# CONSIDERATIONS ON ACCESS TO FINANCE FOR NON-FINANCIAL COMPANIES IN ROMANIA

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### Abstract

*The main purpose of this paper is to understand the mechanisms involved in bank lending activity and the effects that this activity has on profitability and business companies. One of the main sources of funding of their work for Romanian companies is the bank lending. Lending is based on the viability of business plans and the debtors' ability to generate revenue, respectively liquidity as the main collateral and source of repayment of loans and payment of interest, commitment to shareholders, management experience and financial stability company. Increasing of the role of major national banks, caused mainly corporate development and financing environment state and the living standards of Romanian benefiting from banking services. However, the European core reforms in recent years has changed substantially all the activities of the banks active in Romania and partnerships with customers and stakeholders and increased both their strategic ability and professionalism.*


**Keywords:** *business lending, banking risks, the strategy of the banks, credit, bank guarantee.*

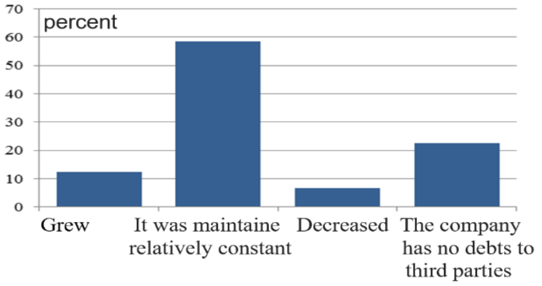
## 1. Theoretical aspects of lending

In recent years, among the majority of entrepreneurs there was a reluctance to invest in their own business or new business or to the increase in production capacity or increase current assets, in the last year this trend was reversed and still sees interest clear to resume investment.

For the private sector to generate growth and create new jobs, it needs long-term and affordable financing. Purely commercial credit, high interest rates and short repayment periods affects return on investment and business development in general.

Because of the crisis, some lenders have become more cautious in granting loans to SMEs, sometimes too cautious while investing too low could cause a credit crunch. In addition, new and stricter rules on, for example, financial institutions and capital requirements, implemented both by national authorities and the EU to make more difficult the access of SMEs to financing. Also, SMEs are often at the end of a long chain of distribution and therefore are most affected by payment delays and payment periods currently used.

**Evolution of the ratio debt / asset during April-September 2015, non-financial companies**




Source: BNR

Note: The term net balance is calculated as the difference between the percentage of those who have noted an upward trend as the share of those who have noted a downward trend as

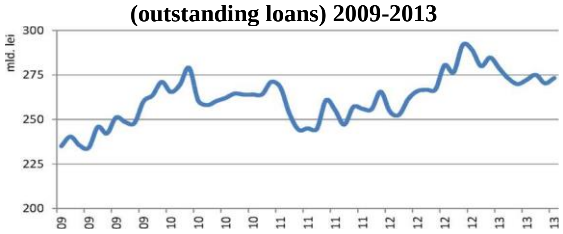
One way of obtaining finance is bank lending or requests a loan from microfinance companies. For small business are better set microcredit institutions that are ready to assume greater risk, because it works with own equity. These lender in a relatively short time and under less rigid compared to banks, however, even if these companies are ready to provide you loan without collateral, attention to interest which is usually much higher than a commercial bank, in some cases exceeding 21%.

There are several types of loans: investment loans (for the purchase of land, buildings, equipment, machinery); credit lines (to support the firm's current activities and needs); co-financing European projects (which aims to ensure the beneficiary's own contribution to the investment project); guarantee funds.

Romania's National Bank published the results of surveys on lending to SMEs [1].

According to these polls approx. 65% of companies do not seek loans from banks or NBFIs and does not intend to request a loan in the near future (62%). Basically two out of three are not interested entrepreneurs to access credit to finance businesses.

**Evolution of credit in Romania (outstanding loans) 2009-2013**




Source: BNR

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The data in the chart above refers to loans to both non-financial institutions or population, and non-monetary financial institutions or public administration.

