



BANKS AND LIQUIDITY

By

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**A THESIS REPORT
Presented to the Project Management Program in the
School of Management of
City University of Seattle
In Partial Fulfillment of the Requirements
For the Degree of
MASTER OF SCIENCE OF PROJECT MANAGEMENT**

This Master Thesis was elaborated in the frame of the collaboration of the City University of Seattle and the Graduate Technological Education Institute (T.E.I.) of Piraeus to fully implement at TEI of Piraeus Campus the CU's MS in Project Management Program approved by the Hellenic Ministry of National Education and Religion Affairs as by decision E5/58291 published in the Hellenic Government Gazette (FEK) B/924/5- July-2005.



June/2009

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To Christine

Acknowledgments

I would like to thank my instructor, Dr Konstantinos Kontesis for his unlimited support and interest to my thesis. His expert views and special knowledge helped me to understand the importance of making my own research.

Special thanks to my parents and brother for their devotion and encouragement to this venture. Furthermore I would like to thank my classmates for their participation in the thesis.

Finally, I am also indebted to my friends (Ilias, Julio, Eddie, Metzis and Kostas) for their suggestions and technical support which have provided me during the thesis.

Biography

Dimitrios S. Patmanidis is a bank employee of EFG Eurobank Ergasias in Athens (Greece). The company activities concern the sectors of retail, corporate and private banking. Patmanidis' proven education concerns a Bachelor degree in Economics from the University of Athens. As an undergraduate student he worked as an insurer in Ethniki Asphalistiki for eight months where he learned the basic principles of selling bank and insurance products. As part of his field test, he worked for three months for the National Bank of Greece in the consumption department.

After graduation, he joined the Hellenic Army for 12 months, and four months later he became a member of EFG Eurobank Ergasias. For the last three years Dimitrios S. Patmanidis changed many positions. Since 2006, he worked as a teller in the bank branch of Egaleo and Peristeri and now he works for the department of customer service in the bank branch of Votanikos. The duties of the bank employee involve customer service and project development.

Two years ago, he joined a post-graduate program of the City University of Seattle (October 2007). The education and knowledge that Patmanidis' received the past two years in the field of Project Management helped him to promote his career.

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Abstract

Today the companies worldwide face the difficulties from the global financial crisis. Many famous organizations from all the business fields collapse due to the lack of liquid assets. After the bankruptcy of Lehman Brothers on September 15, 2008 the commercial and investment banks failed to meet their expectations. Their profit started to get smaller and in many incidents worldwide banks asked for financial support from their national governments.

The lack of liquidity nowadays is the biggest financial problem for all the nations in the world. As members of the retail banking, we tried through our research to discover and solve the problems of our customers. In a few words, we tried with the method of questionnaire, to translate customer needs and expectations into specific deliverables that add value for the customer. During this thesis, many problems of the customers are going to be identified and the results will be reported. We hope that further researches upon the matter of liquidity will continue to take place.

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Chapter 1 – Introduction

1.1 Nature of Study

First of all, I really need to mention how thrilled I am that I have the opportunity to discuss about this crucial financial problem. I really admire my job and this is a chance to express my opinion upon this matter. Most of the credit foundations need to be financially healthy. That means, the incomes of the banks must be raised year by year. The capital of the foundation should be increased in order to create new investments. If we do not succeed in this, we are going to be unable to remain competitive.

Sales results are a necessity. The banks should offer highly competitive and attractive products in order to raise profitability. New customers must be registered in a daily basis. That means more money will be gained to fulfil our expectations. In retail banking, it is of highly importance to increase the professional, mortgage and consumer loans. If we succeed in this, the profits will be amplified.

We have to be very careful with the present condition in households and businesses. In the last years, many customers are unwilling to pay their debts and many businesses face difficulties in paying off their loans. The credit foundations will deal with adversities, if the people do not have the appropriate funds to pay for their obligations. As a project team we need to recommend solutions, to deal with these difficulties. The design of new products and the expansion of our foundation in other regions is only the beginning to deal with this problem.

1.2 Needs Assessment

The main stakeholders in our case include the financial foundation, the president and the board of directors. They have the unlimited liabilities for the accomplishment of this mission.

Many experts are very pessimistic about this problem. They strongly believe that many of the banks will not meet their expectations and they will face several adversities with the lack of liquidity. The board of directors must cooperate with the department of project management in order to recommend solutions for the problem.

The project team is a significant stakeholder in this occasion. The effective project planning should ensure the survival of the bank. We need to provide the essential tools and methodologies to deal with the forthcoming crisis. The design of new products, the insurance of good relationships among the customers and the bank and the project planning for the creation of new investments will be the most significant issues for the project team.

The households and the businesses are a major stakeholder in my thesis. In my point of view, the growth of inflation in the last two years and the inability of the households to pay their debts are two severe characteristics for the rise of this phenomenon. Many of the business and families face unbelievable difficulties with the high price of many products. In the next years, many of the credit foundations should search to find solutions to ensure their profitability.

The society in general, will benefit with the decrease of liquidity. The banks will have the opportunity to give business and mortgage loans in better terms and with decreased rates. Many households will have the chance to acquire their own house and many of the entrepreneurs will manage to expand their companies.

1.3 Purpose of Study

It is sure that the problem of liquidity is an adversity for many foundations not only banks. From my personal knowledge and experience I can deeply understand how important is for banks to amplify their funds for raising their profitability. There is a strong correlation between profitability and liquidity. I know that the issue of liquidity cannot be solved in a

short period of time. Many factors should be involved to recommend solutions for this problem. From my point of view, I will provide new tools and techniques which can be used in this direction.

My main pursuit will be to provide connections between project planning and retail banking. In the problem statement I made the discrimination between retail and wholesale banking. I am a member of the retail department and I know which products and services can amplify the profits of the company. It is better to focus in a particular department and not in all bank branches. I am totally going to focus on this department.

1.4 Significance to Your Workplace

I am a bank employee in the department of customer service in a branch in Athens. My main priorities are to provide the best services to our customers and to inform them of the new products of the bank. This particular project will be useful to understand with which tools and techniques the problem of liquidity may be solved. In my point of view, I am quite certain that important conclusions will be provided for the solution of this problem. As I have already mentioned, most of the business areas are having problems with the lack of liquidity so this particular thesis will provide very interesting options about this case.

1.5 Relation to the Program of Study

During the course of PM 503(Project Communications Management) I wrote the case study with the title 'Creation of a new bank branch'. In PM 504 (Project Planning and Control) I continued with the planning of a new bank product. I am very satisfied that my graduate thesis will be based with a significant problem like liquidity. I have already accomplished my two previous case studies which were related with the bank's operation and now I have the chance to analyze a great project.

1.6 Definition of Terms

I used some terms and phrases which are difficult for the reader to understand. I have already mentioned the discrimination between retail and wholesale banking in the concept paper. With the term liquidity we mean the condition of having liquid assets, in other words to make money from the bank transactions and be able to do investments. Liquid: The assets can be easily moved from one place to another. The money is available immediately to do investments without time slippages.

Chapter 2 – Problem Statement

2.1 Problem Statement

Without applying PM project planning tools and methods to the retail banking industry, some banks may not survive the coming global crisis.

2.2 Rationale

In the recent years, banks have amplified their profit by providing a wide variety of products such as deposits, credit cards, investments and insurance programs. The profit from these particular services was enormous in all Hellenic banks in the last five years.

Unfortunately, many experts predicted a global crisis in the following years which will cause several difficulties to all credit foundations. If a bank cannot provide liquidity to its customers, the reputation can be damaged.

In this point it is necessary to mention four important categories which are related with liquidity. First of all, the reputation of a bank is a serious factor. Many of the customers need liquidity to increase their funds and to expand their companies. If the bank does not have the opportunity to provide financial help whenever is asked to, the customers will try to cooperate with another bank.

Furthermore, lack of liquidity may cause several difficulties in the planning of new products. The special characteristics of a corporation may secure its competitiveness. When a bank offers highly competitive and attractive products, the assets can be enormous. It is of high importance to provide flexibility and a great variety of products to the customers.

The third category which is related with liquidity is good relationship with customers. The maintenance of funds and the attraction of new customers is an important issue for banks. If

the credit foundations want to keep their clients pleased and satisfied the bank rates of the deposits must increase. The lack of liquidity in this section may lead to undesirable results.

In the fourth category, the influx of new funds may amplify the financial capitals of a bank. The raise of the profits can lead to the creation of new branches and to the expansion in new areas. In this way the foundation becomes more reliable and trustworthy. This can only be achieved if the liquidity of the bank is secure and can be improved.

The department of project management in my occupation is very significant. The effective project planning should ensure the survival of the bank. The lack of liquidity is the most common problem nowadays and the project teams must provide new tools and methodologies. Most of the experts agree that the financial growth of the banks will continue until 2010. After this deadline the predictions are inauspicious as for the prosperity of the foundations. Some experts believe that liquidity is the main factor for the forthcoming crisis.

My research will provide the importance of project management inside the company. I am going to compare theories about the problem of liquidity and how this problem is connected with banks. New tools and methodologies will be explored for the solution of the crisis.

2.3 Objectives/Hypothesis

The primary objective of the thesis is the creation of new tools and methodologies to deal with the liquidity crisis. Through the literature review I will express how project planning is an important factor for the solution of the problem. I am going to analyze the reasons that lead to the lack of liquidity and the measures we need to undertake to solve the difficulties. For the time being, I am a bank employee in the section of the retail banking and I am highly interested in this particular branch. The retail banking has to do with a big amount of small businesses and customers and the wholesale banking applies to bigger customers and

business or even other governments. This means that I will try to find connections between project planning and retail banking.

Chapter 3 – Review of Literature

3.1 What does really mean liquidity?

As we have already mentioned in the definitions of terms with the phrase liquidity we mean the condition of having liquid assets, in other words to make money from the bank transactions and be able to do investments. Liquid: The assets can be easily moved from one place to another. The money is available immediately to do investments without time slippages.

The readers should realise the term liquidity and what it represents to the bank system. In Investopedia the term is referred as “the ability to convert an asset to cash quickly. It is also known as “marketability”. In addition to this, the same source use a different term. “Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily buy or sold, are known as liquid assets”.

