassure investors as to the credit-worthiness of the SMF and to assure close cooperation between those in the CBJ responsible for internal debt markets and the SMF.

The sums of money involved in the SMF, however, could grow quite large, and its policy decisions could benefit one kind of lender or investor relative to others. Moreover, there is always a potential for the government to desire to use the SMF as a conduit for subsidy. For all these reasons, it is desirable for there to be a majority ownership participation by all the private participants in the system, i.e., the banks and the investors; but at the same time, there will be provisions against any one private entity gaining effective control of the SMF.

The balance between private and public ownership has been struck by setting predominant ownership in the private sector, primarily among the banks themselves. Moreover, no single private investor would be permitted to own more than 10% of the equity. The CBJ, however, would have the prerogative of approving the Chairman of the Board and the Director General of the corporation.

Capitalization

The level of capitalization is related to the ownership structure. A higher level of capital will require a greater number of investors or a greater commitment of each investor, and also a diluted return on that investment. This argues for the lowest level of capital consistent with legal requirements and proper risk management.

It is projected that the SMF will build up a refinance portfolio of about JD 100 million (US$140 million) in four or five years. These assets would be backed by the capital of the banks as well as the specific collateral of the mortgages. They will be treated as interbank loans for regulatory purposes and be given a 20% risk weight. Thus the capital required to support this portfolio would be 1.6% or only JD 1.6 million. However, the initial capital will be set at JD 5 million in order to provide for growth and for greater security for investors in the early period of operation.

To further assure investors but remain short of an open-ended government guarantee, it is expected that most of the funding deriving from a World Bank loan to the government be on-lent to the SMF in the form of subordinated debt. As the SMF matures and gains investor confidence, this senior risk exposure of the government will automatically steadily decline.

The government is particularly interested that the SMF not have an explicit government guarantee. There has not been a successful issuance of long-term bonds in Jordan that was not explicitly guaranteed by the GOJ. There are two major benefits of avoiding such a guarantee. First, experience in other countries in other situations has shown that guarantees can gradually erode incentives for cautious behavior on the part of management and create risk where there was not risk before. Second, Jordan's financial markets would benefit from the precedent of investors examining the real credit-worthiness of an enterprise, rather than simply relying on a blanket guarantee.

Taxation and Regulation

As is often the case in financial markets, taxation and regulation are key determinants as to which intermediation structures are attractive and which are not. Secondary market arrangements are such hybrids that they often require special determinations as to their taxation and regulation. Not surprisingly, these institutions tend to play a larger role in the overall market when they receive relatively favorable treatment, one that reflects the public benefits from their successful operation.

The taxation treatment is to be relatively straightforward. The net income of the SMF will be taxed according to the same treatment accorded to regular banks (35% of net profit). In addition, the bonds issued by the SMF will receive the same tax treatment as bank deposits, currently, exemption on interest.

The CBJ has recently determined that interbank loans will be exempt from the statutory reserve requirement of 14% (in cash held at the CBJ) and the current additional liquidity reserves of 16% (invested in CBJ debt). Since the loans from the SMF to the banks will be treated as interbank loans, these exemptions will apply. However, there is the question of the reserves required to be kept by the SMF on funds it raises through bond issuances. The CBJ has already determined that there is no need for the cash statutory reserve in this case and will be considering the size of the overall liquidity reserve.

These determinations would mean that the banks would have an incentive to raise funds through the SMF intermediation process. This is consistent with the point of view of regulators seeking to encourage the management of liquidity and interest rate risks, and thus providing advantages to this form of liability.

Trading in SMF Bonds

Housing is not the only long-term investment in a society. Factories, hotels and other long-lived assets would also benefit from long-term financing. Investors and borrowers would also benefit from market information about the preferences for other borrowers and investors with respect to the term of their financing, e.g., what premium is required to get investors to commit to a longer term interest rate or funding commitment.

Addressing these issues requires the development of an active market in long-term debt. So far, efforts to do so in Jordan have failed. The creation of a SMF will not necessarily reverse the situation entirely, but it could help substantially. If the SMF itself succeeds in attracting business, it will make frequent issuances of bonds, much more substantial and frequent than in recent experience. At the time of each issuance, the pricing and marketing of the bonds will yield useful information about the terms under which long-term capital can be raised.

The next step would be to attempt to encourage trading in the bonds. There are two benefits from frequent trading. One is the same as the benefit from frequent issuances, better information as to market conditions. The second is that, if the bonds are reasonably liquid, investors such as individuals and banks, who may have a shorter horizon than a pension fund, could feel comfortable holding the bonds and selling them when they wished.

The likelihood of such trading is greatly increased if short-term investors such as banks are encouraged to buy and trade the SMF bonds. This encouragement will come in the form of treating SMF bonds as eligible for the liquidity reserves of banks.

Competition in Housing Finance

Another potentially profound effect on housing

finance would be to reduce the dependence of financial intermediaries on success in raising deposits. It is frequently stated in Jordan that lending decisions are deposit-driven: once the deposits come in the door, the bank will consider making a loan. If funding for housing were more reliably available at a known cost, banks may feel more comfortable marketing their mortgage lending to qualified borrowers on a steady basis.