Microenterprises (businesses with fewer than 10 employees) used in the last six months mainly internal funds or, in other words, as the number of employees a company grows, the company increasingly turning increasingly to external sources (attracted) financing and less on domestic services.

In terms of sector, industrial enterprises were more interested in using both internal sources and sources attracted. Also, companies with innovative potential were more active in searching and combining those attracted domestic sources (37% vs. 31% for non innovative firms).

On the other hand, companies newly established (active for less than two years) are those who, willingly or not, using mostly domestic sources to finance their operations (22% versus 17% for companies with a history of more than two years).

According to statistics they are showing an increased maturity this being possible with the following implications: the need to finance more frequently targeting businesses to invest, but also a lower appetite of the banking system in Romania to finance the current needs of businesses.

The correlation between the currency and maturity of the loan is as follows:

| DECEMBER 2013 | | | | |
|---|---|---|---|---|
| TERM | RON | EUR | OTHER CURRENCIES | TOTAL |
| under 1 year | 50.20% | 25.45% | 57.40% | 37.11% |
| 1-5 years | 28.82% | 31.65% | 19.65% | 30.10% |
| over 5 years | 20.97% | 42.90% | 22.95% | 32.80% |
| **January 2007** | | | | |
| under 1 year | 55.38% | 35.66% | 50.70% | 45.83% |
| 1-5 years | 31.65% | 31.86% | 24.92% | 31.30% |
| over 5 years | 12.96% | 32.48% | 24.39% | 22.87% |

Source: BNR

The credit is a factor of growth velocity of money by streamlining economic, credit and on the other hand is a tool for supporting foreign trade by promoting export propensity operations, and import [2].

## 2. Aspects of the low rate of business lending

Banks have realized the sectors with the most problems and haven't reduced the aid by lending to entrepreneurs.

The largest decreases in the balance of loans and commitments in excess of 20,000 lei were recorded in the sectors of industry, financial and insurance services, according to the National Bank of Romania (BNR).

In contrast, those who received the most loans are public institutions: public administration and defense, compulsory social security, education, health and social assistance.

Even if the government came up with measures and programs designed to support the construction sector, one of the most affected engines of the Romanian economy, the loans granted by financial institutions have been low.

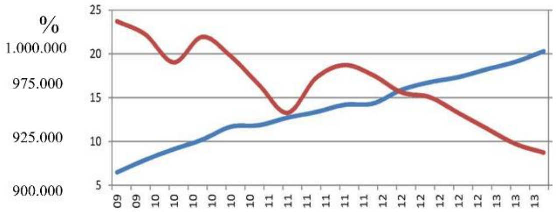
The financial blockage still affect many companies (especially in construction, according to BNR data that over half of firms are affected by this phenomenon), and to resolve this situation theoretically loan is the best solution.

The blame for this situation have both parties bankers believe that the companies are too risky for them to lend and employers to avoid too much into debt in order to avoid companies in insolvency or bankruptcy. The pace of lending fell viewed from two viewpoints, banks and bankers.

In terms of the bank's main reasons that led to blocking lending business in Romania they would be:

Low recovery rate loans due to the large number of companies entered insolvency. Since the crisis have began and until now, according to the National Office of Trade Registry went into insolvency a number of more than 100,000 companies, but what is worse is that although we came out of the crisis phenomenon continues. It is estimated that the number of companies entered insolvency will remain high.

**The evolution of non-performing loans and number of borrowers, 2009-2013**




Source: BNR
NPL - the left hand scale
Number of borrowers (individuals and businesses) - right hand scale

The impact of insolvencies is and will continue to be a major one, considering the record number of medium and large companies entered insolvency. About 40% of companies have brought loss insolvent banking system, representing the main reason for the growth rate of bad loans to companies, while the remaining approximately 60% had a powerful impact on their partners (suppliers, customers, etc.).

Entry into default, by domino effect, strikes in numerous other companies which in turn have loans from banks.