Robert Waldmann (2009) in his article “*Liquidity*” explains what does this term mean to the bank system. In the first definition liquidity is described as “the property of an asset which indicates that it can be converted into money quickly and with low transaction costs”. Not all the assets have the same liquidity. For example money is the only perfect liquid. Stocks and homologues cannot be described as perfect liquids. As we can obviously see delays and transactions costs are not the only problems sellers can face in their exchanges. The prices of stocks, for example, are not the same day by day. People who sell stocks are becoming unhappy and displeased when its market price is getting fallen. The problem with the financial markets is the loss of liquidity which occurs from financial exchanges.

Robert Waldmann (2009) gives as an alternative meaning of this term. “Liquidity is the property of a price being as high as sellers think it should be. For it to be possible to sell a lot

of an asset quickly at its current price it is necessary that trading volume be high so that many are bidding and asking at near the current price”. In that case the sellers may achieve the sale of their liquid assets in a high market price.

Similar to this definition the author believes that “liquidity is a property of an asset which indicates that a large amount of it can be converted into money quickly at a price close to its current price” (Waldmann 2009). In this example, the sellers are willing to give their stocks in a satisfying price. To succeed in this, they want other people to be willing to buy large amounts of assets. The golden rule in the stock market is to buy in a low price and sell in a high level. The difference between the two prices creates profit for the client.

A final definition for liquidity is being given from the same author. Liquidity is “the property of a market in which assets are traded and large amounts of those assets can be sold and bought quickly at the current market price” (Waldmann, 2009). If the sellers do not have the possibility to sell their liquid assets in a high market price - no one of the buyers is willing to buy them - they are going to face a serious liquidity problem. This creates problems for firms which were planning to sell such assets in order to pay liabilities. The difficulties are getting bigger, when we talk about huge organizations like banks.

Hence, the assets are becoming illiquid and firms try desperately to generate cash flow. The banks own less capital, so they have to liquidate assets and repay debt. It is obvious nowadays banks have a serious cash flow problem. Most of them worldwide are planning to sell their assets to generate money. In the next chapters, we will try to show how the lack of liquidity can lead many firms, including banks, to bankruptcy.

3.2 Liquidity Traps

As I have already mentioned in my thesis proposal, Mike Sheldock’s article *Liquidity Traps: Myth and Reality* (2008) has given me the idea to begin this research project. What do

we mean with the phrase liquidity trap? Liquidity trap is the situation in which conventional monetary policy loses all traction. We have mentioned earlier that banks have been affected with the global tightening in liquidity and they proceeded with several measures to maintain the availability of their funds.

Two were the most popular strategic moves. They increased the borrowing costs for businesses and households in the last months and at the same time raised the rates of simple saving accounts. As Milton Friedman (1969) says on liquidity traps, “a lack of liquidity occurs when the economy is stagnant, the nominal interest rate is close or equal to zero, and the monetary authority is unable to stimulate the economy with traditional monetary policy tools. When this is happening the people are afraid to make long-term investments because they do not expect high returns on physical or financial investments. This makes the recession even more severe, and can contribute to deflation”.

The primary objective of the thesis is the creation of new tools and methodologies to deal with the liquidity crisis. Milton Friedman (1969) suggested “a monetary authority can escape a liquidity trap by passing financial intermediaries to give money directly to consumers or businesses. The growth of rates of simple saving accounts and the possibility to give easier more small banking loans are the keys to deal with the problem of liquidity. This is referred to as a money gift or as helicopter money (this latter phrase is meant to call forth the image of a central banker hovering in a helicopter, dropping suitcases full of money to individuals)”.

Unfortunately, nowadays we are living in a world where the normal interest rate is very close to zero and many financial foundations such as banks tend to save money rather than offer loans, even though they acquire more money than they need to fulfil their transactions. In other the money creation process does not function as theory predicts.

If the recession continues to exist the deflation may become severe and persistent. The downfall of inflation near zero may cause the growth of unemployment and the decline to the

development of a country. The people will find it difficult to get loans and they will under consume. When this is happening the economy gets in a vicious cycle.

In the case of the Great Depression in the United States the inflation was negative. A negative inflation may lead to financial failure. The banks are not willing to offer loans and the borrowers find it difficult to repay their debts. So, what can banks do to react in this difficulty? Firstly, they try to offer fewer loans and terminate the existing ones. If they want to improve their liquidity they have to get repaid for the old loans.

In addition to this, the banks need to restrain the credit cards they offer to the customers. As we mentioned before, the normal interest rate is very close to zero and banks try to gather money to protect their capital. It would be inadvisable to offer more credit cards to consumers who are not capable to repay their debt.

As Hiro Ito (2009) refers to his article about the consequences of liquidity traps “other policy measures are suggested as a remedy to the liquidity trap. The central bank sets up a goal of high rates of increase in the monetary base or money supply and provides liquidity in the economy so as to achieve the goal. The monetarist view suggests quantitative easing as a solution to the liquidity trap”. For the author central banks have crucial role for the resurgence of the economy. The central bank can print money and may offer loans with prosperous rates to commercial banks in order to amplify their liquidity.

In the same article Hiro Ito (2009) suggests other unconventional ways for the revival of the economy. “The direct purchasing by the monetary authority of other financial assets such as corporate papers and long term foreign and domestic bonds will lead the economy to a rebirth” (Ito, 2009). The banks can amplify their liquidity by offering homologues or other products to the public. In this way, more liquidity can be absorbed by the public and the market may rise again.

Furthermore, it is commonly known that “the expansionary fiscal policy is the conventional measure to a liquidity trap. The government can implement deficit spending policy to jumpstart the demand” (Keynes, 1930). The famous economist believes that new public works programs should be included for the growth of the employment. We mentioned before that when the normal interest rate is close to zero, the deflation gets smaller. That means consumption and unemployment are getting worst.

To conclude with, the unwelcome substantial fall in inflation caused several difficulties to the financial foundations including banks. Unfortunately, the global economy suffers from liquidity trap. We have already expressed the views of several scientists such as economists, political analysts etc upon this matter. With very low interest rates and low inflation, the market will suffer and the development of the economy will have a crucial delay.

‘In this way New Zealand’s central bank succeeded to boost liquidity in the banking system (Banks, 2004). The growth of deposit interests and the amplification of small banking loans caused the financial improvement of New Zealand. In this point it is vital to mention that liquidity can be harmed from other factors. Apart from making money from the bank transactions and be able to do investments we need to secure our funds.

Daniel Calloway in his article *Bank of England to the rescue* (2008) mentions that more than three quarters of the mortgage loan holders in England, were unwilling to pay their debt because of the increased loan rate. To make matters worse, first time buyers were unable to get mortgage loans at all. This situation caused several problems to the banks in general. This has effectively left banks with a financial overhang as with funds tied up in illiquid assets they're unable to lend to each other or the public.

For that reason, the Bank of England announced further details about how the scheme will operate, providing reassurance that the tax payer will not be left footing the bill for other's defaults. The Bank of England succeeded in improving the liquidity position of the banking

system and raise confidence in financial markets while ensuring that the risk of losses on the loans they have made remains with the banks.

With this strategy, the central bank in London believes that lenders will pay off their debt before the end of the year. To make it more clear, the financial foundations are willing to decrease their expenses in just one year. In this way they will maintain their funds and liquidity will be retained.

3.3 The curious case of Lehman Brothers

It is of highly importance for the banks to ensure that credit remains available in businesses and households. If the customers are unwilling to pay their debt the problem of liquidity will become severe for the financial foundations. The maintenance of funds and the attraction of new customers is an important issue for banks.

To continue with, we are going to examine how the lack of liquidity can lead to the bankruptcy of a global firm. As we learn from Wikipedia, Lehman Brothers Holdings Inc. was a global financial-services firm that, until declaring bankruptcy in 2008, did business in investment banking, equity and fixed-income sales, research and trading, investment management, private equity, and private banking. The firm's worldwide headquarters were in New York City with regional headquarters in London and Tokyo, as well as offices located throughout the world.

We are going to focus on the problems which were caused to the retail part and especially to the mortgage department. People went to traditional banks and mortgage brokers and bought mortgages. They created an investment vehicle called a mortgage-backed security (MBS). This is referred to as a "derivative" because it is based off of the mortgage.

The way it works is the banks chopped up all these different mortgages into different securities that were worth different amounts and different risk levels. Then the traditional

banks were selling the loans to other investment firms like the Lehman brothers. By selling mortgage-backed security, the traditional banks were amplifying capital and they had no risk for the quittance of the loans. On the other hand the investment firms including Lehman brothers had a source of cash flow that was thought to be an effective investment.

Lehman brothers borrowed a lot of money to buy these loans because they did not think that people who bought them will not have the chance to pay their monthly debt. Unfortunately, many of the households could not pay back their monthly payments. To make matters worse, the traditional banks continued to offer mortgage loans with unnecessarily increase interest rates. As we have already mentioned before, the loaners could not afford to pay their debts in the last year.

It was then when the investment banks realised they could not make profit of it. They had huge amounts of debt on their balance sheets, and the assets that were supposed to balance that debt were becoming worth less and less because of the rising default rate and the drop in housing prices. In other words, the Lehman brothers had minimum incomes and tremendous debts which were caused from incapability of the clients to pay their bills. The investment bank faced an indisputable lack of liquidity.

In the second and third quarter of the previous year the obligations of the Lehman brothers were rising and the incomes were getting fewer. The lack of liquidity caused the bankruptcy of the bank on September 15, 2008. As we mentioned to the nature of study the lack of liquidity in this section may lead to undesirable results. When you cannot make money from the bank transactions you cannot proceed to investments. The risk that the Lehman Brothers undertook was severe and lead to the bankruptcy of the foundation.

3.4 Who is responsible for this situation?

After the great depression the banks created a new banking system to ensure safety and soundness. The purpose was to prevent future failures of banks and to prevent another disastrous depression. Unfortunately in the quest to do more and more business the banks started to offer consumption and mortgage loans to a bigger amount of people with better conditions.

