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BANK LOAN TYPOLOGY IN FINANCING OF COMPANIES

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Abstract

After a long crisis, economic recovery requires funding in economy, especially of companies by means of commercial banking, in such a way that a credit must become again one of the most important banking products, where deposit interests reached historical minimums. How will banks succeed to stimulate lending, by granting more loans securely, what is the range of products and services under offer in this regard, how will banks succeed facing the new Basel III framework, these are actual questions concerning entire finance banking sector. This article claims to be an introduction presenting typology of credits, subject to short and comprehensive illustration of existing credits, as their classification, instead of marketing principles, is based on exclusively healthy economy principles, universally valid.

Key words:
Banks, credit, types of credit, loan classification, loan guarantee

JEL Codes:
G21, E51, G30

1. Introduction

Struggling to obtain profit and to achieve the best present market opportunities, companies are permanently seeking for capital. As crisis cut-down resources and their own reserves (many companies have disappeared in a macro-economical unfavorable and hostile climate) most opportunities available consist in only different grant funding schemes (European funds, minimis programs as govern granting etc.), or refundable financing (as credits granted under different kinds) granted by financial entities doing banking on the market.

As non-refundable financing is very less used until the present in our country for particular reasons (bureaucracy, lack of knowledge, no counseling etc), below we refer to lending forms done by commercial banks from Romania and abroad, because these are the most used and economical recovery depends on them. We mention that activity of lending, as main component of banking, preoccupied specialists even from the old past times.

This activity leads to occur the great crisis from 2008, spreading on systemic level, first in banking sector, and then all over the economy activities, even social, certifying one more time about great economy depressions have always banking crisis as epicenter, which have appeared obviously by a lack of proper credit risk management, by a poor monitoring, and legal framework less regulated. As result, great players of banking industry had tend and desired to return on traditional banking, to return on regular lending products, which can be easily monitored and regulated, including grace to the new Basel III framework implementation, and to the CRD IV package, on the European level.

2. Aspects regarding banks lending activity.

Even from the ancient times, commercial banks have been considered as entities of credit with main activity of collecting deposits or other funds and grant them as returnable credits. Credits granted by banks with maturities over short, medium, or long term, should be covered from resources collected by bank on similar terms. This fact really represent a continuous concern for bank, sometimes hard to achieve, as the bank plays a role of financial intermediary, and can alter the nature of maturity on deposits, with the reason of gain, safeguarding possible time mismatch.

Under actual conditions, banks take a place and a role well settled in economy, a role dealing with their position as main intermediary between savings and investments, by providing savings to those who are asking funds for financing needs covering. Companies are immobilize their own financial assets for sustaining production activity, their trade, and investments, and a part of these finance needs are covered by own resources, but also by requesting banks finance resources (Paraschivescu A., 2009). Credits become an essential instrument in private sector development especially in countries where companies easily were beneficiaries of finance facilities.

Nevertheless, credits must be granted only meeting the rules and existing procedures, only under warranty according the need of guarantee expressed by each bank, where refunding resources are sufficient for the debtor. Banks as they are companies too, must undertake in a profitable manner, for assuring the existence and continuity for medium and long term, according to development policies. Lending activity must not be a goal, but merely a profit activity, particularly avoiding excesses, speculative transactions, or without great risks taking, with a positive impact in bank balance.

Credits have a double function: to cover finance needs of companies for better undertake or development activity, and to answer the main play role of intermediary in economy for banks who grant credits in condition of prudential and reasonable gain, to assure their continuity and business development, by measurable risks, easily managed risks, meeting the rules and existing regulation.

3. Bank credits typology

Starting over the form of lending we can say there is several classification ways of bank credits, opinions expressed being based on theory and banking practice.

Some of main points of view regarding classification criteria, and credits forms for companies are described as following.

Depending on credits portfolio quality (Petrascu D., 2008) bank credits are:

- performing credits, those loans under execution with non accomplished time, and debtors have refunded all obligations to the bank in that moment;
- credits non returned at maturity, those loans unpaid on settled terms according to contracts.

From National Bank of Romania point of view, based on financial performances of companies and their capacities to support debts to bank (according to BNR matrix and table 1 below) credits are:

- standard credits: granted to clients having good and very good financial performances encountering no refunding late;
- credits under observation: granted to clients with good financial performances, but sometimes facing with problems in refund annuities and interests, an issue settled rapid in a predictable time, and immediately;
- sub-standard credits: granted to companies with good and better financial performances, but encountering refunding late more than 7 days;
- doubtful credits: granted to companies with poor financial performances, or being late in refunding annuities and interests several times;
- credits in loss: granted to companies with poor and very poor, with a severe risk of non refunding.