Bad financial management of many companies, according to analysis from COFACE only four out of 10 companies have a working capital needs over 50% of the operating companies of which two values are the limit, but in decline. The remaining six companies are recording a negative working capital (70% of them) or they can not cover its current liabilities from current assets liquidation.

This lack of liquidity is due to the economic crisis of recent years but also from Romanian entrepreneur's habits to get money from companies in order to buy luxury cars and to build huge villas.

In terms of business lending decrease was due to:

- The level too high of interest rates and fees charged by financial institutions, according to the central bank survey, 47% of respondents believe the interest rates and fees above the threshold of affordability and is the main obstacle to access to finance.
- Excessive bureaucracy. Bureaucracy has always existed in the banking system in Romania, but was less visible during the boom. Now that Romania went through a deep economic crisis obtaining a loan has become an ordeal for entrepreneurs. The number of documents required is huge and always you need to bring a new document, transforming all into a nightmare. Initially you are asked to present certain documents needed for analysis (which is logical and perfectly normal), but then almost weekly the bank calls for new documents, and so on until quit. If the borrower still has a few months of patience to bring all required documents, in the end is asked to wait, because it follows an entire procedure of analysis which is done by the central HQ of the bank.
- Lack of transparency of banks. Generally, banks do not disclose all the criteria for granting loans so that company managers to realize in advance if you have a real chance to get this credit. Even worse is that, if the credit is happy approved, the company will be informed on the total cost of the loan only when will be signing the loan.
- Fairly long duration up to provide an answer. In business you do not have time to lose and is important to react quickly to market requirements. If you cannot get hold fast to take advantage of some business opportunities will disappear. A loan request analysis may take 2-3 months, which may be considered in business loss of opportunities.
- The amount of collateral required. Many entrepreneurs consider that banks require collateral too large in relation to appropriations requested. According to the central bank survey that we mentioned earlier in this article about 36% of employers felt that this issue prevents them from accessing credit.

Highly affected by the requested guarantees are companies in rural areas, whose buildings are usually taken in collateral to symbolic values, far below their real value.

The current situation is not good for business. Without bank credit without the support and development opportunities of a company, are they small or big business are reduced.

It is important that credit institutions to lend more companies, to support investment and make investments in government bonds higher, to reduce dependence on foreign funding.

## 3. Bank guarantees and their role in lending

Lending activity consider that the bank should assume to risks related to loans and credit analysis must give assurances that such risks can be accepted under certain risk conditions and guarantees or risks are too high and significantly influence the financial condition of the bank and is not recommended by taking them.

Credit risk involves the assumption of the risk by the bank that, that at maturity of loan, the customer will not be able to meet its financial obligations to it [3]. To this end the bank by its experts, must form an cautious opinion about the real possibility of repaying the loan, the bank must take into account not only the main source of reimbursement for the payment obligation, but also a possible secondary source of recovery receivables (mainly regarding material and financial guarantees to the customer) [4].

Because of stricter requirements on capital, lenders often require additional personal guarantees, in addition to ordinary bank guarantees. It can still create a barrier to entrepreneurs regarding the establishment of an SME or additional investments in their enterprises.

The bank guarantee is therefore the ultimate source of repayment of loans and used only where no other possibilities to reimbursement and payment of interest due.

To recover a credit by using security means making the bank a certain risk, due both to internal factors of security (for example, a security may be theoretically always liquid at the appraised value, but when recovery cannot be traded, with no interest market) and some elements of answers, which Romania takes an aspect of liquidity actual collateral (eg, its market price no longer covers the time of redemption, the value of debts to the bank due to impairment in itself guarantee or depreciation of its market value).

It also requires agencies capitalization of the bank's financial efforts and delays in recovering debts.

According to the law „in the activity of lending, banks shall ensure that applicants present their credibility to repay at maturity. To this end, banks require applicants to guarantee credits under conditions established by their lending standards "[5].

Lending activity is based on the viability of business plans and the debtors' ability to generate revenue, respectively liquidity as the main collateral and source of repayment of loans and payment of interest, provided that the cash flow to be divested their bank and take place through accounts opened it [6].