In other words, the banks succeed in amplifying their liquidity by offering more loans to the consumers. The standards to get a loan were lowered to a great point and many people were getting loans with big risks. “The result today is tumult in our economy from the mortgage meltdown which has disrupted the overall financial system and affects all lending in a negative way” (Elberg, 2008).

The same exists for the consumers who got consumption loans and credit cards. Many of them fail to pay back credit car bills and car loans etc. Many experts in the United States believe that many customers who got consumption loans face the same difficulties as homeowners who took out sub prime mortgages with little or no money down. Most of them do not have the possibility to pay their monthly debt.

In my opinion, the banks are responsible for turning a blind eye to loans that were based on poor credit criteria. Many customers were getting loans without having the necessary funds to pay back their obligations. The banks lend money to the customers and businesses for investment purposes and consumer purchases. “When they do this effectively the money eventually finds its way back to the bank and an overall liquidity of a well functioning economy is created. The money cycles round and round when the economy is functioning effectively” (Elberg, 2008).

Nowadays most of the credit foundations are trying to amplify their capital and funds without taking under consideration that many of the customers do not have the opportunity to

pay back their debts. The mortgage crisis and the bankruptcy of the Lehman Brothers Holdings Inc caused tremendous changes to the bank environment. As we know, banks are highly leveraged and for that reason the liquidity of the banks has been reduced or stopped completely.

All well capitalized banks worldwide are required to have a particular percentage of their assets in core capital. Today all funding foundations are in the centre of the financial crisis. It is estimated most of the banks in Greece and especially in many parts of the world suffered credit losses in liquid. This hurts the bank's balance sheets because it impacts their core capital.

What can be done for banks to overcome their difficulties? It is sure that banks have caused the financial crisis which is the most severe since the great depression of the 1930's. In retail banking, it is vital for the credit foundations to create higher standards for borrowers which will lead to less lending. The banks need to pay less for their deposits to reduce their expenses. In that way they will ensure their liquidity and be able to give loans with lower interests.

3.5 Funding liquidity

Mathias Drehmann and Kleopatra Nikolaou in their working paper *Funding Liquidity Risk-Definition and Measurement* (2009) define funding liquidity as the ability to settle obligations when due. A bank is illiquid when it is unable to settle its obligations in time. In our previous example (Lehman Brothers) the investment firm was illiquid and had suffered several losses.

From my side as an economist I know that a bank as long as outflows of money are beyond or equal to inflows and stock of money. Lehman Brothers suffered great problem of minimum incomes. The loaners were not paying their monthly payments and the investment

firm had not the appropriate level of money to make investments. Furthermore, the outflows of the investment bank were bigger to inflows and stock of money. The question rises. How can banks settle their obligations and avoid illiquidity?

As it is commonly known many different settlement assets exist in an economy (Drehmann & Nikolaou, 2009). The most significant advantage for commercial banks is the central bank. A bank is able to satisfy the demand for money and the obligations to central bank as long as at each point in time outflows of money are smaller or equal to inflows and the stock of money held by the bank. If the outflows are bigger than the inflows may decide to cut bank new lending or reduce assets purchases.

On the other hand, banks are very reluctant from which source they want to obtain funding in case of economical crisis and shortfall. It is common true that in a period of random fashion a large amount of depositors not only withdraw but deposit more money in a bank. When does this happen? When a credit foundation like a bank, has reliability and good reputation in the market many customers trust their savings in the organization in a random fashion. As we mentioned to the rationale, the reputation of a bank is a serious factor to create liquidity.

In addition to this, higher capital improves banks' ability to absorb and hence create liquidity. An alternative view is that higher capital improves banks' ability to absorb risk and hence create liquidity. Liquidity creation exposes banks to risk – the more liquidity is created, the greater are the likelihood and severity of losses associated with having to dispose of illiquid assets to meet customers' liquidity demands (Diamond & Dybvig, 1983; Allen & Santomero 1998; Allen & Gale 2003).

A well-known role of capital is to absorb risk and expand banks' risk-bearing capacity (Bhattacharya & Thakor 1993; Repullo 2004; Von Thadden 2004), so higher capital ratios

may allow banks to create more liquidity. We refer to this set of theory as the “risk absorption” hypothesis.

To conclude with, there are several factors which can help banks create and fund liquidity. As we mentioned earlier, the most significant factor for commercial banks is the central bank. “For banks funding liquidity risk management central bank money plays a crucial role as this is the one of the most , if not the most , important settlement asset. In most of the economies, large value payment, and settlement systems rely on central bank money as the ultimate settlement asset. The ability to settle is crucially linked with the ability to satisfy the demand for central bank money” (Drehmann & Nikolaou, 2009).

3.6 Other funding factors

To continue with, we will mention other factors that funds liquidity apart from the centre bank. These funds are essential for the growth of liquidity and the survival of the credit foundations. As we explained before, central bank is the basic factor from which commercial banks receive money to satisfy their liquidity needs. In many cases, commercial banks face the problem of liquidity risk.

Liquidity risk is the risk that financial obligations fail to meet without incurring significant unexpected costs. In other words “liquidity risk is the potential inability to meet its payment obligations to beneficiaries in a timely and efficient manner” (Ramani Venkatramani, 2008). Banks are trying to improve their position by amplifying liquidity. But which are the factors impacting on liquidity?

Banks are concerned whether borrowers will have sufficient funds to pay their loans. Liquidity is mainly a function of profitability. The more profitable the business, the more cash available. In addition to this, the rates at which accounts receivable and inventory are converted to cash are a crucial factor to generate liquidity. A bank that collects its accounts

earlier than another credit foundation has more cash in hand. That means it has more cash flow to invest.

Another indication of relative liquidity is the ratio of current assets to current liabilities. When a bank has a higher ratio of current assets to current liabilities is more liquid than company with a lower ratio. That means the bank has to receive a great amount of money from its loaners.

Fund choice and portability have increased the likelihood that money will move from one entity to another. Many customers invest their money in more risky programs like mutual funds or stocks. The bankers encourage customers to invest in stock markets and in mutual funds because the profitability in these investments is enormous for the banks. Despite its long term nature, portfolio is an essential factor to generate liquidity.

Chapter 4 – Methodologies and Procedures

4.1 Overview

We have already mentioned that the primary objective of the thesis is the creation of new tools and methodologies to deal with the liquidity crisis. In literature review we have stated the most important difficulties which occur from the lack of liquidity. Unfortunately the normal interest rate is very close to zero and many financial foundations including banks hesitate to offer consumption and small banking loans.

Bankers are very pessimistic with the global economic crisis and for that reason there is a tendency to save money and offer non attractive deposit rates. Methodology will include further research with the stakeholders and the condition that exists in the banks in the following months. My personal pursuit will be to include interviews with the top management inside my organization. Moreover as a member of the department of project management we will include questionnaires in our research which are going to be distributed to the customers of my bank branch.

The main pursuit of this attempt is to meet the customer needs in order to understand the vision and expectations of our clients. As we receive from CH2M Hill (2001). *Project delivery system* customer satisfaction is the most important value-added differentiator. As project managers apart from the planning of the project and the creation of the project vision we need to focus on the customer and understand his main needs.

With the utilization of the questionnaires the people of the bank brunch will try to have an open, respectful and supportive relationship with our clients. The customer relationship is an important role for the project manager. The relationship of both parties should be based on mutual commitment to providing the services and the products that meet the customer's needs and expectations.

4.2 Description of the methodology

The problem of liquidity is different in retail rather than the wholesale banking. It will be technically impossible for me to collect information for all the banking branches. The retail part is a department which I am very familiar with and I have the appropriate education and knowledge to get used with it. For that reason we will try to collect information from the answers of the questionnaires and to continue with, we will discuss our conclusions with the top management. To the next session of this chapter we will focus on the nature of the questions that should be included in the questionnaires.

The problem of liquidity is a main adversity in the banking area. Most of the banks cannot expand their organization and amplify their profitability because of this particular problem. Furthermore, the readers will have the chance through the questionnaires which will be included in my project to learn about the adversities that the customers face in their daily routine. The problem of liquidity is a common issue and most of the higher members of the organization are searching to find ways to solve this adversity. We shall not forget that liquidity is a severe adversity for the society and particular measures should be implemented.

It is sure that the recommendations which will be included in my project will make the bank staff understand how many responsibilities we have towards society. The decrease of liquidity will benefit the society in many sections. After the analysis which will provide to the answers of the customers we will try to get in touch with the senior management of the bank to discuss the main issues of our research.

4.2.1. Questionnaires

The questionnaire and the interview section is a crucial part of my thesis. The problem of liquidity is something that occurs in our society. Many households find it difficult to meet their obligations, a big percentage of the entrepreneurs do not have the appropriate funds to

pay their suppliers and expand their enterprises. Most of the questions will be based on the adversities people face with our bank products.

The questionnaire will be divided in four sections. In the first section, the customers will have to answer in questions which are related with the deposits. Any customer who has deposits in our bank branch will have the chance to evaluate the bank products and be able to recommend for improved ones.

In the second section, the customers will have the opportunity to answer in questions which are related with the credit cards and the consumption loans. Any customers who have credit cards or loans in our branch can evaluate the products. The customers who have deposits and loans in our branch can answer to all the sections which are included to the questionnaire. This part is the crucial session of the questionnaire. As we mentioned in the literature review, many of the customers do not have the opportunity to pay back their debts. The answers which will receive from our clients will get seriously under consideration. The commercial banks are losing a great amount of money because the customers find it difficult to pay their debt.

In addition to this, the next session of the questionnaire will provide us with essential conclusions. The mortgage loaners will have the chance to answer in a width variety of questions concerning mortgage issues. A great amount of money is being lost by the mortgage loans. The global financial crisis has begun in the United States because loaners could not afford to pay their debts in the last year. The mortgage loaners of our bank branch are an essential source for the research.

Last but not least is the fourth session. Many professionals need liquidity to increase their funds and to expand their companies. The customers who have small banking loans will have the opportunity to answer in several questions concerning professional issues. In this point,

we have to make it clear that a great amount of the profitability of the banks come from the small banking loans.

After filling the questionnaire the customers can make their own suggestions. They can evaluate the bank branch, the quality of customer service and can suggest ways to improve our products. Surveys show that “customers believe that the service provided is as much as 50 percent of the value they receive” (CH2M Hill. 2001). Nevertheless, the organizational relationship is the level at which all the stakeholders of the project can benefit most.

