

# The Loan, Main Banking Product Offered by the Commercial Banks

Claudia Sîrbulescu, Monica Ocnean, Elena Tonea

*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Faculty of Agricultural Management, Calea Aradului, No 119, Romania*

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## Abstract

Throughout the lending activity, the Bank shall comply with the provisions of that legislation on banking activity. Legislation is issued by the National Bank, which has regulatory responsibilities in the monetary, credit, foreign exchange and payments, as well as their own work rules and instructions. Credit to the provision of cash funds is the primary means of fructification of their available funds and those attracted from clients.

**Keywords:** credit, banking product, bank, financial funds

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## 1. Introduction

The whole crediting bank compliance with the legislation on banking activity, rules, instructions and regulations issued by the central bank as the central bank regulatory powers monetary, credit, foreign exchange and payment, and its rules and work instructions.

Credit to the provision of cash funds is the primary means of fructification of their available funds and those attracted from clients. In the literature, taking into account the nature and content of credit have been identified five fundamental forms of credit. [1]

Commercial Loan is the most representative of the credit market economy, consisting of mutual granting a deferral of payment by traders active during the sale of goods. It appears that while some businesses have already manufactured goods ready to be sold, other agents who need these goods do not have a time of money to buy them.

Bond loan represents a group of credit operations that relate to credit relationships where partners

are state institutions and economic enterprises as debtors, issuing bonds, as such, on the one hand, and its creditors, underwriters and holders these bonds, and undertakes that such shareholders to obtain a steady income as the main interest. [2]

The issue is a preferred source of capital for businesses. The amounts of the placement of bonds are used mainly for the investment needs of enterprises.

The mortgage loan is regulated by the Law on mortgage loans for real estate investment and methodological norms issued for the implementation of this law by the NBR and the National Securities Commission.

Mortgage loan involves an agreement between the lender and the borrower.

The main type of mortgage loan carries an amount of reimbursement and a fixed interest rate.

Consumer credit is short or medium term loans granted to individuals intended to cover the cost of goods and services when the network marketing and services, or claims lending contracted for this purpose. [3, 4]

Consumer credit anticipated entry into possession of the goods and allows access to lower-income buyers' durable goods of high value.

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\* Corresponding author: Claudia Sîrbulescu, [claudiasirbulescu@usab-tm.ro](mailto:claudiasirbulescu@usab-tm.ro)

Bank credit includes a wide range of ratios employing different ways in the short and medium term and long term operations based on documents or not, secured or unsecured, in each individual case or in general agreement.

## 2. Crediting activity

The need to develop economic activities (establishment of new production capacity and upgrade existing ones, refurbishment, new jobs, etc) requires an additional effort. Satisfying the need for additional financial resources are made available on the market by attracting capital or by calling on bank loans, issuance of bonds, the loans from international financial institutions etc

Loans should be advantageous both for the bank, because the expansion and diversification of the loan portfolio may obtain additional profit, and customers, which on account of credits can develop their businesses to make a profit and, on that basis, repay loans and to pay interest.

Analysis and loans must be the influence of external factors on the proposed projects for clients or non-financial aspects that can have unforeseen effects on the conduct of business and loan repayment.

Bank is obliged to examine and verify, and the borrower to make available all documents and showing nature activities, credibility, financial situation, financial and economic results, management capacity and any other documents and data to assess the economic, organizational and financial client.

Throughout the lending credit beneficiaries operators are required to provide a copy of the bank's balance sheet, periodic accounting statements and other documents required by the bank. This obligation will be provided as a separate clause in the loan agreement.

Loans are granted to undertakings which fulfill the following conditions:

- Are constituted by law;
- Have paid up share capital according to the statute;
- Operating lawfully and effectively act of setting up and operating status;
- Meet an optimum level of reliability indicators;
- The cash flow analysis shows that there are real possibilities for repayment at maturity and interest payments related rates;

- Moral and material guarantees for efficient use of the loan, the repayment in full at maturity of the loan and pay interest on

- The value of collateral accepted materials is higher or at least the interest on the appropriations requested;

- Have opened accounts at one of the local offices of the bank;

- Presents the commitments of accounts at other banks and associated guarantees;

- Accept the terms of the credit agreement.

In its relations with the debtor, the creditor is exposed to risks that require taking measures to ensure the claim. If the due date the borrower is unable to pay its debts and can not perform an obligation to the creditor, if it guarantees established by law on contractual basis can execute acquiring the claim. Securities may be: *Collateral* [5, 6]

- pledge itself - which can be in turn affected property repossession debtor as security or without deprivation of property brought its warranty;

- Mortgages and privileges;

*Guarantees*

- Surety ship, regulated by the Civil Code;

- Guarantees in the form of letters of guarantee issued by banks, financial institutions and government authorities who have this power;

- Personal guarantees regulated by special laws;

- Divestiture receipts from existing contracts.

For customers experiencing difficulties in paying the due date of the payment obligations, presenting a significant risk to the repayment at maturity of loans and related interest payments, the bank will require borrowers to sign promissory notes that the laws in force, shall be enforceable after declared enforceable by the court may be released without further ado enforcement prior. Bank loans and interest must be fully covered by guarantees insurers.

