

LOAN BROKERS

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Abstract

A loan is probably the most important financial decision we make in life. In a time when lack of time affects us in every way, including financially, we can only appeal to specialists if we want fast, reliable and quality long-term services. „The notion of “creditor” includes all legal entities, branches of credit institution and nonbanking financial institutions that operate in Romania and grant or undertake to grant loans in its commercial or professional activity”¹.

In the case of loans, the "specialist" has been called loan broker. Loan broker is a person trained in intermediating bank loans who offers advice on choosing the best financial solutions for each client. Through partnerships with banks in Romania, the broker has access to their credit products and assist customers in choosing the loan that best suits their financial needs and possibilities. Moreover, the broker will help in preparing loan application to be submitted to the bank and pursue it to its completion.

Loan broker can be defined as the person authorized by the bank or non-bank financial institutions to promote their products through direct contact with natural or legal persons wishing to contract a loan, without any of the parties to have exclusivity. There can be defined as an independent bank or non-bank financial institution, as an intermediary between customers and banks. Through its financial advisors, the company helps customers overcome the difficulty of understanding the credit products, difficulties arising from the multitude of factors that compose such a product, especially in the case of a housing loan or mortgage.

Each financial institution is doing everything possible through such partnerships to attract the largest possible portfolio of clients, therefore is developing a real network of brokers to be partners for local or national level (depending on the sites coverage of the branches of each institution) on one or more types of credit products.

The loan broker advises individuals and businesses in choosing and contracting the most appropriate credit and handles the relationship with the bank (collection and submission of documents, monitoring of file analysis, informing the customer). He is not allowed to approve or reject a case, this decision lies with the bank that takes the file for analysis.

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1. Introduction

For researchers, the study of banks and banking was one of the most fascinating areas of operation. Numerous fundamental or applied memoirs have been dedicated to this sector.

Within the dynamic and diversified notion of economic mechanisms of the market, the issue concerning the specific risk is a complex one, the concept of risk being defined as a conscious and calculated assuming of a reality. It is true that nothing venture nothing have, but equally true is that superficial or partial risk taking does not always guarantee the expected gain.

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¹ Stefan-Duicu, Adrian, Viorica Mirela, Stefan-Duicu, *The Influence of Lending Activity over Consumer's Behavior*. Lex ET Scientia International Journal (LESIJ) XVIII-1 (2011): 261-268.

Compared to other sectors, the role of banking system in a country's economy has continuously increased due to the rising complexity of banking.

Implementation of an efficient bank management is needed to increase efficiency and optimize banking profit-risk correlation. In this respect, the bankers should pay attention to the principle of profit center in the operation of the bank. However banks that want to have a profitable activity in conditions of a competitive banking scramble and to cope with risks need to identify market needs and choose that strategic position on the market which compatible with its own management.

Bank performance is a very important analysis tool for bank managers, shareholders and all participants in the money markets. Measurement of bank performance involve analysis of both quantitative and especially qualitative indicators, primarily aimed to determine the soundness of the bank, the extent of its exposure to the various risk categories and especially its level of efficiency.

Along with the transition to market economy and socio-economic development of Romania it was felt the need to modernize and adapt to the demands of the banking sector financing/lending both individuals and especially, companies, regarding realization of development projects and implementation of investment strategies.

In this context also enroll the loan brokers whose activity is aimed at better informing customers about the possibilities for financing and collecting offers from specialized financial institutions.

Generally speaking, are meant as loan brokers the mortgage brokers and brokers for other needs loans. The commission normally comes from the individual or the institution that provides a credit loan, but there are cases in which the loan broker charges as well the client who needs a loan without the bank's knowledge of such a practice .

In order to better internationally coordinate an alliance was created, the ICBA - International Credit Brokers Alliance, which is the world's largest team of specialists in intermediation of lending financing for trade and business, and credit insurance . Founded in 1999 in Paris , ICBA currently has offices in 24 countries on five continents, ICBA partners combine local service with global coordination and expertise to provide solutions on brokering activities for multinational companies². Serving more than 7,000 customers, ICBA brokers form a global network of entrepreneurs.

In Romania over 500 loan brokers mediates approximately 5 % of total amount of bank loans, the local industry of bank brokerage being at a great distance from the European market, where up to 70 % of loans come from intermediaries.

Considering this figures, one can say that Romania's banking brokerage is a start-up runner in the local market. Currently, between 3% to 5% only of Romanian banks loans are intermediated by loan brokers, according to specialists.

2. Content

Young industry with over 100 companies which have as object the banking brokerage , bank credit intermediation is particularly preferred by individual clients rather than companies and corporate.