4.2.2. Interviews

The questionnaires are going to be gathered by the people who are in charge of the particular research. In cooperation with statisticians and other economists we will discuss and analyze the results. The banker of my branch will be informed about the customer suggestions. To continue with, we will call a meeting with the rest colleagues of my branch to discuss the questionnaires. In this meeting, the department of project management will ask for the publication of the results. The banker of my bank branch will be responsible to ask permission from the regional director to proceed with this venture.

The bank which I work for is one of the three most successful banks in Greece. That means it will be quite difficult to communicate with the top management of the bank to publish our research to all the departments. If we cannot manage to have a meeting with the board of directors of the foundation it will be a tremendous success to discuss the results of the research with the employees of the competent departments of the bank.

4.2.3. Seminars

The results of the thesis will have a positive effect to the departments of consumption, mortgage and small banking loans. The main stakeholders of the project will realise the role

that customer service plays in the relationship and the need for an explicit communication system.

The members of the project management department will ask for permission to organise seminar courses for the employees of many departments. The purpose of these meetings is the publication of the results of our research to the participants and the formation of a team development process.

The project management team is convinced that through the seminars, the performance of the employees will be improved and many of them will maximize their effectiveness and influence towards customers. Furthermore, they will get more educated and better realise the needs of their customers.

Chapter 5 - Results

5.1 Deposits

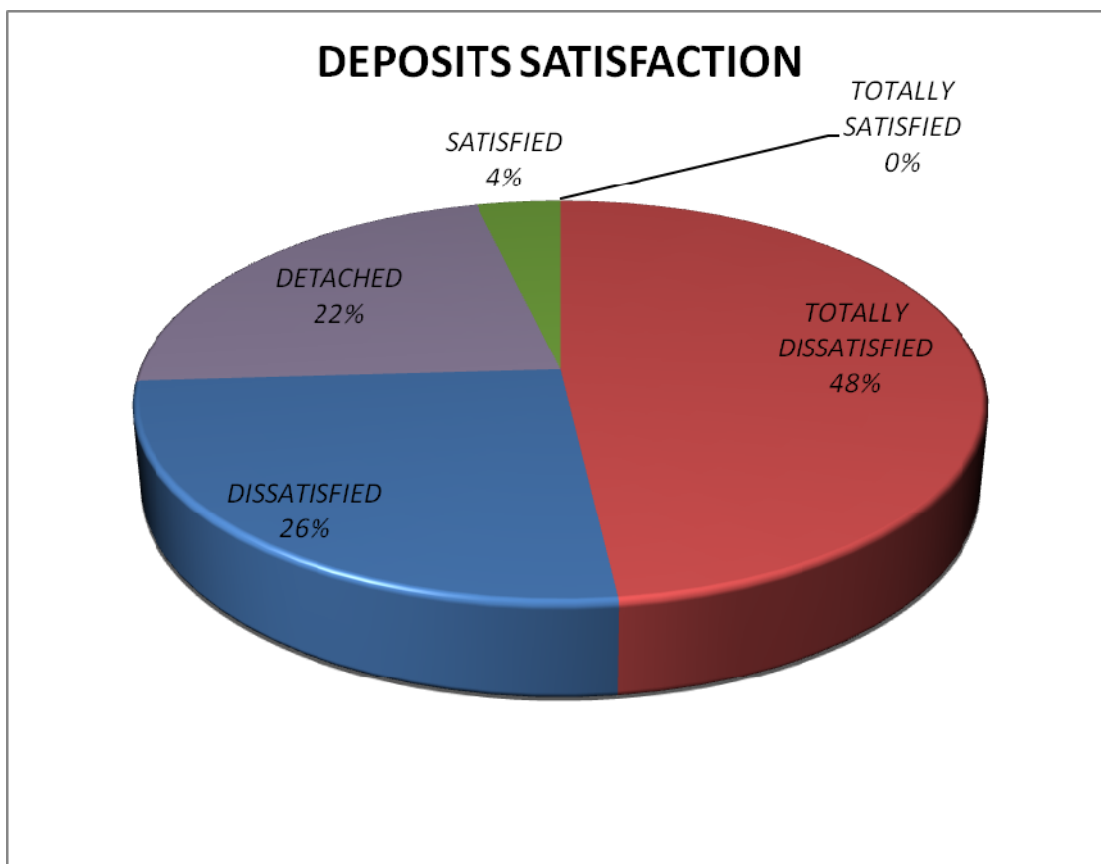
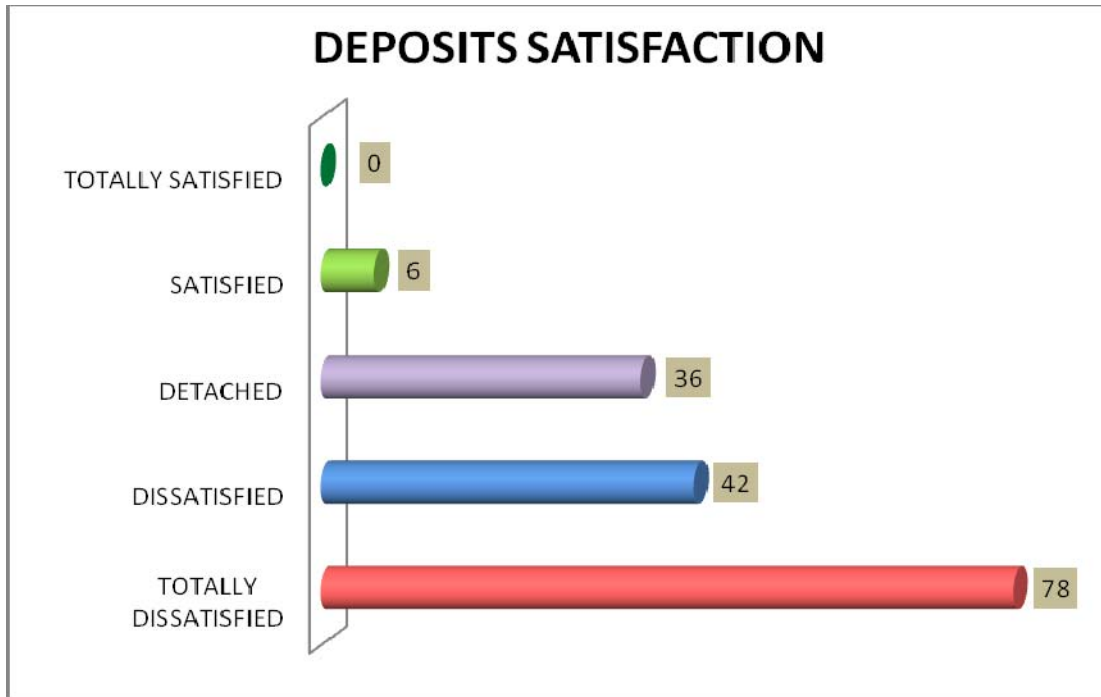
After careful investigation and serious discussion the members of the project management reached to final conclusions. We are proud to announce the results to the questions of the questionnaire. Firstly we will show with the help of pies and columns what the customers answered to the first question referring to the deposits.

The results to the first question are extremely interesting:

5.1.1 Interests

The majority of the customers (48.2%) are very dissatisfied with their interests in their banking accounts. In the next part of the thesis we will fully analyze what this result mean for the liquidity of the banks. In the next position with an important percentage we meet the less dissatisfied customers (25.9%).

On the other hand, the rest of the customers do not pay much attention with the interests of the banking accounts. It might be advisable to mention that some customers are not interested in the interests of the banking accounts. For that reason the 22.2% of our customers have no regard for this question. Last but not least are some clients who are satisfied and gratified for the interest which they receive. Unfortunately only a small percentage (3.7%) belongs to this category. The board of directors should seriously take in mind that NONE of the 162 customers who have participated in this research is extremely pleased with the interests that receive from his accounts. In the next session we will analyze in depth the foregoing results.

