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SOME HINTS ON INDIVIDUAL LENDING AND DIFFERENT FACTORS AFFECTING THE CREDIT ACTIVITY RISKS

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Abstract

The credit activity responds to real economic necessities within its objective features (the production stimulation, the increase of competition, a sounder correlation between the capital needs and the possibilities of forming it).

Times proved that the human beings use to live and act through loans and credits as they contribute to the relationships explosion with all partners, in all activities, in the most complex way.

The credit activity developed exponentially with the loans portfolio both in products and in services. Nowadays, it is difficult to find a person or a company developing activity beyond the banking crediting.

The present paper intends to reflect particular situations in which the Banking Law no. 58/1998 (updated) contributed to the economic and commercial activities development via particular products and services provided by banks in credits and loans.

Keywords: individual loans, credit, activity risk, warranty.

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Introduction

Funding individuals through credit is as important as the funding of companies when the correct approach of such demarche can be proved as sound for development. For banks, the credit activity is essential for their future while the customers' confidence is crucial. Therefore, a keen attention is always given to the lending activity as the main engine of creating money and supplying development.

The commercial banks have got a major role in the modern market economy, because of their connections with all economic sectors and their power of taking the bank-customer relation to high standards and confidence.

Banks have their own purpose of getting high profit by assuring the perpetual movement of money and funds, by crediting both individuals and organizations, all for all parties' concerned benefits

Usually, the banking system provides the majority of the financial services and takes care of giving the necessary loans to those in need. The single coordinating authority of the business credit instruments is the Central Bank (of emission), which accomplishes the roles of administration of the organizational process to the financial service and the credit-discount of the economy. So, the credit essential contributes to the increase of the economy, facilitates the adjustment of the economy, the selection and the stimulation of the economical courses, providing financial means for the realization of the production.

The assumed role of the bank is defined by the policy objectives of lending that express the global advantageousness established for a specific period, create the necessary condition to lace full



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trustiness through a sound imagine on the market. Sometimes, keeping a good position in the market necessitates a sharp eye for profit, a prompt decision and a certain degree of aggressiveness against other competitors.

Sometimes, the credit concept is misunderstood being confounded inside the relation between money and finance. While money provides a relative independence, some similarities with the credit generate incompatible conclusions with the scientific rigors of the truth. The credit represents an effect of the economical processes after the apparition of economical assets temporary available; the finance refers to any commercial activity of providing funds and capital assets already formed and stored.

From banking activity point of view, the lending refers to the most important structure of placement operations – as volume and contribution of getting banking profit. The banks, based on their own strategy updating periodically, establish the levels of loans according to their lending limits for subsidiaries, following specific particularities.

The abusive use of the credit generates risks and distortions in the chain lending. The lending activity is realistic when it is based on the viability analysis and the business realism according to the identification or review of the customers' capacity of paying.

A good lending facilitates obtaining a good profit for the bank and access to funding sources to cover their necessities for the possible customers.

The purpose of the lending activity represents the credit grant considering the minimizing of the exposure to risks corroborated with the assuming of an adequate profitability of the taking risk. The risk of the credit manifests as a result of non-compliance with the conditions provided in the credit contract, in that the borrowed sums and the related interest rates cannot be paid as a result of the customers insolvency. We notice that the users of banking services became more careful, not just for costs and the rapidity of granting a credit, but to the risks and obligations which they assume, too.

The lending of individuals is the stimulus of the society development in Romania. The most part of the credit scrolls by way of commercial banks which have as object of activity the collection of resources and the achievement of placements destinations in certain conditions, too.

The ongoing of the credits for individuals, their granting and guaranteeing, achieves based on contract, according to the internal arrangements of the lender, authorized by the responsible authorities.

Nowadays, we assist to a significant increase of the demanding for credits in RON – the lending from the market are almost totally in the national coin.

The acquisition of some durable goods cannot be realized only based on saving. The financial banking institutions make available for the individuals' cash resources for long periods, adequate for the periods of use of these types of goods, after a careful analysis of that person's incomes.

To sustain the idea, we operate here with the CONSUMER CREDIT or the PERSONAL LOAN that includes a large spectrum of credits with different destinations, trying to respond to a variety of personal needs for the individuals. In the lending offers of the commercial banks we find various banking products:

- credit for construction;
- design;
- redecorating homes;
- loans for buying a car;
- credit for studies;
- credit for trips and holidays.

Due to the registration of an important demand for personal credits, more financial institutions have diversified the range of such products offered to customers. Regarding the loans for individuals,



besides the standard personal loans for which it does not have to mention the purpose of the credit and there are not requested evidence of its use, there were initiated credits for retirees, for students, for freelancers. Personal loans are made for covering the personal needs without conditioning the destination of this money.

Usually such credits are provided in a fast way, as they necessitate a reduced volume of paper sustaining the application. The application conditions are the following: the customers should be Romanian citizens with permanent residence in Romania or foreign citizens working in Romania under permanent residence in this country. Loans can be given to individuals aged up to 70. The applicants must not register any debts linked to previous loans contracted.

