THE INFLUENCE OF LENDING ACTIVITY OVER CONSUMER'S BEHAVIOR

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Abstract
Lending activity involves an embedding of general principles which require the analysis of risks incorporated in banking operations, both from a consumer and bank perspective.
Correlated with economic environment shifts, the consumer's definition concentrates a series of individual and group necessities with a decisive role in a possible lending decision.
As socio-economic issue, the consumer is oriented at lending when his income in order to buy goods or services is not satisfactory.
This paper aims at presenting the consumer hypostasis resulted from lending activities, identifying its purposes and risks.

Keywords: *Lending, environment shifts, lending risks, consumer's behavior, individual necessities*

Introduction

According to Michael Solomon, Gary Bamossy, Soren Askegaard, Hogg, K. Margaret, "a consumer is generally thought of as a person who identifies a need or desire, makes a purchase and then disposes of the product during the consumption process"[1].

Richard E. Beck and Susan M. Siegel highlight that "Consumer lending includes all types of credit extended to consumers, either individually or jointly, primarily for buying goods and services for their personal use"[2].

Sustaining Professor Arjun Chaudhuri, Fairfield University, Connecticut, "Consumer behavior is the study of how and why people consume products and services. All behavior can broadly be attributed to three classic influences – the particular characteristics of the individual, the environment that surrounds the individual (culture, subculture, family, friends) and the inherited genetics that constitute the biological makeup of the individual (personality, attitudes, needs)".[3]

Loan consumer rights, along with other addendums, are stipulated in GEO no. 50/2010 regarding loan contracts for consumers, published in Official Monitor, Part I no.389 per June 11th 2010.

The notion of "creditor" includes all legal entities, branches of credit institution and non-banking financial institutions that operate in Romania and grant or undertake to grant loans in its commercial of professional activity.

The consumer, represented by the individual who is acting in purposes structured outside his professional or commercial activities, enters in the lending area activity trough the loan agreement.

In terms of Richard E. Beck and Susan M. Siegel, "a consumer is a natural person who is primarily or secondarily liable on a credit contract- in other words, the individual ultimately

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[1] Solomon, M. R., Bamossy,G., Askegaard, S. , Hogg, M.K, Consumer behaviour- european perspective, Pearson Education, 2010, p. 7.

[2] Beck, E.R. Jr., Siegel, M. S., Consumer Lending, American Bankers Association, 2001, p. 3.

[3] Chaudhuri, Arjun, Emotion and reason in consumer behavior, Elsvier Inc., 2006.

responsible for repaying the loan and a consumer credit is borrowed funds used for personal, family, household, or agriculture – not for commercial or business purposes."[4]

According to the law in force, the credit agreement refers to that agreement in which a creditor, in front of whom the credit consumers are protected, grant, undertake or stipulates the possibility of granting to a credit consumer, as a deferred payment, a loan or another similar financial facility, except the agreement for continuous service or good supply of similar kind, when the consumer pays for this services or goods in rates, throughout their supply period.

Conceptual framework

Coming to aid the consumers, we mention that a credit agreement can be modified according to the new law in force in two ways, namely by addendums and trough the direct effect of the law over the contract.

The first way – trough addendums, the creditor is obliged to evidence the proof that all diligences have been made in way to inform the consumer over signing this kind of addendum. If the creditor is trying to introduce a clause by which he tries to evade the legal provisions, it is considered void, whether the consumer signed it or not.

The second way – trough the direct effect of law over the contract, situation that carries the name "tacit acceptance" is when the consumer does not sign any addendums, no matter the reason or cause.

According to law, it is forbidden the creditor to unilaterally change the agreement, this law restates the "requirement of full contract" that is to include all the charges and costs and the info in respect of which the consumer has no choice, without making references to general business conditions, to general pricing and taxes lists or any other reference.

All these interdictions, addendums and determinations in the credit agreement framework represent the action of the law maker in order to protect the consumer in front of abusive behavior that can appear in banking practice.