Legal entities prefer to borrow directly from the banks which they are working with for current operations. Business clients only calls are related to brokerage services: business plans, feasibility studies and grant projects . Peak periods for loan brokers are those before and after holidays. However, increasing the number of customers remains directly

² <http://www.icba-online.com/about-icba/>.

proportional to the expansion of the network in the territory. For the next five years, bank brokerage industry is estimated to 30 % of the total number of loans granted by banks.

The main **benefits** from using loan brokers are:

- Time saved

One advantage from such a relationship between a client and a loan broker is to give those interested in a loan an opportunity to choose from various types of lending without having to go to several banks. Thus, one can avoid the loss of time spent in many banks looking for the best deals. Specifically, a loan consultant is working on average with 5 to 7 banks and supposedly knows the specific conditions of each offer.

- The opportunity of choosing the right loan

Besides the advantage that all banks credit offer for choosing a loan are being available in one place and at the same time, the customers calling to a broker can make a more relevant image on credit conditions so they can choose the best offer. A loan broker, in addition to providing information about the loans from various banks, help the client understand the information. This is a great advantage because the financial tongue for interests or fees is quite ingenious and can be well hidden.

After a thorough discussion with the client about the financial situation and the goals they want to meet, loan broker will offer a personalized recommendation for financing and thus the client will have a better chance to obtain the credit he needs.

In addition, the consultant will provide a complete list of documents required for the preparation of loan application and show the customer where to get them from and how to fill it in.

Once he draws your credit file and ensure that it contains all the necessary documents, the consultant shall forward it to the bank for analysis and keeps the client updated with the file state, which is analyzed in terms of financial and legal accordance.

- No extra cost

A loan obtained through a loan broker has the same cost as the one granted by the bank. The broker does not take any commission from credit beneficiaries but from the bank only because the bank's broker brings new customers who otherwise it would not have had. Moreover, the broker can provide the bank with better customers than ones the bank itself draw, ie cheaper.

Thus, the bank receives the customer "ready-made" and did not have to spend money by opening branches where the customer should come and by hiring banking advisors to discuss with the client and advise him. For this reason, banks pay brokers a fee for new customers.

Moreover, the bank gains by the fact that it is receiving loan files with a higher degree of approval, as they have already passed through the broker's filter.

In his work, loan brokers can meet different **biases** such as:

- "They get extra money from me"
 - "For sure they send me where they prefer, where they get a higher commission"
- " But how do they know better? "

These uncertainties relating to loan brokers work are leading, in the minds of customers, to the hypothesis that they may have an agreement with a bank or another to sell soft loans in return for higher commissions. The answer to these concerns lies in the legal regulations which stipulate that "all consultants receive the same fee, regardless of the bank which customer chooses".³

Loan brokers are individuals with training and education in this field and guide the client who needs help, due to the dynamics of change products and difficulty in understanding

³ Coman, Vasile, *Why Resort to a Loan Broker?*, 11.03.2008, http://www.ghiseulbanca.ro/articole/66/9519/De_ce_sa_apelam_la_un_broker_de_credite?.htm, accessed on 10 Dec 2009.

all market offerings. CreditLand.eu , for example, operates each client's analysis based upon FinZoom.ro software for product comparisons - therefore relate to all offers available in Romania and select the best deal according to a very precise system.

In addition, some credit brokers may also offer customers free assistance on legal, notary or other matters, especially in the case of real estate loans or those secured by a mortgage.

According to representatives of BCR, working with loan brokers help increase the bank's sales force and therefore the volume and number of loans granted. Disadvantages in such collaborations consist in granting a part of the bank's income on loans to the intermediary partner, additional efforts from the bank in training and marketing.

The number of banks which have loans brokers as sales partners rose to 11 at present. BRD does not cooperate with loans brokers while CitiFinancial, division of individuals funding in Citibank, is working with one broker, preferring expansion of the distribution network through internal means.

Banca Transilvania has expanded through alternative channels of distribution in the estate agencies and car dealers sectors. "The reasons behind this expansion was that most customers requiring loans for cars and/or mortgage first addressed these companies. Moreover, their advantage is that they have already made up clientage and commercial venue needed to run such activities.

Average commissions received by brokers from banks for mortgage loans is approximately 1 % and consumer loans is approximately 2 % - 3% of the loan amount to the client.

Although bank loans have become fashionable among Romanians, they avoid a loan through a loan broker. Maybe that's why the number of companies providing such services is only 30-40.

Romanians trend is to require all information from the credit broker regarding bank offers for loans, then prefer to go by themselves to the bank. The explanation for this behavior is the fear of not paying fees to the credit broker.