The advantages of this type of credit would be: the achieving relative fast of a sum of money that can reach till 120.000 RON and even more; a high but rational profit (almost 7-9% – but attention, DAE or the effective annual profit is much bigger); easily obtainable – the requested documents are a salary certificate and the identity card.

The disadvantages are generally associated with the credit objectives (you can think of it as a job, practical you pay in order to receive some money); the medium to big profit, higher than the mortgage credit, being relative easily obtainable, a lot of people use it to buy any kind of things, and in the end having a burdensome rate.

The credit on real estate or the mortgage credit represents the offers of buying a house and refers to the possibility of guarantee the credit precisely with the house bought, without endorsers and other types of guarantees. In general, the mortgage credit guarantees with the house mortgage, while the credit on real estate can be guaranteed with another types of guarantees (endorsers, other houses). It is considered, generally, that the credit on real estate can finance the build of constructions, while the mortgage credit cannot make possible this thing, because it is impossible to mortgage an absent construction.

The advantages of this credit: a possibility of having a house, the only one for the majority of people; a reasonable rate, much lower than the other types of credit; if the rate is less lower than the rent we would pay, it helps to save some money.

And the disadvantages: it is lent for long and very long periods of time. During 20 or 30 years we can incur 2 big crises in society and a lot of personal issues. It is hard to predict what will happen during this time; a lot of papers and running, but choosing the most favourable offer it can be made important savings.

An important part of banking loans is dedicated to “The first house”.

THE FIRST HOUSE is a program funded by the Romanian Government. Initiated in 2009, by the Emergency Ordinance no. 60 (EO 60), this kind of credit was well received especially by the young individuals, looking to buy a home. Under the EO 60 the Government integrally guarantees the loans granted by banks, for cheap credits. The statistics show that in Romania the demand and the offer for houses were badly affected by the past economic crisis. However, the FIRST HOUSE program remained a part of the actions that were made to extinct the crisis initiated by the government, having the main intention to facilitate the access for mortgage credits in order to improve the living conditions.

The ranks of quality of living place Romania on the last place, as 53.2% of the population is living in overcrowded houses. The proposals for the improvement of the living conditions by the stimulation of buying new places to live or consolidate the old ones in the FIRST HOUSE program are:



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- the differentiation of the financial conditions related to the contracted credits in the program depending on the object of the credit (better financial conditions for down payment and/or rate for buying a new house or consolidate vs. old house in the program);
- the differentiation of the annual limit's level assigned for guarantees in the program by the granting of higher limits for new or consolidated houses;
- the difference between the guarantee's process by the country of the contracted credits in the program, by reducing of the granted guarantee of the country for the contract of the credits for buying houses.

The FIRST HOUSE program has known a significant dynamic so far, because of the advantageous conditions for buying a house by the eligible individuals. The statistics mention this program as the most popular and successful one. The guarantees for the acquisition or construction credits for houses in the program are granted only in RON by the financier who chose for taking 50% of the risks assumed by the country in the previous stages. Examples of houses that can be bought:

- houses already finished, for buying, including the ones built and put into use;
- houses unfinished yet, in various stages of construction, for buying after finishing;
- new houses, to buy once they are ready.

This program allows also the construction of debtors' own house. Under this program houses can be built by the individual beneficiaries or by unincorporated associations constituted by minimum 2 beneficiaries.

The mortgage credit THE FIRST HOUSE offers the possibility of buying a finished house or one under finalization, being in different construction phases, intended to be bought after the finalization. The guarantee of the credit represents the property funded by this. In the case of the construction, the guarantee of the credit is the land and the next building which will be built.

During the entire period of loan, a life insurance is signed, which offers protection in case of unexpected events. The pay of this first payment supposes a minimum effort, because you can pay monthly, together with the rate of the credit.

The great asset of the FIRST HOUSE credit against other types of housing loans is the minimum earnest requested by the bank. If in the case of the classic housing loans, the earnest that had be given was necessary to be 15-25%, according to the offers of each bank, THE FIRST HOUSE is little more indulgent of this point of view with the potential customers, being necessary only a 5% earnest.

The disadvantages are that by the instituted mortgage in favour of the Romanian country the beneficiaries of the credit acquire the interdiction of selling for a period of five years from the moment of signing the sale-purchase contract.

The statistics show that in Romania the demanding and the offer of houses were badly damaged by the economic crisis because of the decrease of the purchasing power, the worsening of the loans' conditions and the discount of the investment funds.

The development of the lending activity of the individuals is influenced by the development of the banks, the commercial activity in a bank being vital for its existence. The customer is the crucial element in the strategy's defining of the banking system, at once with the increasing of the competition and the development of new products and services. In the progress of the banking activity, it is significant the knowledge of the customers' needs and the decision factors that are based on the choosing of a certain banking product.

So, the bank anticipates the reaction of this and can affect the structure of the offered services. The behaviour of the customer is influenced by the trust that he has in the banking system, by the availability of purchasing the services, by the bank's reputation, the range of products and services, the existence of a helpful and able staff, etc. A bank that knows the quality of its services will always search to surpass the minimum level of customers' satisfaction, giving to these more than they request.