The law in force impose and require from banks the following conditions: full and correct informing from the pre-agreement stage forward over the whole contractual agreement, compliance to honest advertising for their offer of credit product, the complete agreement rule, with no references to general business regulations, the pricing and tax list and any other fees or any other references, the interdiction to increase the fees, prices or any other costs over the full ongoing credit agreement, the inclusion of variable interest calculation in the credit agreements and prohibits the unilateral settlement of the interest over the ongoing contract, procedures for amending the credit contract addendums and the impossibility of tacit acceptance of new conditions by the consumer if they do not meet the legal provisions, meaning to provide a document attesting the closing credit-debt settlement.

The quadrant reflected in GEO no. 50/2010 is exposing, in its appendixes both the theoretical info necessary in the loaning relationship and the precise mathematical formulas for annul effective interest calculation and the fact, that for the approved loan there cannot be charged with other than certain fees: file analysis fee or account management fee (this fees cannot be simultaneously collected), compensation in case of prepayment, the insurance costs, penalties for payment delay, unique fee for services at consumer's demand.

In the legal matters it is stipulated that the information, for any customer, must be, clearly and concise over a representative example, visible and easy to read, in the same visual field and with the same character font size.

This elements are: the interest rate of the loan (fixe and/ or variable) together with the info regarding any other fees and costs included in the total cost of credit, the total credit amount, the effective annual interest rate, the duration of the loan, in case of a form of deferred payment for a

[4] Beck, E.R. Jr., Siegel, M. S., Consumer Lending, American Bankers Association, 2001, p. 3.

specific good or service, the purchase price and the amount of any payment in advance and by the case, the total amount payable by the consumer and the total amount of rates.

The creditor, and if necessary, the intermediary shall provide to the consumer, based on the terms and loan conditions offered by the creditor, and where appropriate the expressed preferences and provided elements of the customer, information that is necessary to provide the consumer the meanings for a comparison on offers in order to take an informed decision on whether to conclude a loan agreement.

The information should be provided well in advance, but not less than 15 days (this period can be reduces by written agreement of the consumer) before the consumer is to sign a credit agreement or to accept an offer: on paper copy or other sustainable support.

The information provided refers to: the type of credit, the identity and registered office address and the working point of the creditor, the total loan and conditions governing the drawdown, the duration of the loan, if a credit is given in the form of deferred payment for a specific good or service, the interest rate of the credit; conditions governing the application of the borrowing rate, the interest rate calculation formula, and deadlines, conditions and procedures for interest rate change and, if different rates apply in different circumstances, above all the applicable rates, the effective annual interest rate and total amount payable by the consumer, illustrated by a representative example which is mentioning all the assumptions used to calculate that rate, if the consumer informed the creditor of one or more components for the preferred credit, and the duration of the loan and the total loan amount, the lender must consider these components, the management fees of one or more accounts recording both payments transactions, and drawdown, unless the opening of an account is optional, along with charges for using a mean of payment for both payment and drawdown, any other costs resulting from the credit agreement together with credit conditions, can be changed; existence of taxes, fees and costs which the consumer must pay in connection with the completion, publication and / or the registration of the credit agreement and any attached documents, including notary fees.

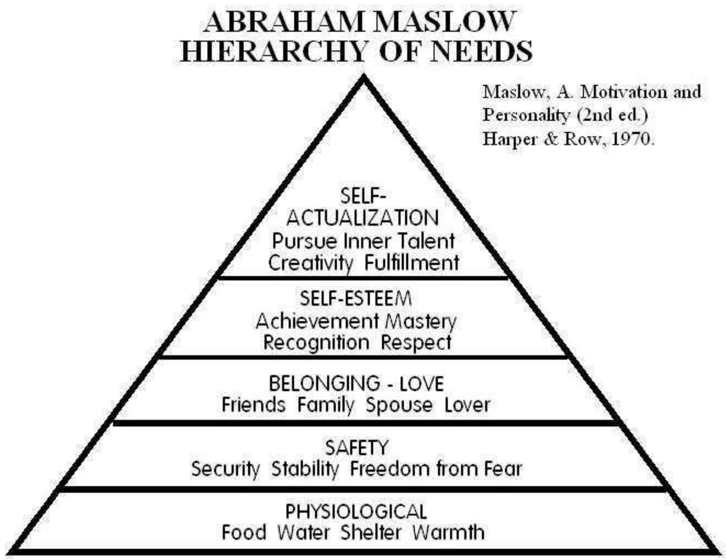
The obligation, when the case, to conclude a agreement for a credit enhancement service is mandatory in order to obtain the loan itself or in order to obtain it in accordance with terms and conditions.