To be sure of the professionalism of a loan broker, the client can search the internet to check which are the companies that offer these kind of services, then it is better to seek advice about each company.

Such brokerage companies attract their customers through various methods:

- Online:
 - through their sites that all serious companies have developed;
 - through online applications implemented on relevant sites (eg. real estate or financial news sites) ;
 - promotion campaigns (banners, textlinks).
- Offline:
 - presence at fairs and different events in the domain (loan , real estate etc.) where they directly meet potential clients;
 - presence in the media (articles, interviews, advertising models etc.);
 - distribution campaign of promotional materials (flyers , brochures , banners).
- Client portfolio
 - recommendations received from customers who have already worked with that company.

Currently, loan brokers are increasingly using Internet applications for attracting customers, building financial portals . Thus , customers can find information about both aggregate loan products but also savings , payments, credit cards , private pensions etc. Also they contain sections for educational and information for potential customers: news, guides ,

financial and banking press review, work tools etc . In Romania there are also a number of portals, including⁴:

Table 1 - Addresses of loan brokers sites in Romania

FinZoom Financial Services SRL	www.finzoom.ro
Procredite	www.procredite.ro
CREDIT EXPERT SRL	www.creditepentrulocuinte.ro www.depozite-bancare.ro www.credite-auto.ro www.creditenevoipersonale.ro www.pensiaprivata.ro
Creditlink SRL	www.creditimobiliar.ro

3. Romanian Association of Credit Brokers

Romanian Association of Credit Brokers , the first professional association of credit brokerage companies in Romania , was established in June 2008 at the initiative of the leader of credit brokerage market in Romania - Kiwi Finance. Since its establishment, some other 11 credit brokerage companies have joined the association, which is currently represented in 22 counties in Romania.

Romanian Association of Credit Brokers (ARBC) officially began operations on July 1st, 2008 and its goal is to regulate credit brokerage industry and promote the professional interests of its members⁵.

Along with Kiwi Finance, the initiator of establishing this association, other seven credit brokerage companies are founding members - DBSOL Consulting , Perfect Finance (Credit Zone) , Finzoom Financial Services, Rapid Finance Consult, International Brokers , Easy Credit Invest and Creditlink.

ARBC members are working with 19 banks, 9 leasing companies and five new IFNs and have a commission range of 0.8 to 3% from banks to credit the customer having additional costs.

Any interested customer can visit the official website of the Romanian Association of Credit Brokers , aimed precisely to regulate this sector.

The establishment of this association was required to legitimate the loan broker activity, both to customers and to potential partners. The Romanian bank brokerage field is growing and establishing this association meets the requirements of increasingly mature domestic financial market.

The objectives of the Association are to promote the professional interests of its members in order to regulate the credit brokerage industry in Romania and credit broker profession, establishing a code of ethics for the industry, the organization and ensuring dialogue with third parties - the state authorities, public institutions, non-governmental organizations, individuals and legal entities in Romania -, professional ethics and fair competition, supporting members' personnel in training and education, in addition to the study of different matters of concern to credit brokers and informing members on these issues.

To become a member of ARBC , any applicant must be registered as a trade company, to cater for the credit brokerage market, have a good reputation, to have a minimum capital of £ei 25,000, have at least three months of activity and least five cooperation agreements concluded with banks or non-banking financial institutions .

⁴ Căpraru, Bogdan, *Retail banking*, Editura C.H.Beck, București, 2009, p. 145.

⁵ <http://www.arbc.ro/pages/despre-ar.b.c.php>.

According to ARBC estimates, only five percent of total loans to households are intermediated by loan brokers, but this share will rise to 15 % in four years, according to officials of the institution⁶.

4. Conclusions

Although there are peculiarities in the loans brokers work, which differ from country to country depending on it's development degree, on the appurtenance in a particular area, it can be concluded that everyone win when falling back on a loan broker: saves the customer time and can choose the best offer and can receive expert advice , the bank also saves money and get cheap and pretty more customers and the brokerage company get nice gains from this activity.

Most times choosing a company that is in charge of bank credit intermediation is the effortless option for getting a loan, primarily because there is no more necessary to make trips to the bank.

Also, due to the dynamics of products change at this time and the difficulty in understanding all the offers on the market, it becomes increasingly difficult to contract a loan directly from the bank, which makes customers turn increasingly more to a loan broker.

Given the commitment of the client, he needs a "summary" to guide him to those details that make the difference between a product that favors him or not.

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⁶http://stiri.portal.ro/home/citeste_stire/53551/asociatia-romana-a-brokerilor-de-credite-isi-va-incepe-oficial-activitatea-la-1-iulie.htm.