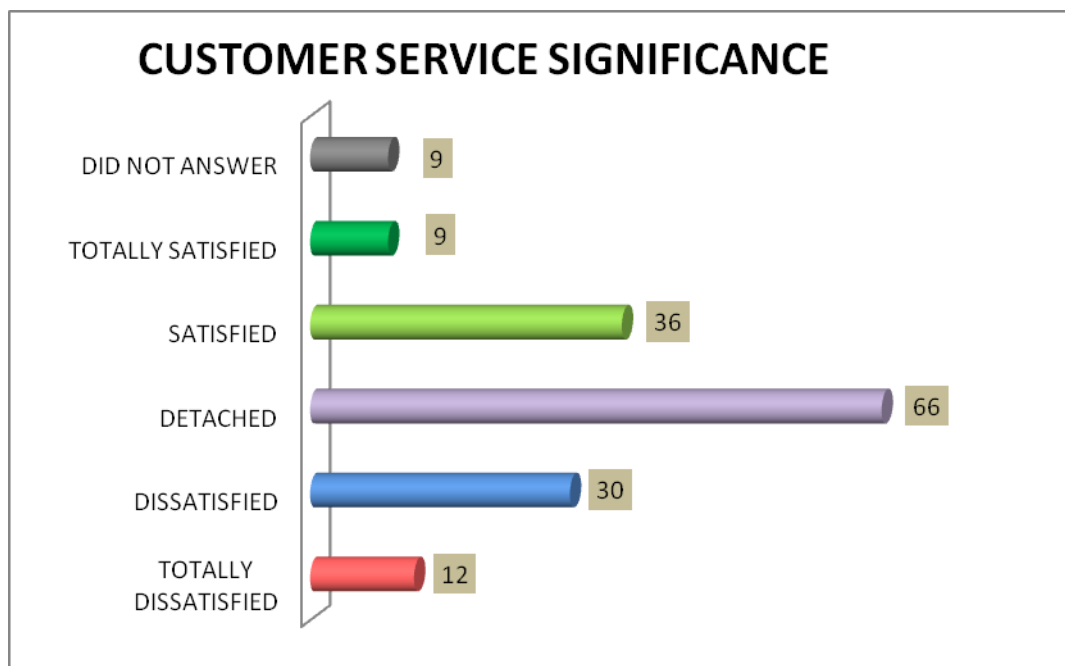


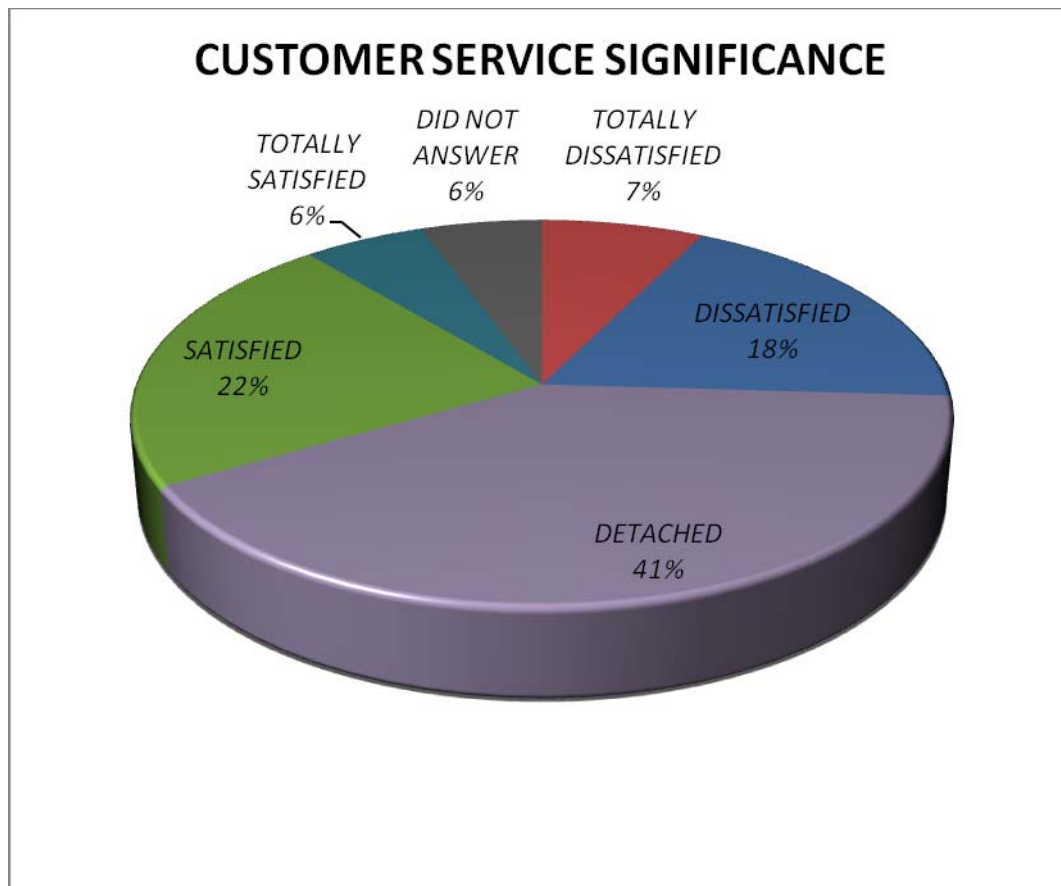
5.1.2. Customer Service

The project management team found the answers to the next question quite interesting. The majority of the participants agree that the customer service department needs

improvement. A large amount of our customers (40.7%) have a positive opinion for the bank employees but in no way are completely pleased with the providing services. To make matters worse the customers fail to understand the importance of this department.

In addition to this, some of the customers know rarely anything about the service which is provided to them. In many of their comments they mention that they do not receive the value they expect. On the contrary, a substantial percentage of the participants (22.2%) are quite satisfied with the customer service department and in some of their comments explain the necessity of this section in the bank. Finally, only ten customers (5.6%) express their gratitude for the department of customer service.





5.1.3. Annoyance

The most controversial part of the research referring to the deposits was the third question. It is of highly importance that all the customers answered to this question. The slight majority of the customers (25%) were extremely annoyed from this sudden decline of the interests. According to them, there was no need to decrease the interests in the banking accounts. Many customers (17.5%) share the same opinion but without being so disturbed from this movement.

A respectable amount of the customers (32.5%) declare its disinterest in this fall of the banking interests. They commented that the banking deposit interests are already low so there is no reason to pay attention to its fluctuation. The majority of these people declared their dissatisfaction to the interests in their banking accounts.

5.2 Consumption loans and credit cards

Many members of the project team found it extremely difficult to render the results for this category. The consumption loans are of highly importance for the banks. The liquidity of a financial foundation depends on the interest of the loans and credit cards. The customers expressed their annoyance for the banks policy and many negative comments have been made from them. Apart from a low number of people, the rest of the customers showed their frustration for the consumption products.

5.2.1 High Interest Rates

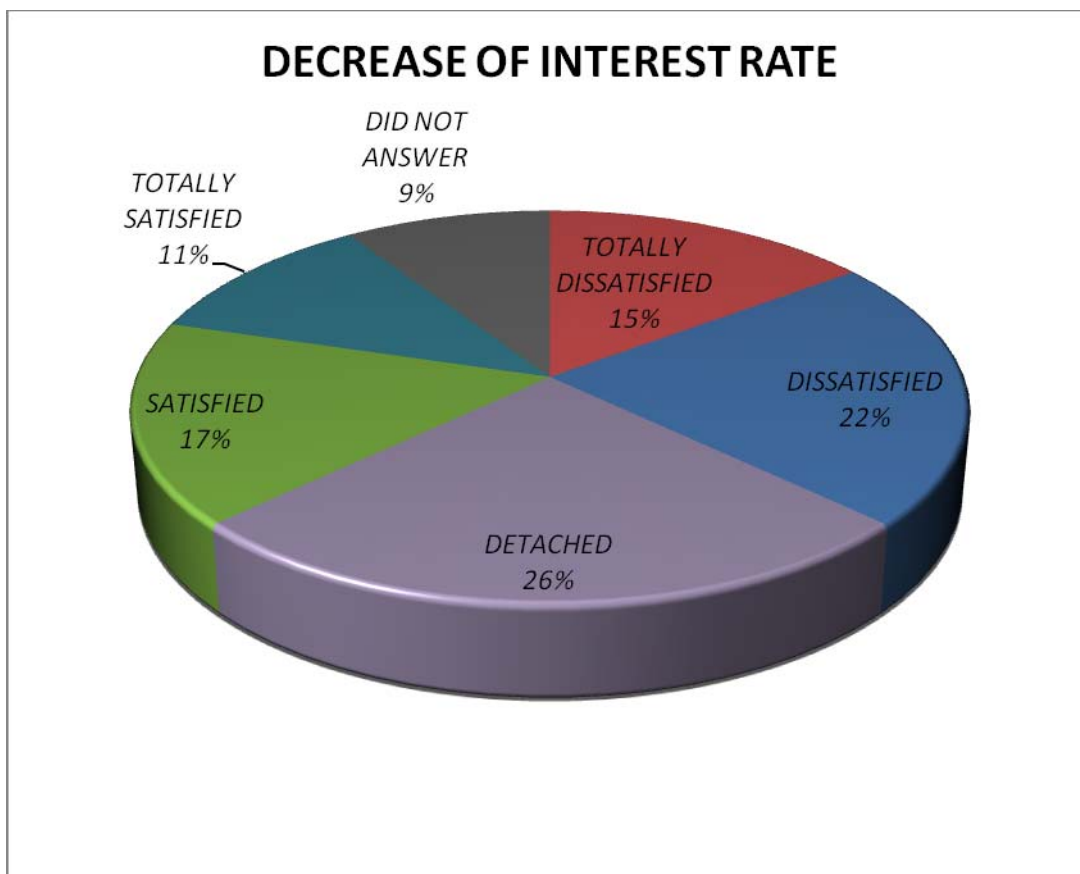
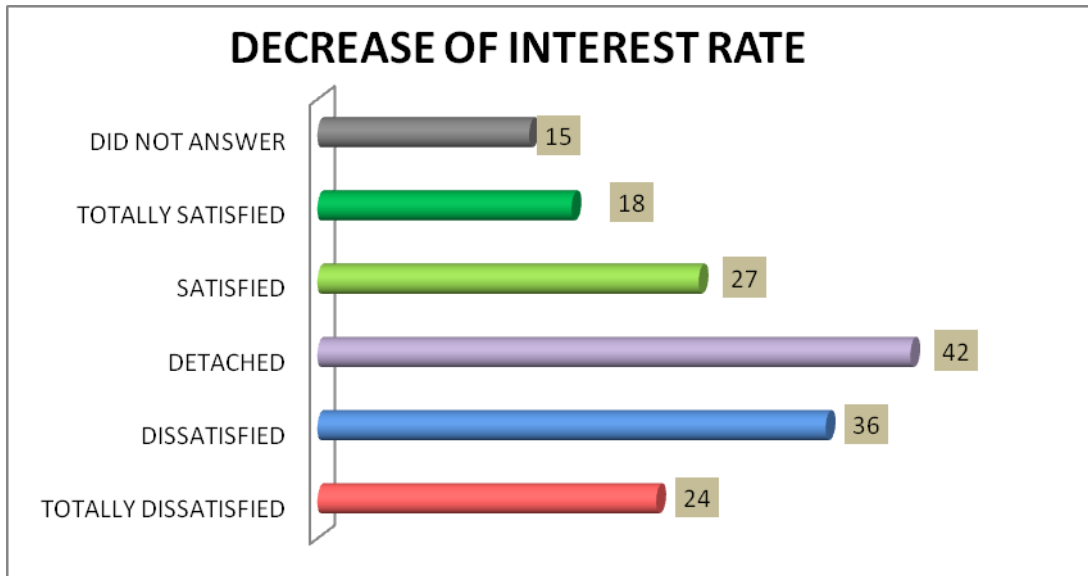
The crashing majority of the clients (94%) strongly believe that the rates of the consumption loans and credit cards are unduly high. The project management team expected this answer but with lower percentage. Many households find it difficult to pay their payments and this negative situation can lead to the decline of the bank liquidity.