Table 1. Classification criteria for credits on non banking sector

DEBT SERVICE	**FINANCIAL PERFORMANCE category**				
(DAYS)	**A**	**B**	**C**	**D**	**E**
0-15	Standard/loss	Under Observation/loss	Sub-Standard/loss	Doubtful/loss	Loss/loss
16-30	Under observation/loss	Sub-standard/loss	Doubtful/loss	Loss/loss	Loss/loss
31-60	Sub-standard/loss	Doubtful/loss	Loss/loss	Loss/loss	Loss/loss
61-90	Doubtful/loss	Loss/loss	Loss/loss	Loss/loss	Loss/loss
> 91	Loss/loss	Loss/loss	Loss/loss	Loss/loss	Loss/loss

Source: National Bank of Romania

Depending on the financial entity the funds are coming for lending, credits are as follows (Moise I., 2011):

- financing from BEI (European Investments Bank established under Rome Treaty by Member States, with headquarters at Luxembourg) in regard of projects in all economy sectors mentioned below:
- development projects for regions less developed;
- projects aiming at companies modernizing or new activities creation;
- projects of mutual interest for several member States, at a large-scale.
- financing from BERD (European Bank for Reconstruction and Development established in 1991 for support development in private sector in a democratic environment in 28 of ex communist countries across Central Europe to Asia) in regard of financing private undertakings mostly alongside the commercial partners. In Romania are financing projects such as goals:
- continuing support for infrastructure development by a transfer to private property and trade of energetic facilities;
- continuing support to private sector, mainly in agriculture;

- contributing to financial intermediation widening.

It is better to know and note that CEB (Central European Bank) and IMF (International Monetary Fund), the two great financial entities don not make finance to companies.

Credits may be grouped under several criteria (Beju D., 2004):

- depending on creditor's title we have:
- commercial credit: by loan capital transfer as goods between companies;
- bank loan: by loan capital transfer as money granted by banks.
- depending on debtor's title we have:
- credit granted to population;
- credit granted to companies.
- depending on both parties involved in credit relationship we have:
- private credit:: without the state involving;
- public credit: undertaken with state involving.

In my opinion, nevertheless the name of commercial banks who is granting finance to companies, or the name of financing according to creditor's marketing policy, the most important classification criteria and credit forms are presented in table 2.

4. Conclusions

Credit may be considered as the star of banking. Starting from this point, and taking in regard the actual context of economical recovery, by stimulate of loans, we have chosen in this article to present in a simple manner, coming from healthy and coherent economical principles, the credits classification and the most important principles which a bank must take in consideration when doing finance.

I mention that this classification does not encompasses commercial issues, of the way of credits presentation by commercial banks, as these issues are on temporary basis, different from a classification based on economical principles unchanged for tens of years, and will be still unchanged for a long time.

Moreover, a carefully reading of issues presented in this article, regarding credits typology, will help lecturers less familiar with banking sector to easily understand the manner of credits classification, starting from main characteristics, with several points of view as specific examples.

Table 2. Criteria of classification and forms of credits

Criteria of classification and forms of credits
Depending on maturity, credits are: - short term credits (up to one year, inclusive); - medium term credits (from 1 to 5 years, inclusive); - long term credits (over 5 years).
Depending on standardization level, credits are: - Standard credits as loans granted according to approved specifications of the product; - Non Standard credits – granted according to the bank lending policy referred to any credit opportunity which not included in standard parameters of the product, standard specifications toward the late, accepted guarantee types or those guarantees exceeding standard granting competences etc.
Depending on refund mode, credits are: - credits having periodic annuities: loans with periodic refunding composed mainly from rate and interest (monthly, trimester basis, semester basis etc); - credits without periodic annuities, such as: Card of Credit, credit lines overdraft, credits "bullet", permitting a refunding at maturity time. On these credits debtor is paying interest monthly, and may be the case, according to product particularities, the bank may impose a minimum refunding revolving on monthly basis from used amount.
Depending on their finality, credits are: - Credits granted for finance current activity, or credits of treasury; - Credits granted for investment.
Depending on disbursement mode, credits are: - credits in cash where withdrawals are payments, or cash withdrawals; - credits / agreements non cash where withdrawals consist in conventional promises such as letters of guarantee ceilings.
Depending on destination, credits are:

Criteria of classification and forms of credits
- credits intended for production, for current activities or speculation; - credits for inventory financing or debts financing; - credits for investments.
Depending on guarantee mode: - credits with collateral guarantees: mortgages, forfeits, inventories; - credits guarantee by means of assignment of receivables; - credits guarantee by FNGCIMM (National Guarantee Fund for SMEs Lending); - credits guarantee by collateral in cash (deposits); - credits guarantee by SGBs; - credits guarantee by personal assets belonging to shareholders / administrators

Source: author processing

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