The diverse typology of the banking products and services has a major importance in choosing the bank. The interbank competition orientates the banking activity closer to the customer's demands, by the development of an offer with banking products in order to attract and maintain customers

Five important things when we choose a credit:

- 1) the effective annual profit, that DAE that sums up all the costs with the credit and surely it is high enough, reported to the profit amount initially communicated by the bank;
- 2) the total paying sum at the end of the period, this one being the mark in the implication of the credit;
- 3) the value of the rate, but it is not a decider factor;
- 4) the total value of the rates should not overcome a certain sum (that total percent of debt); it is indicated that the rate should not overcome 25% of the incomes;
- 5) the reserve fund, this helps the paying of the rates in case of a crisis situation.

The credit conditions adopted by the banks in the second part of this year allow to the customers to borrow higher sums than before, considering the increase of the loan period and the maximum limit that a customer can borrow. Nowadays, the banks offer the population the possibility of indebtedness till 70% of the net incomes, according to the type of the product and the rating of each customer. In case the customer borrows money till the maximum limit, during the course of the loan, the credit conditions can be modified, so the rate can go higher, to multiply the poundage.

The relaxation of the credit norms presents advantages during short periods for the majority of the customers and offers substantial profits for the banks during long periods of time. Because the banks do not afford to decrease too much the rates of the credits given to the population, they appeal to whatever they have in order to finance more clients. The credit period extension is a good example to sustain this idea. It is good to know that any additional year for the loan period it means additional profits, poundage, and more insurance. But, the real trick it is the increase of the credit period. The customers' benefit remains the lower monthly rate allowing the fit into the maximum limit accepted by the bank. However, the total sum that the client must pay to the bank at the end of the credit period is several times higher in case he chooses, the maximum period for the loan.

Major changes for the maximum period of repayment were made regarding the personal mortgage loans. So, if last year, the majority of the banks offered this loan during 20-25 years, this year the limit was extended till 35 years. Although the extended of the rates' number makes possible the accessing of a higher sum, this thing significantly increases the total sum which the beneficiary must pay at the end of the loan period. There are also some possibilities of refinancing of a credit contracted during longer periods of time with specific advantages and disadvantages. Making a decision regarding the contracting of such a loan should be correlated with the exact analysis for the beneficiaries and the sacrifices which the potential client will have.

The customers must be notified by the banking institutions about the types of credit for which the costs increase: the credit during long periods, the car credits, the overdraft credit card, etc.

The credit institutions customize the banking products according to the demand and they are generated by banking activities which assure a high level of individualization of services and their differentiation in a banking financial institution.

A deep analysis of the credit products shows to customers a lot of options with regard to: the payment methods (monthly rates, the delay period); the annual rate of the profit; the limits of the credit that can be taken and, especially, the effective annual profit.

The efficiency of the banking services it is evaluated also considering the satisfaction of the demanding of the bank's customers. The quality of the credit relations, the services and the continuity



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of the products and services' offer will help the increase of the customers' fidelity, these being less tempted to evaluate the choice of using the services of the competition.

The motifs that support the decision of choosing a certain bank are the offer of current banking operations and the credit zone from where it is expected a simplifying of the procedures, implicitly of the access to the credits; the offer of an advantageous package of taxes and poundage and, eventually, others services which can be useful for the credit line, the most advantageous profit, the readiness and the companionable of the staff, the attitude and the organizational culture of the bank. The banks keep remaining highly competitive. This means that a customer can choose the bank that offers the most advantageous conditions and he can be informed with all the things that he is interested in.

The disappearance of the effects of the economic crisis and the decrease of the rate and the prices of the houses lead to the dynamism of the residential real estate transactions, the statistic dates showed that besides of the acceleration of mortgage loans selling in RON and the increase of the numbers of new houses, too. So, the increase of the volume of real estate loans was also impelled by the governmental program THE FIRST HOUSE, through which the banks sell real estate loans guaranteed by the country, exclusively in RON. These credits represent almost 48% of the current stock of housing loans.

According to the monetary indicators from the website of the National Bank of Romania, the balance of the RON credits given to the population has increased last year (between September 2015 and September 2016) with 32.4%, reaching at 58.731 millions RON. An important part of these loans is the refinancing or the conversion of the credits into currency. The currency credits for the individuals have decreased in the same period of time with 11.2%. So, the portfolio of loans in the national coin approached the level of the currency loans.

Following the evolution of the loans from the banking market, we notice that the production of loans in 2016 is situated on a much superior level than the previous years – we can notice a doubling compared to 2008, a boom year of the Romanian economy.

The volume of the new financings is over 22 billion RON, the equivalent of almost 5 billion EURO. We can say that the development of the credit for the population is sustained by the improving of the liquidity conditions in the market, the decrease of the profits, the increase of the salaries, and the high level of the population's trust in the dynamic of the economy.

As regarding the macroeconomic level, both the over and under credits have negative effects against the whole economy. The over credit concretizes by an increase through the medium of the credit, the monetary mass, in degree with the volume of the goods and services and leads to an inflation with negative consequences for the economy. The under credit brakes the economic activity as the economic agents will never find the necessary funds to contribute through their activity to the global economic growth.

References

The Banking Law 58/1998 republished and updated.