5.2.2. Decline of the interests

The results to this question were unexpected. The sudden fall of the interests in consumption loans and credit cards was inevitable. The customers were pleased from this gesture but are waiting for better days. The majority of the participants (25.9%) are partly satisfied with the decrease in the interests. Many indignant clients believe that banks can do better than that and they denounce bank policies.

The 37% of the participants are not satisfied with this gesture. The interests of the credit cards were extremely high six months ago and many clients faced tremendous financial problems. On the other hand, the rest of the clients which participated in this research

recognize the usefulness of this movement. Furthermore, some customers (11.1%) showed their appreciation for this gesture by making some remarkable comments.



5.2.3 Quality from the employees

The project team was inspired from the results of this question. Unfortunately almost half of the participants are slightly satisfied with the experience and knowledge of the employees as far as it concerned in the issues of the consumption loans and credit cards. Only a small percentage of the customers are completely satisfied with the knowledge of the bank employees and that means there is not a strong relationship with the customer. It is common said that the stronger the customer relationship, the more satisfied the customer.

To make matters worse, many clients are in some way dissatisfied with the knowledge of the employees. In some occasions, some customers mentioned the necessity for more training in consumption issues. In other comments it is said that bank employees do not say the truth. The project management team has taken under serious consideration these comments and made serious recommendations to solve these problems.

5.3 Mortgage Loans

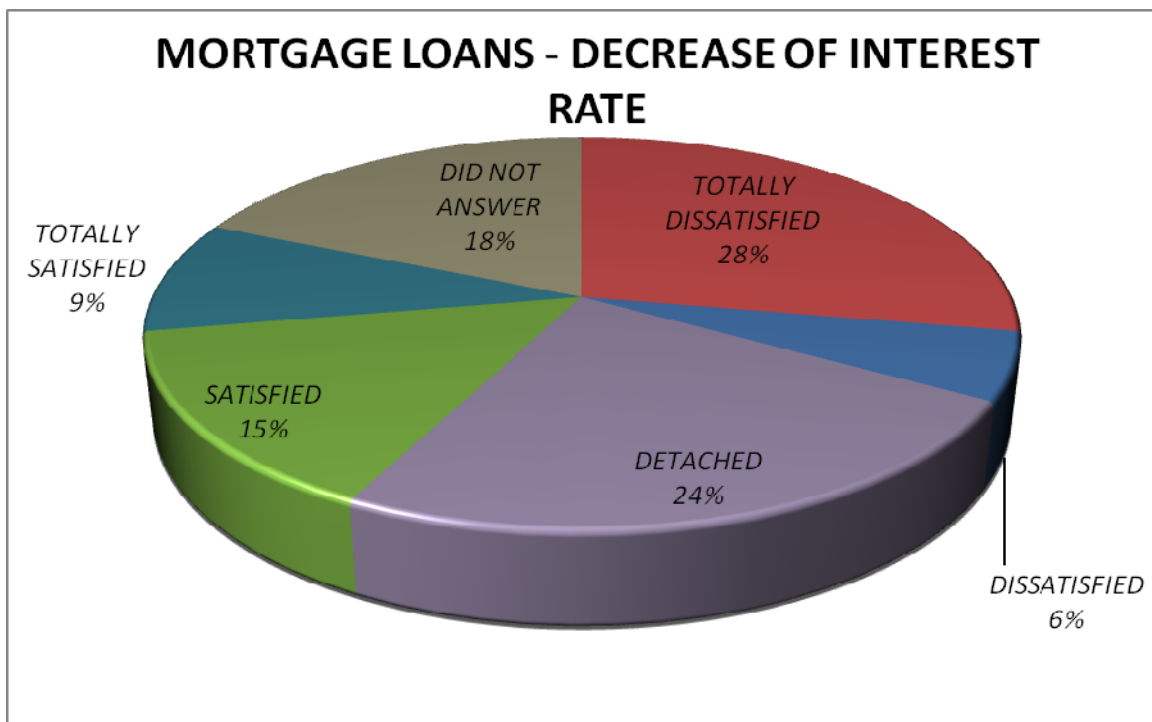
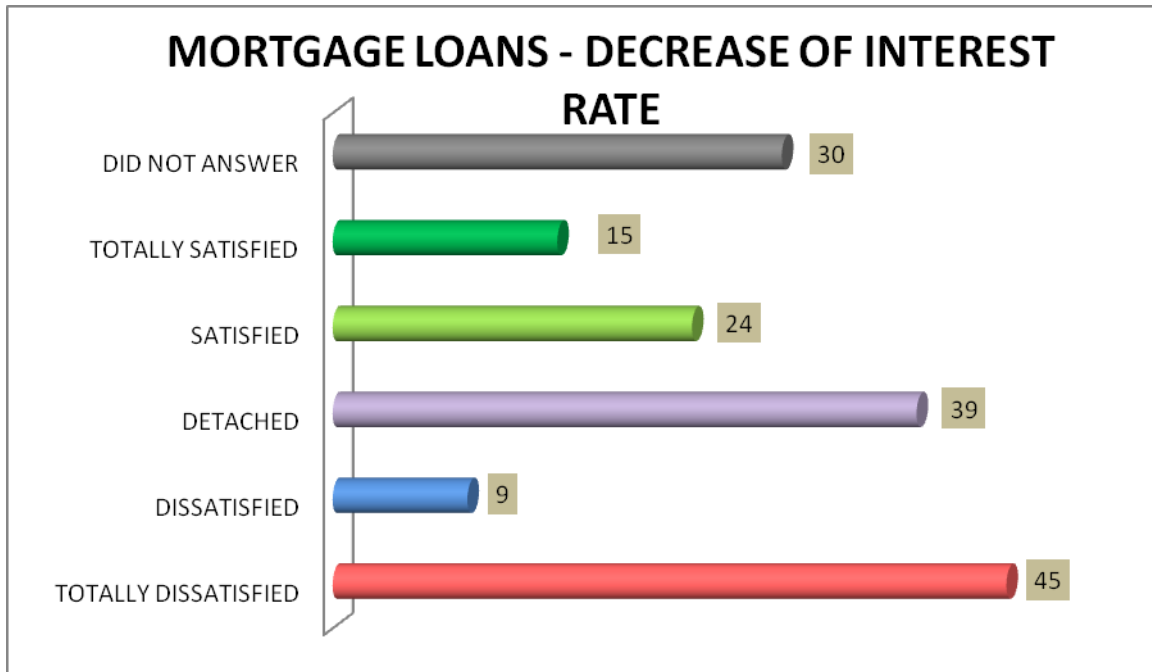
The project team has already understood the aggravation and the concerns of the customers. The results were rather disappointing in the mortgage loans.

5.3.1 Decline of the Interests

Even though the interests in the mortgage loans have been declined the customers are very restrained with the banks. The 27.8% of all the participants have not found any interest in this fall. It is of highly importance to mention that the customers, who have agreed for stable dose in their loan, did not have any asset from the recent decline. That is the reason why they decided to choose this answer.

In contrast with these clients the people who have agreed to pay unstable dose in their loan were very pleased for this decline. The central bank has already proceeded to many decreases

in the previous year in the mortgage interests and a satisfactory percentage of the customers have paid less money. The 24.1% of the clients belong to this category.



5.3.2 Current Interests

The most crucial question referring to the mortgage loans was the indulgence of the customers for the interest. The clients expect from the bankers to be more generous and continue to decrease the mortgage interest. The 59.3% of the participants agreed the mortgage loan rate is still unduly high. Furthermore many clients commented that they faced many financial problems because of this reason.

The 27.2% of the clients share the opinion that the mortgage interests are normal. Many people admit that the mortgage loans have better interests than the consumption ones but they expect to be even better in the following years.

5.3.3 Improved Interests

The crushing majority of the participants expect new declines in the mortgage interests. The project team expected these answers and there was no surprise in the final result. The 94% of the customers believe the central bank should decrease the mortgage loan rates in the next three months. On the contrary, the rest of the clients are already pleased with their recent dose and they comment that they do not face any kind of financial problems.

5.3.4 Parallel

The next question of the research proved to be another difficult challenge for the customers. The clients were divided and the final result is complicated. In this part we asked for the opinion of the customers who have answered all the above questions which had to do with mortgage loans. The slight majority of the participants (52.9%) measured the gravity of the situation and expressed their happiness for the decline of the interest. These people commented that they have spent less money for this year in contrast with the previous years. On the other hand, many people submit that the decline to the mortgage interests is temporary

and they are very mistrustful with this situation. The 47.1% of the clients are pessimistic for the future and they expect more difficult days.

5.4 Small Banking Loans

It was common true among the members of the project team that most of the customers were more interested in the question for the deposits and the consumption loans. We have searched and found some owners who have small banking loans with our bank. Many professionals are interested in expanding their companies and amplify their capital.

In the first question, the project team was not encouraged from the result. The majority of the customers (54.5%) are not satisfied with the knowledge of the employees as far as it concerned in the issues of the small banking loans. We are going to examine carefully this result in the next session. In the next question the results were truly disappointing.

The 85.7% of the participants found the interests in the small banking loans quite expensive. The project team will call for a meeting with the small banking department to analyze in depth these discouraging results.

5.5 Evaluation of the questionnaire

The project team was quite nervous with the evaluation of the questionnaire. We have spent many days to gather the results and to analyze what the participants believe about the banks. In this point we need to thank our participants and especially those who made some significant comments about the questionnaire.

The majority of the customers (47.2%) have found our research quite interesting. In some of their comments, many participants expressed their gratitude for this research. The members of the project team were very satisfied with this percentage. The 38.9% of the customers have been pleased and merely satisfied with the questionnaire. Many clients

congratulated us for this effort and made some useful comments. Furthermore, they mentioned that our research would be excellent if we have added some questions especially in the consumption section.

Some customers (11.1%) found our effort excellent and without paucity. They were quite surprised with the quality of the questions and they expressed the necessity for new researches. On the other hand, the members of the project team would like to thank some customers (2.8%) who were not interested in this effort.

In a few words, we believe that we achieved our goal. We managed to come close to the customers and understand their needs.