The interest rate, applicable in case of late payments and measures for its adjustment and any other costs incurred by the violation of the agreement, a warning regarding the consequences of missing payments, requested guarantees, the existence or absence of withdraw right, the right of early payment and, if its applicable, the info regarding the creditor's right to compensate and the way it is going to be settled according to terms, the consumer's right to be immediately and costs free informed over the result of database search on trustworthiness, the consumer's right to request and receive a free copy of the draft credit agreement.

Social and economic approach

From a consumer's point of view, lending activity refers at the action taken to contract a loan in order to satisfy their needs or desires (loans for personal needs, loans for buying a home etc).

In order to highlight an overview for consumer behavior, we shall begin with Maslow's pyramid, which establishes the hierarchy of needs.



Professor Geoffrey P. Lantos describes Abraham Maslow`s classification of motives as a hierarchical ladder and an influential system for explaining human and consumer motivation.

Therefore, safety (security) needs involve **physiological and psychological needs** concerned with the need to establish stability and consistency of life, **social needs** (love and belonging, affection, affiliation, oriented toward loving and being loved by others, affiliation social recognition, being accepted by people, and satisfied through relationships, social groups, friends, acquaintances, advisors, **esteem needs** represented by self-worth, self-confidence, and self- respect**, self-actualization needs** related to fulfilling personal potential and devotion.[5]

The factors that influence the consumer's behavior in economic activities startup, according to Phillip Kotler's classification are the following: socio-cultural factors, psychological factors, personal factors, economical factors and demographical factors.

If we extend this factor's influence in consumer's decision assuming for a getting a loan agreement, a individualized vision of it is created.

The socio-cultural factors can be represented by family, educational level, culture, social status, reference groups, social classes.

Under economic-social aspect, the education grants a primordial role in the decision of getting a loan agreement. As a foundation of this decision, the consumer must analyze, with a high level of responsibility, every detail that comes from the consumer-bank relationship. A consumer must realize if he can afford the gradual coverage or prepayment of the loaned amount, if his own behavior or his way of life folds with the terms and requirements of bank's agreement.

Contracting a loan involves a series of steps, a stable trajectory that make the demarcation from a consumer that can assume the risks involved and another one, that will not reach the stage of primary intention, which will reach another option that will cover their needs.

The physiological factors include: motivation, beliefs, attitude, perception, learning.

The correlation between the involved risks of contracting a loan and the benefits of a good financial and banking management involves a homogenization of beliefs with perceptions, the motivation and behavior elements developed ongoing, in concordance with the saying of the American president James Abraham Garfield (1831-1881): "a right motivation is stronger than the force".

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[5] Lantos, P. G., Consumer behaviour in action: real-life applications for marketing managers, Library of Congress Cataloging-in-Publication Data.

The personal factors refer to: age, incomes, way of life, sex, occupation, personality.

Earnings, as a household level, influence the loaning activity trough the coverage of default rate, of commissions and interest provided and also, the reach of its initial purpose.

The age, along with the incomes gained, are representing a condition at contracting a loan, achieving a interdependency strictly base on gaining some results that are going to place the consumer and the credit institution also, in the comfort zone granted by the trustworthiness and seriousness on both sides.

The economic factors include the specifics of the micro environment and macro environment. The great picture of the economy can evidence a crisis situation or a situation that involves the growth of the economy.

The great picture of the economy shapes the population's decision to contract a loan, trough the economical-financial evolution prism. When the growth of the economy, at the whole state level is high, the consumer is willing to contract a credit loan, while the risks are very low or even covered.

In the opposite situation of economic growth, meaning the situation of crisis, the population's decision regarding the contract of loan is subjected to a developed reasoning, with uncertain results considering the general fluctuating activity caused by globally and country changes.

Demographic factors are putting their mark over the crediting activity, evidencing the following notions: birth rate, natural growth – in terms of credit institution, they can be seen as part of a process that develops the idea of potential subject apparition: clients, loan bearers; mortality – carries out the implicit risk assumed by banks, the type of their habitat - rural or urban – the origin of households can fit the consumer both in the optimum and unanimously accepted pattern of accepted client and in the not meeting the conditions for a loan agreement. The type of habitat gains accentuated relevance when it is cumulated with the other environmental factors.