Counted value of the goods accepted by the bank guarantee loans will be determined by applying a coefficient depending on the size of the risk in their recovery in Table 1 [7, 8].

In order to reduce risk in lending, the Bank pursues the following conditions:

- Loans granted by a bank to a single borrower may not exceed 20% of the bank's capital and reserves.

- The central bank's prudential regulations total amount of large loans to borrowers can not exceed 8 times the bank's own funds.
- All RON and foreign currency loans granted to an undertaking any form of organization and nature of social capital may not exceed more than 12 times the equity of the entity concerned.

**Table 1** Types of the guarantee and their value

Type of the guarantee	Market Value	Accepted Value
<b>Government guarantees</b>	100	100
<b>Irrevocable guarantees from banks</b>	100	100
<b>The bank deposit</b>	100	100
<b>Mortgage</b>	100	80
<b>The pledge of dispossession</b>	100	70
<b>Pledge without dispossession</b>	100	60
<b>General Pledge</b>	100	40

- For customers special government programs included in restructuring and financial recovery, the bank will grant loans only to the amounts included in these programs, with the approval and under conditions determined by the competent authorities. [9]
- To ensure and maintain a minimum solvency ratio of 8%, loans and guarantees in RON and foreign currency granted by the Bank shall not

exceed 12.5 times the own funds of the banking company.

To eliminate the risk the bank does not lend:

- Traders who lose and are no prospects of recovery, except where otherwise regulated by laws to;
- Entities have been established reorganization or liquidation in accordance with the law on judicial reorganization and liquidation proceedings, unless the court determines that loans may be granted to the debtor reorganization and recovery activities.

Total loans to non-bank customers and non-banks in lei registered in the year 2014 amounted to 92,140.7 million and currency 120,968.7 millions lei, according to information published on the website of the National Bank of Romania. (Table 2) [10]

Of these, 54.38% are loans contracted by economic agents in lei and only 43.35% of the populations were contracted. The situation is opposite foreign currency loans that businesses have contracted only 46.9% of the total and 52.37% population.

Non-government loans fell by 3.8% in January 2015 compared to the first month of 2014 and by 0.3% compared to December 2014, to 210.34 billion lei, in the context of reduced further currency loans and increased in lei, according to data announced by the central bank.

**Table 2** Structure of loans to non-bank customers and nongovernmental

Years		2010	2011	2012	2013	2014
<b>Loans in national money</b>	<b>Total</b>	<b>77.455,5</b>	<b>81.825,0</b>	<b>85.079,7</b>	<b>85.431,1</b>	<b>92.140,7</b>
	Economic agents	40.044,9	44.750,7	49.157,5	49.051,6	50.108,1
	Population	35.918,1	35.036,1	34.320,4	34.594,1	40.090,0
	Other	1.492,4	2.038,2	1.600,7	1.789,5	1.942,6
<b>Foreign currency loans</b>	<b>Total</b>	<b>133.391,2</b>	<b>143.340,3</b>	<b>143.273,6</b>	<b>134.660,0</b>	<b>120.968,7</b>
	Economic agents	65.757,2	72.448,3	71.697,6	64.429,2	56.748,1
	Population	66.442,0	69.495,3	70.403,3	68.946,0	62.147,6
	Other	1.192,1	1.496,6	1.171,7	1.284,9	2.073,0

Source: Data processed NBR Monthly Bulletin, 2015.

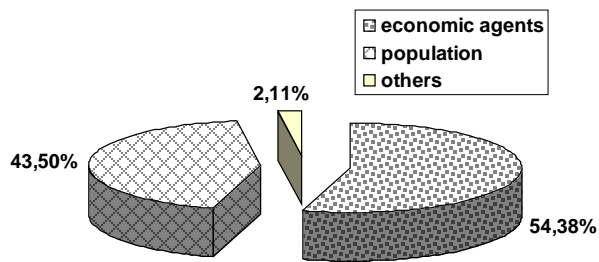


Figure 1. Loans in national money 2014

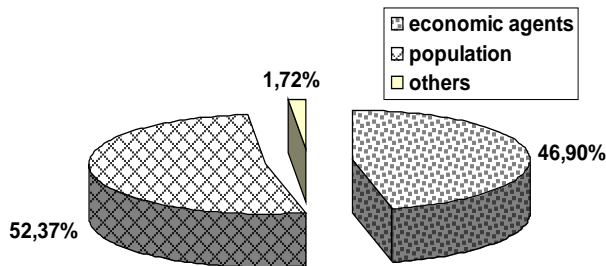


Figure 2. Foreign currency loans in 2014

RON-denominated loans decreased by 0.5% (-0.9% in real terms), while loans in foreign currency (expressed in MDL) decreased by 0.2% (expressed in euro, four loans increased by 0.7%). Government credit in January 2015 increased by 1.5% to 86.801 billion lei. On January 31, 2015, government credit increased by 4.6% (4.1% in real terms) 31 January 2014. [10]

Banks classify target customers after default risk using parameters such as PD, determined on the basis of history recorded in the Bank's existing portfolio.