Chapter 6 – Discussion, Conclusions, Recommendations

6.1 Deposits

The results for the deposit interests were discouraging. The recent financial crisis leads the bankers to the decision to save money and for that reason they ordered for smaller deposit interests. The author of this thesis has great respect for Milton Friedman but he doesn't agree in all his points with his options. As we mentioned earlier, Milton Friedman (1969) suggested that a monetary authority can escape a liquidity trap by passing financial intermediaries to give money directly to consumers or businesses. The growth of rates of simple saving accounts is one key to deal with the problem of liquidity.

It is sure that today many financial foundations face tremendous difficulties with liquidity traps. The banks have already reduced the interests in the credit cards and consumption loans. That happened in order to help households pay their debt and secondly to amplify the possibility to receive back the money that were given to customers. In this point, I can fully understand why banks reduced the deposit interests. The financial foundations want to protect their liquidity by reducing their expenses. When the situation gets improved, the banks will start again amplifying the simple saving accounts.

In the third question of the questionnaire the customers showed their frustration and annoyance for the decline of the deposit interests. I can partly understand this reaction from the customers. No one wants to lose money from his deposits. The author of the thesis supports an alternative opinion for this incident. Caroline Baum in her article *what's liquidity? Is there too much, is there too little* (2006) mentions that "the central bank can increase the money supply even in the face of an investment slump".

Furthermore Hiro Ito (2009) agrees with this statement. As we have already mentioned in the literature review he mentions the need for the help from the central bank. "The direct

purchasing by the monetary authority of other financial assets such as corporate papers and long term foreign and domestic bonds will lead the economy to a rebirth” says Hiro Ito.

The central bank may provide homologues or other products to the public. The customers may search out for alternative ways of investment. I can truly understand their annoyance for the decline of the interests but the decision which was made by the bankers was inevitable.

As in the old Keynesian literature is emphasized, increasing money supply has no effect in a liquidity trap so that monetary policy is ineffective. For John Maynard Keynes is extremely rational for the banks to protect money when liquidity traps occurs. We totally agree with this statement. In periods of liquidity traps the financial foundations avoid to offer consumption loans and high deposit interests.

As for John Maynard Keynes (1930) what is important is not the current money supply but managing expectations for the future money supply in states of the world where interest rates are positive. Many famous economists extenuate the decisions of the commercial banks to reduce the deposits interests. On the other hand, we truly understand the reactions of the customers. When there is a matter of liquidity the interests of both parties are different.

6.2 Customer Service

Many people expressed different views for the customer service. The research shows that the clients are more satisfied with the employees when they inform them about deposit issues in contrast with the information they get for consumption and mortgage ones. In this part we will discuss how important is for the client the department of customer service.

The success of customer relations is largely based on the structure of the relationship between the bank employees and the customer. Many of the clients do not have the appropriate knowledge to invest their money. For that reason the employees should have perfect education to solve any difficulty the customer face. The reason why customers are

disappointed with the employees as far as it concerned in the issues of the consumption loans and credit cards is going to be analyzed in the next session.

6.3 Consumption Loans and Credit Cards

Most of the clients accused indiscriminately all the banks for the high interest rates in credit cards and consumption loans. Many of them mentioned the interest rates especially in credit cards are unduly high and that the banks do nothing to protect citizens. In his article “The use and misuse of the credit cards”, Gary North (2004) argued that “a credit card loan is a legally unsecured loan – a signature loan. The strongest chains of debt are made of plastic”.

I partly agree with this statement. I have to confess that the interest rates in loans and credit cards are quite enough and banks make good profit from this procedure. The banks prefer to lend money to consumers who use credit cards and we can easily understand why. On the other hand, I disagree with some of his opinions. The customers are responsible for their actions and they should not blame banks for any difficulty they face. Gary North (2004) explains that “banks like people who spend enthusiastically on their credit cards, run up a huge balance, pay only the minimum monthly required payment, and stay on the bank’s hook for a decade at 15%”. This statement is partly true but what about human personality? The final decision for having consumption loans or credit cards is ours and we are responsible for ourselves. Dr Hussein Shehatah (2008) argues that “credit card debt inflicts high costs on the consumer, and when one can not pay back his debts, the interest rate is continuously increased”. This statement is true. Many customers find it extremely difficult to pay their debt. This can cause “an imbalance of their house budgets” Dr Shehatah continues. In many points I agree with his opinion that the difference among the interest rates of deposits and consumption loans is extremely high. After the next question, the project team came up with a suggestion.

6.3.1 Recent decline of the interest rates in consumption loans and credit cards

The project team realized the necessity for further decline in the consumption loans and credit cards. We need to confess that the interest rates have been fallen in the last six months. The global financial crisis reached Europe and commercial banks ordered for generous declines in interest rates. Is this quite enough? Many of the customers are not satisfied with the current circumstances and ask for bigger declines.

Ana Sabiescu (2008) argues that banks took the decision to decrease the interest rates because “the safety of the money has become more important than interest so they prefer to lend money with extra collateral”. She maintains arguably that “banks would like to lend money to consumers but they doubt their ability to pay their debt” (Sabiescu, 2008). I totally agree with this statement because nowadays consumers found it difficult to pay their loans. For these reasons banks decided to reduce their obligations and demand lower interests.

In contrast with this option, the clients demand for more effective decisions. The majority of the participants find the improved interest rates quite high and they wait for better measures. Kapil Mokashi (2008) argues that this particular attitude from the customers is rational. The author argues that for many years banks were raising the interest rates that lead many consumers to postpone their purchases. Now that the interest rates are getting better, a high percentage of the borrowers face tremendous difficulties in their payments.

The project team in the next meetings with the board of directors will suggest better interest rates for the consumption loans and credit cards. The ultimate goal of this suggestion is to improve the reputation of the bank by helping our customers with their debt. In addition to this, the payment of the loans in time will generate more liquid assets for the bank. This will lead our bank to add more liquidity in core capital.

6.3.2 Knowledge

The project team found extremely useful the results for the customer service. Most of the customers as we mentioned earlier have many unsolved questions and they do not declare satisfied from the answers of the bank employees. The employees must identify early the potential problems of the customers and either avert or discuss with them before they become real problems. Moreover, the employees should pay attention to their customers needs and respect their expectations.

The results are discouraging for the members of the bank. Many customers are frustrated when they do not take a clear answer to their problems. To make matters worse, clients get very annoyed from the lack of knowledge of some employees. The project team will suggest for more seminars and workshops for the employees. The educational programs can provide important knowledge for them and can lead to the improvement of their skills.

In addition to this, the project managers when the meetings take place will urge the employees to read more professional books, journals and reports. As Jeffrey K. Pinto (1998) argues to his book *Leadership skills for project managers* both companies and employees will be benefit from this measure. “The cost and effectiveness of reading as a method for skill development are perceived low” (Pinto, J., K., & Trailer, J. W. 1998).

6.4 Mortgage Loans

The project team expected from the customers to be more satisfied and pleased with this decline. In this point, it would be advisable to say that the customers with adjustable rate mortgages are more satisfied with the current situation rather than the customers with fixed rate mortgages.

Tami Luhby (2008) a famous author and writer argue that “reducing mortgage rates to a historically low level may entice some homebuyers out of the shadows, but it won't be

enough to really spur housing sales. The fall of the mortgage interest rates has been made “to get more buyers into the market in hopes of stabilizing home prices and reviving the economy” (Luhby, 2008). The author of the thesis partly agrees with this statement.

The banks really need to provide more incentives to homebuyers. Firstly, the lending standards for homebuyers are still very strict. Many customers hesitate to take a mortgage loan because credit remains tight. Secondly, the interest rates should fall again. In the previous years, many clients with adjustable rate mortgages paid a great amount of money. For this reason, it is of highly importance for the central bank to offer more improved interest rates to the customers.

Gregg Elberg (2008) mention in his article *Commercial finance-the mortgage meltdown* that in the beginning banks were responsible for turning a blind eye to loans that were based on poor credit criteria. He also argues that many banks in the quest to do more business they lowered the standards for giving loans. In a few words, many borrowers with weak or poor credit histories were able to get loans.

Unfortunately both statements are true. In the beginning, many banks were offering loans with not the appropriate collateral. When the situation got worse and the customers found it difficult to pay their debt, the banks adopt stricter lending standards. The project team in the following meetings will suggest for better mortgage interest rates in the future and less strict lending standards that will lead to the revival of the economy.

6.4.1 Interest rate

The members of the project team were not surprised with the result. The general annoyance for the high interest rates in the mortgage loans and especially in the consumption

loans and credit cards is obvious. In this point it would be necessary to mention that mortgage loans have lower interest rates than the consumption loans.

The recent decline of the mortgage loans does not seem to influence customers' opinion about banks. The majority of the participants argue that the current situation is temporary and soon the interest rates will increase. Many people with fixed rate mortgages commented that the interest rates they have agreed to pay were extremely high.

These comments are very significant for our research. The liquidity of the banks is connected with the quittance of loans. The banks should ensure that there will be no risk of losses on the customers' loans. The decline of the mortgage interest rates should continue and this gesture will have positive effect both to the customers and banks.

6.4.2. Decrease in the current interest rate

The crushing majority of the customers were positive to the possibility of further decrease to the mortgage loan rates in the next three months. Many young and elderly people who took part in the research agreed that the mortgage interest rates are still high and need to get smaller.

Matt Zeitlin (2009) in his article *Why you should care about the mortgage interest deduction?* believes that further deduction to the mortgage rates will lead to many problems. As he supports "the mortgage deduction encourages the wealthy to buy the most expensive house possible and it encourages everyone else to buy houses they can't really afford. Moreover the deduction encourages people to spend even more is because their tax benefit goes up with the amount of interest they are paying. And, as we know all too well, encouraging people to take out loans to bet on home prices going up indefinitely hasn't exactly turned out well in the past few years" (Zeitlin, 2009).

I have to disagree with this statement. The mortgage deduction is a significant factor to get a mortgage loan. It is sure that the customers over the past few years faced tremendous difficulties to pay their debt. In the last six months many clients with adjustable rate mortgages were satisfied with the decline of the interest rates. For that reason they insist for better interests in the following three months.

In addition to this, many couples did not have the opportunity to get a mortgage loan six months ago. With the current situation, many people want to get a loan because they think they can afford it. We need to encourage people to take out loans in this particular time. The liquidity of the banks is strongly connected with the mortgage loans. The bankers will attract more liquid assets and people will be benefit from the improved interest rates.