Debtors' ability to generate revenue can be estimated in different ways to this purpose is compiling a study solvency. In this study, the bank must assess the commitments that debtors have towards others, technical organization and administrative ratio between equity capital and capital raised, the economic areas of activity are targeted credits, why their request, their destination real and immediate way in which debtors split their profits [7].

Credit guarantees is considered one of the basic principles of lending market economy and guarantees requested most often are:

- collateral;
- personal guarantees.

Collateral are legal means to guarantee the obligations of the debtor by treatment of an asset in order to ensure enforcement of the obligation assumed.

Good set up as collateral is protected from pursuing other unsecured creditors (whose claim is not accompanied by any form of warranty, guarantee or has a degree of priority lower than the bank) that is designed to prosecute and satisfaction a priority secured claim.

Bank lending collateral gives the following rights:

- right of preference, based on
- which, in foreclosure, the value of the property up as collateral will ensure full satisfaction of the bank first, and only what will abound for other creditors;
- right of preference, based on
- which, pursuant to which the bank will be able to track asset in the hands of whoever they are, to the extent necessary to satisfy the obligation secured [8].
- pledge (collateral itself, which can
- in turn be affected by dispossession borrower's property as collateral or without dispossession brought its good warranty);
- real estate collateral (mortgage).

Personal guarantees are legal means of guaranteeing obligations through a third person or entity undertakes, in an ancillary agreement concluded with the creditor bank, to pay the debt of the debtor where it will not pay himself.

Personal guarantees take two main forms:

- surety ship;
- bank bail.

Surety ship can be used only when based on a credit agreement concluded fideiussor undertakes to guarantee the debts of the debtor complies with all its heritage and at the same time the following conditions:

- is a free lancer or a legal person legally constituted;
- It is creditworthy;
- It has sufficient assets to ensure that in case of enforcement, the bank to be able to recover all debts.

The bank security materializes, usually a bank guarantee letter which must contain in its content (mandatory):

- name and address of the bank that sustains the guarantee;
- name and address of the person guaranteed by the bank;
- amount of the collateral;
- term
- validity, etc.

Letters of guarantee may have destinations such as the supply of raw materials for duty for participation in tenders, to secure a loan for the establishment of a letter of credit etc.

## 4. Conclusion

In a functioning market economy, a company should be enduring so we can conclude that "companies must show dynamism, flexibility, innovation, adapt easily to changes in the economy and also to quickly grasp market trends".

On the other hand, the activity of any company is profit-oriented and maximizing value for its investors. Achieving these goals is not easy, firms acting in a highly competitive and dynamic environment.

Operation conducted by a company depends to a large extent to the funding policy it promotes. Any business, regardless of its degree of development, involving direct contact with the financial market, specifically with the institutions that mediate mobilization of capital resources and services they provide.

Understanding the financial system of specific financing mechanisms through which savings are allocated to support capital investments and the costs and risks involved is essential for the development of a business on solid foundations.

The financial system is subject to constant changes, adapting to the new requirements of businesses, providing financial resources they need in terms of maximum efficiency in terms of risk and cost.

Financial managers must provide the financial resources necessary for business in a timely manner with the lowest cost place them with the lowest risk and get by using their profits to thank all parties involved in existence and operation of the company.

Currently, temporarily available capitals are fewer and more expensive, and expected profits are harder to come by, accompanied by high risk and difficult to predict.

So, even in conditions of economic crisis for firms in Romania, financing through bank loans is the main solution to cover the financing needs of both current activity and development of their projects.

There is no universally funding solution, one of them could be to develop a wide range of programs, tools and initiatives adapted to cover both equity (such as business angels, financing collective solidarity "crowd funding" and multilateral trading facilities) quasi equity (mezzanine finance) and debt securities (such as bonds for companies with small loans systems and platforms guarantee) and partnerships between banks and other operators involved in financing SMEs (auditors, business associations and SMEs or chambers of commerce) to support enterprises in their start-up phases, growth and transfer, given the size, turnover and their financing needs;

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