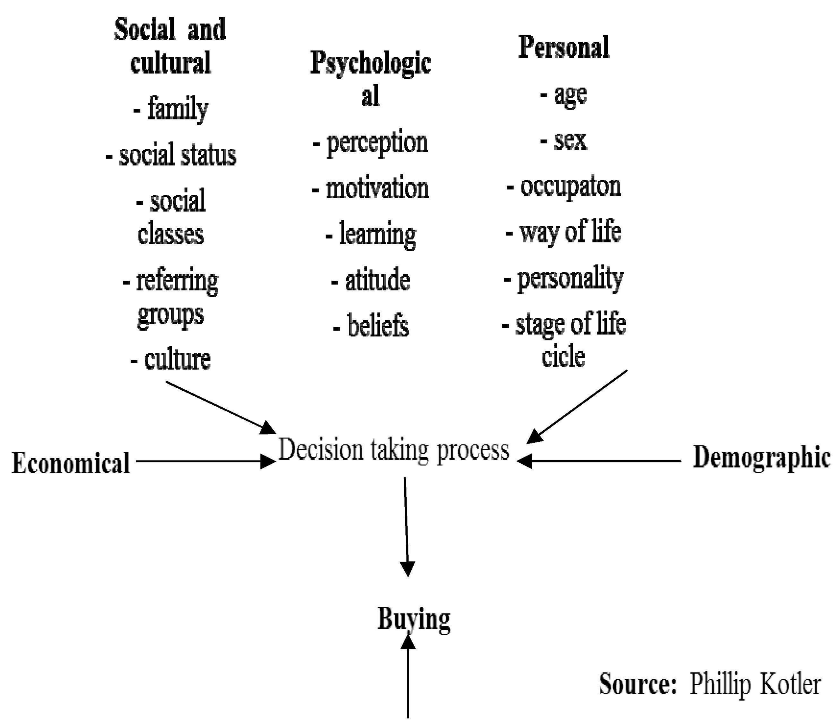

Figure no. 1. Factors that influence consumer behavior[6]

[6] Kotler, P., Armstrong G., Saunders, J., Wong, V., Principiile marketingului, Editura Teora, Bucuresti, 1999.

According to leading micro-economists Angus Deaton and John Muellbauer, "consumer behavior is frequently presented in term of preferences, on the one hand, and possibilities on the other. The emphasis in the discussions commonly placed on preferences, on the axioms of choice, on utility functions and their properties. The specification of which choices are actually available is given a secondary place and, frequently, only very simple possibilities are being considered.[7]

Conclusions

The influence of lending activity is directly proportional to the degree of the risk involved. Higher the level of risk assumed by the consumer and uncovered by financial basis, the higher the fluctuating behavior, instable, behavior that relies in the uncontrollable nature of the economical discontinuities and in the population's incapacity to maintain its solvency resulting from household income level.

Because of unforeseen situation of pseudo-forecasts unpleasant situations for both the bank and the consumer appear. Initially, the bank charges penalties and commissions depending on the contracted loan, so, scripting, the bank benefits of incomes that gradually increase as a result of accounts maintenance and other banking operations. Factual, the bank suffers because the liquidities are not cashed-in, when the person that contracted the loan is in the incapacity of payment and does not own any valuable goods from which the bank, as creditor, could cover the entire loaning structure per individual.

"Consumer behavior reflects the totality of consumer`s decisions with respect to acquisition (including leasing, trading, sharing), consumption, and disposition of goods, services, activities, experiences, people, and ideas".[8]

"Consumer behavior is a complex, dynamic, multidimensional process, and all marketing decisions are based on assumptions about consumer behavior. Consumer behavior can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services."[9]

In a world in which crediting decision is founded on material reasoning, the consumer, as in a credit requester position is assuming the active participant condition in the economical environment. The development of the crediting decision is a crucial moment which influences both the quality of life and the individualized character of the professional frame, the motive why the consumer must assure that the decision that he will take is a optimum one and it can be supported by its own activity.

By this paper, we tried to expose the influences over the consumer, both trough an economic approach and by the description of initiative generating factors which, on a evolutionary scale, mark the birth of determined crediting decisions.

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