6.4.3. Comparison of the interests

The project team has indirect answered before this question. The customers with the fixed rate mortgages are not interested in the recent decline of the interest rates. These types of mortgage loans are not influenced from external factors like inflation, decline of interests etc. Most of these customers have agreed to pay a steady dose every month for a particular period of time.

The customers with adjustable rate mortgages are very satisfied with the recent situation. From my personal experience as a bank employee, many clients in my bank branch are relieved with the consecutive declines in the interest rates. In their comments they argue that they have spent a large amount of money in the previous years for the mortgage loans and they expressed their hope for better results in the future.

6.5 Small Banking Loans

Last but not least were the results for the customers of the small banking loans. In the previous chapter, we mentioned the research was based for the results in the deposits and loans. To make our research complete, we made some crucial questions to the customers who have small banking loans.

6.5.1 Knowledge

The professionals are not quite satisfied with the employees for small banking issues. The project team decided to call a meeting with the small banking department to discuss the results. In addition to this, many of the clients think that the banks are not flexible enough to satisfy their needs. They mention many delays in the dispatch of their problems and the incapability of the employees to solve their difficulties.

6.5.2. Prices

The customers are really disappointed with the interests in the small banking loans. Many of them argue that they are quite expensive. For some professionals this is the basic criterion when they choose the bank they will cooperative with. Only a small percentage is satisfied with the current services they have been offered by the bank employees. The prices of the products are quite expensive for all the kinds of loans. The financial crisis has reinforced this perception. The project department will utilize these results in the following meetings.

6.6 Conclusions

The success of the research was remarkable. Many of the customers were thrilled with this challenge and they were satisfied to participate in the survey. As members of the project management department we were sure the customers were disappointed with the fall of the

interests in their deposit accounts. The percentage of annoyance was bigger than we thought. The clients pay great attention to the interests of the accounts and are very interested in their financial prosperity.

The comments which were made from the customers were surprisingly interesting. Many of the clients choose the banks which are going to cooperate according to the deposit interests and the quality of the department of customer service. We spent many hours to come up with a conclusion. The customer of department service is a crucial part to attract customers. The bank needs new customers to amplify its capital and attract more liquid assets. In the following interviews we will strongly recommend the significance of customer service.

In addition to the questions referring to deposits, the customers showed great consideration for the consumption part. Many of the participants found the opportunity to reprobate the high interests of loans and credit cards. On the other hand, an important part of the participants applaud the recent fall of these interests. In the following meetings the members of the project management department will suggest another decline of the consumption interests. As we referred before, the customers are willing to pay their debts if the dose of their loans is smaller. That means more liquid funds in short period of time.

The department of project management found extremely interesting the variety of answers to the questions referring to the mortgage loans. Most of our mortgage loaners were disinterested from the recent fall of the mortgage loaners. Some of our customers mentioned the necessity for further decline in the interests. In the last two years the interests of the mortgage loans have been raised and many loaners found it difficult to pay their debt. On the other hand, many of our clients were extremely satisfied with this fall. Many of them noticed a significant fall to their monthly dose.

How can we explain this difference? We spent many days to analyze this bizarre result. After many discussions and disagreements we came up with a conclusion. Most of the

loaners who were satisfied with the recent decline of the interests were customers who have agreed to pay climactic interest. When the European central bank agreed to decrease the mortgage interest, many clients were benefited from this fall. On the contrary, the rest of our customers continued to pay the same dose because they had made an agreement with the bank to pay the same dose for many years. For that reason, these customers were not interested and satisfied with the fall of the interests.

The members of the project management agreed that a meeting with the mortgage department was inevitable. The banker of my branch found the results for the mortgage loans extremely interesting and useful. Generally speaking, we were very pleased with the results for the evaluation of the questionnaire. The customers were satisfied with their participation in this research and made many remarkable comments. In some of them they mention the relativity of the question upon their problems and the necessity for new and more improved researches.

6.7 Recommendations

We have already discussed the results from the answers of our customers. We have gathered interesting approaches to our questions and we were quite surprised from the maturity of their answers. The department of project management was pleased from the knowledge of the customers in a variety of questions that had to do with the deposits and the consumption loans. Furthermore, many clients evaluate the quality of the questionnaire and have made remarkable comments to the questions.

6.7.1 Interviews

The banker of my branch accepted our invitation to discuss the answers of the questionnaire. He was very interested in the results which had to do with the deposits and the

consumption loans. Most of our customers were very frustrated with the recent fall of the deposits rate and relieved with the sudden fall of the credit cards and consumption loans.

In this point, I need to agree with Daniel's Calloway (2008) opinion in this matter. As we mentioned earlier many customers were unwilling to pay their debt because of the increased loan rate. The decline of the rates of the credit cards and personal loans raised the confidence of the customers. In addition to this, a great percentage of our customers expressed their worries for the downfall of the deposits rate. The banker expressed his gratification for the quality of the survey and promised us to discuss the results with the top management of the organization.

Unfortunately, the top management of the company hasn't responded to the invitation yet. We strongly believe that the senior management will take under consideration the results of the survey and call a meeting with the department of project management. The ultimate goal of this thesis is the discussions which are going to take place among several departments of our organization.

6.7.2 Seminars

As it is mentioned in CH2M Hill (2001) *Project delivery system* many surveys show that customers believe that the service provided is as much as 50 per cent of the value they receive. In other words, the completion of the questionnaires from the customers improves the correlation among the stakeholders. With this survey, we serve the needs of our customers and also make them much more comfortable with the enterprise.

The goal of this thesis is to understand the needs of the customer and ensure they are met. The golden rule is to know our customer and meet his expectations. Apart from this, we need to enforce unity among the employees of the organizations. In our meeting with the top management, the members of the project management will ask permission to organise three

days of seminars for the employees. The members of the deposit and consumption departments should understand and discuss the results of the survey.

6.7.3 Deposits

In our meeting with the investment consultants, we will analyze in depth the conclusions of the questionnaire. In order to improve the quality of the bank products, we will discuss the answers of the customers and cooperate to reach an agreement. The deposit rates are a crucial part of the bank accounts. According to the research which we deeply analysed in the evaluation chapter, the customers are very interested in their bank accounts. The sudden decline of the deposit rates is an issue we have to discuss with the technical experts of the organization.

6.7.4 Consumption and Mortgage loans

In the second meeting with the employees from the consumption and mortgage departments we will discuss what went wrong with the customers. The consumption interests were very high according to the clients. Many of them faced tremendous difficulties to pay their debts. It is of highly importance to organise a three day seminar to analyse the results of the questionnaire and find solutions for the difficulties of the borrowers. The results from the research were disappointing and we have to be careful with these issues.

6.8 General comments

To sum up, the department of the project management tried to offer a more detailed analysis in the problem of liquidity. . It is desirable that the recommendations which will be included in my project will make the bank staff understand how many responsibilities we have towards society.

With the help of the questionnaires we tried to know our customer, meet his demands and share his vision. The response of our customers was direct and accurate. We managed to understand the nature of their problems, how responsible we are for the recent situation and how we can find ways to solve the adversities. Generally speaking, the lack of liquidity is today the most severe difficulty for many countries. The banks need to cooperate worldwide to find a fair solution to overcome the global financial crisis.

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APPENDIX A- OFFICIAL QUESTIONNAIRE

NAME.....OCCUPATION.....

CITY.....ADDRESS.....

PHONE NUMBER.....MOBILE..... FAX..... E-MAIL

1 = Totally Dissatisfied, 2 = Dissatisfied, 3 = Detached, 4 = Satisfied, 5 = Totally Satisfied

DEPOSITS:

Are you satisfied with your interest rate in your banking accounts? **1 2 3 4 5**

How important is for the client the department of customer service? **1 2 3 4 5**

How annoyed have you become from the recent decline of the interest rate in your banking accounts? **1 2 3 4 5**

Evaluate the interest rate of your banking accounts in relation to the rates of other banks.
1 2 3 4 5

Comments:

CONSUMPTION LOANS AND CREDIT CARDS:

Many customers strongly believe that the rates of the consumption loans and credit cards are unduly high. Do you share this opinion? **Yes No**

How satisfied you were as a client from the recent decline of the rates in the consumption loans and credit cards? **1 2 3 4 5**

Are you satisfied from the knowledge of the employees as far as it concerned in the issues of the consumption loans and credit cards? **1 2 3 4 5**

Comments:

MORTGAGE LOANS

How satisfied you were as a client from the recent decline of the rate in the mortgage loans?
1 2 3 4 5

Do you think the mortgage loan rate is still unduly high? **1 2 3 4 5**

Do you believe the central bank should decrease the mortgage loan rates in the next three months?
Yes No

Comparing with the mortgage loan rate a year ago do you believe that the customers are more pleased with the recent rates?
Yes No

Comments:

SMALL BANKING LOANS

Are you satisfied from the knowledge of the employees as far as it concerned in the issues of the small banking loans?
Yes No

Are you satisfied with your current loan rate? **Yes No**

Evaluate the flexibility of the bank in small banking issues. **1 2 3 4 5**

Comments:

Evaluation of the questionnaire **1 2 3 4 5**

General comments:

APPENDIX B – GENERAL COMMENTS

In this session we will provide some general comments that our customers filled up during the answers of the questionnaire.

Deposits

- The deposit interest rates are almost the same. Many customers are disinterested with these interests because they are extremely low.
- It is unacceptable that some banks offer much better deposit interest rates than others.

Consumption Loans and Credit Cards

- Many banks do not offer the appropriate training to their employees to handle difficulties which occur from this session.
- Unfortunately many bank employees do not present the drawbacks of the bank products.
- Many customers do not know how to utilize these products. The banks gain many assets from this incapability.

Mortgage Loans

- It is unacceptable for banks to sell off properties for insignificant debt. This banks' policy in relation to precepts must be changed.
- The current decrease of the mortgage interest rates is a temporary unreality. In a few months, the interests will be again indisputably high.

Small Banking Loans

- There is too much bureaucracy in the banks' procedures. I found it extremely difficult to get a professional loan on time.