Depending on the type of risk in the period 2010-2014, the amount of cash loans increased by about 10,000 million from 65,358,000 to 75,968,000 lei in table 3. As regards loans to finance foreign trade operations, these have had a downward trend from year to year.

In the year 2014, of these, 45.591 million lei were consumer loans and 36,088,000 lei, mortgages credit. (Table 3)

Table 3 The structure of loans by type of risk

Years	2010	2011	2012	2013	2014	Million
<b>Type of risk</b>						
<b>Total amount granted</b>	276.178	301.036	308.032	306.786	315.461	
<b>Cash Loans</b>	65.358	70.935	72.952	73.744	75.968	
<b>Loans to finance stock</b>	x	x	13.848	12.492	11.610	
<b>Loans for equipment</b>	x	x	40.887	41.317	42.104	
<b>Loans to finance foreign trade operations</b>	230	238	133	271	73	
<b>Trade receivables</b>	5.940	7.376	7.164	6.664	5.796	
<b>Mortgage loans</b>	x	x	31.068	34.090	36.088	
<b>Other credits for real estate investments</b>	x	x	35.914	35.876	37.786	
<b>Bonds</b>	242	318	296	242	242	
<b>Other loans</b>	32.066	34.393	33.948	33.787	36.712	
<b>Commitments on behalf of the debtor to a natural or legal person</b>	x	x	19.921	19.127	21.126	
<b>Commitments to the debtor</b>	x	x	2.340	1.797	2.365	
<b>Deposits paid for securities transactions in financial instruments</b>	x	-	-	-	-	
<b>Consumer Loans</b>	x	x	49.559	47.379	45.591	
<b>Hire-purchase</b>	x	x	-	-	1	

Source: Data processed NBR Monthly Bulletin, 2015.

Note: x - not applicable

Term loans stood at the end of 2014 the total value of over 315,461,000 lei. Of these, 14.87% were short-term loans, loans 30.05% 55.07% over the medium and long term loans table 4 and Figure 4. Paying bank loans assume more risk types, which are determined either by the quality of the loan

that is either general economic developments or the general structure of the bank.

Bank credit is the most extensive credit. It can be both banks and financial and credit institutions and covers any purpose of the borrower under the conditions set by the bank.

Analysis and classification of the loan portfolio is made taking account of the financial performance of borrowers and their debt service, which is the ability to meet its liabilities when due. Establish

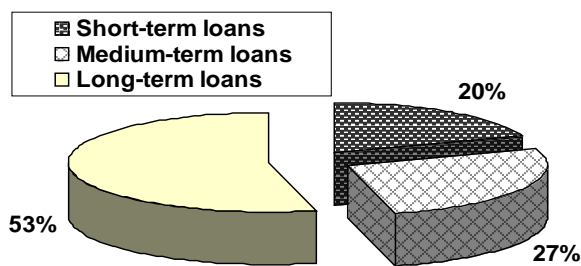
financial performance of loans is based on a system of analysis and classification of economic agents.

**Table 4** Evolution term loans

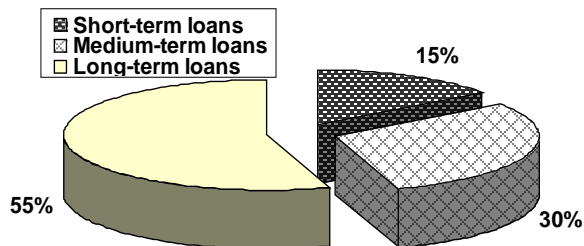
	2010		2011		2012		2013		2014	
	Value	%	Value	%	Value	%	Value	%	Value	%
<b>Total</b>	276.178	100	301.036	100	308.032	100	306.786	100	315.461	100
<b>Short-term loans</b>	54.209	19.62	56.552	18.78	53.914	17.50	45.436	14.81	46.929	14.87
<b>Medium-term loans</b>	73.294	26.53	81.393	27.03	84.889	27.55	88.795	28.94	94.801	30.05
<b>Long-term loans</b>	148.675	53.85	163.091	54.19	169.228	54.95	172.555	56.25	173.731	55.07

Million

Source: Data processed NBR Monthly Bulletin, 2015.



**Figure 3** Term Loans in 2010



**Figure 4** Term Loans in 2014

Credit is a means of bridging the existing funding possibilities in company with production and consumption needs.

Framing traders in one category or another is based on analysis of their economic and financial performance, according to the scores of measurable criteria, in conjunction with quantifiable criteria analysis result.

The result determines the preliminary classification that can be maintained or adjusted according to the conclusions of the analysis of quantifiable criteria, resulting in the final economic and financial performance of the borrower.

### 3. Conclusions

The Romanian banking market there is a wide range of credit products offered to consumers Lending activity is based primarily on the analysis of business viability and realism to identify and assess clients' ability to pay or to generate income and liquidity as the main source of loan repayment and interest payment.

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