Not only would banks not need to worry about the timing of deposit flows, but they could increase their housing lending without the expense of expanding their branch operations. This could mean that, at least in the area of housing finance, bank competition would increase and banks could shift towards a greater customer marketing orientation. This is particularly important at this time as the advantages offered to the HB are being removed.

Managing Interest Rate Risk

As noted earlier, Jordanian banks are taking small amounts of interest rate risk in their housing lending now, simply because they do not connect the rate on their mortgages to their cost of funds. The SMF can be a convenient way to reduce that risk, if it borrows and lends at a fixed rate. However, fixed-rate borrowing from the SMF could increase the risk from borrowers prepaying their mortgages in response to a decline in interest rates on new loans. In principle, the bank remains exposed to some risks as long as the exact interest rate and prepayment terms of the mortgages it makes do not match those on the loans from the SMF. But as long as the variability of interest rates in Jordan remains moderate, these risks will not be an important consideration.

THE MAJOR UNCERTAINTIES

The Jordanian SMF will probably be launched in 1996 and provide its first refinancing in 1997. Will it be successful?

The commercial success of the SMF will largely depend on whether lenders perceive the cost and features of funds obtained through the SMF to be attractive relative to funds raised by deposit-taking. The cost of SMF funds will not be known until it goes to the market to raise funds. It is reasonable, though, to expect that the all-in cost of funds to housing lenders will be no higher than the cost of deposits, including the costs of fund-raising and required reserves. In addition, the SMF funds will be available for terms better matched to housing lending. Even so, the banking sector in Jordan is quite conservative, and it may take a significant amount of time for banks to utilize the funding opportunities being made available.

Of course, the other prerequisite for the growth of the SMF will be the availability of housing loans to refinance. Currently, there are only two truly active market-rate housing lenders in Jordan, the HB and the Jordan Islamic Bank. Thus, it is critical that the SMF develop a scheme for the refinance of Islamic mortgages through issuance of Islamic bonds. Such a scheme has been developed in Malaysia and presumably could be adapted in Jordan.

The degree to which the market in housing finance expands also depends on the degree to which banks actively seek to expand their mortgage lending in light of the SMF. Such expansion may be modest in the short term, until additional banks develop their capacity in this rather specialized field of banking and the competitive advantages of the HB are definitively eliminated. As for the participation of the HB itself, this must be viewed as somewhat uncertain because of the reasonable underlying concern that making extensive use of SMF funding could strengthen the SMF and make it all the more capable of funding additional competition in the housing finance business.

There also are significant uncertainties about the depth of the debt market that the SMF can tap into. Aside from the Social Security Corporation, with its portfolio in excess of US$1 billion, there are not presently other significant institutional medium- and long-term investors. The banks and the public have purchased significant amounts of government debt in the past, but on the premise that this could be liquidated on relatively short notice. Access to these sources of funds will depend on a reasonable degree of liquidity being achieved.

The decision to proceed with developing a SMF, despite these uncertainties, reflects the commitment of the government of Jordan to a gradual but sweeping reorientation of its economy. The relative prosperity of Jordan in the past cannot be assured in the future without a dominant role for the private sector, removal of advantages and protections throughout the economy, the development of a deeper debt market (to complement its vibrant equity market) and strengthening of the banking sector. Housing, moreover, is an especially important part of the social and financial fabric of the country. The planned SMF should both improve the functioning of the financial sector and the housing options of ordinary citizens.

REFERENCES

Lea, Michael J., "The Applicability of Secondary Mortgage Markets to Developing Countries," *Housing Finance International,* Vol. VIII, No. 3, March 1994

NOTES

[1] The great majority of the bank lending for housing is done by the Housing Bank and the Jordan Islamic Bank. A significant additional amount comes directly from government entities, in particular the military, which probably has the largest portfolio of long-term housing loans outstanding. However, there

are few public data on the military housing scheme. Beyond the banks and the military, some lending appears to be undertaken directly by private pension plans at a low rate for the benefit of plan participants and by the Social Security Corporation for the benefit of certain groups, such as university professors.

[2] This includes about JD 65 million held by the Housing and Urban Development Corporation (HUDC), perhaps another JD 100 million outstanding in loans to military personnel and JD 25 million lent by the Social Security Corporation (SSC).

[3] A second issue dogging past foreclosure efforts has been some provisions of the old Ottoman Law. One provision specifies that interest beyond 9% is not allowed, and another says that the cumulative interest can not exceed the principal. The CBJ has supposedly overridden these provisions with changes in its own law in 1992, but at this point there remains concern that the courts will not uphold the CBJ in this matter.

[4] It is unclear exactly why this earlier effort failed. There are indications that part of the problem was the complexity of the American model of an SMM being considered, as well as opposition from the HB.

[5] Unfortunately, there are a variety of provisions in the Companies Act that could hinder the proper functioning of the SMF. These provisions are expected to be modified in the coming year.

[6] Cagamas, the Malaysian SMF, makes a practice of offering the banks loans that amortize at the same rate as the mortgages backing up the loans. It still finances these loans through non-amortizing (bullet) bonds and keeps an eye on the overall duration of its loans and bonds to keep them in balance.

[7] The saying in the banking business in Jordan is that they wait for the deposit to come in the door and then they look to make a (very short-term) loan. The interbank loan market has not worked well, so banks have to both retain excess liquidity and remain cautious lenders (overall liquidity is about 50% of deposits, compared to a 30% required liquidity level).