The role of banking loans in the management of local development

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Abstract. *Looking from a European perspective and considering historic evolutions, for Romania local economic development is a challenge that must be succeeded by valuing any available resource at its best. Local resources are not always enough for financing the development needs of communities. For progressing, they must be completed with borrowed sources. The banking loan, although it includes collateral costs and risks, represents a resource that must be kept in view and fructified accordingly, for not losing the development opportunities. Having in mind the big variety of lending products offered by credit institutions, the financing needs - of the local public authorities and also of the economic agents and population - can be covered. The capital insertion on the local market by baking loan generates economic increase, social development and can offer new working places to the local community members. Good knowledge of the lending needs, of the advantages, of the costs but also of the associated risks of the lending activity are essential for fully benefiting of such a resource in the local and regional economic and social development processes. Developing a partnership between the lending institutions and all the involved factors, local public authorities, economic agents and individuals, represents a measure that must not only be sustained by the state authorities in charge, but also implemented. An efficient management of the development needs of local communities has offered opportunities for development to the ones that access loans. It also offers possibilities to the lending institutions that grant the loans, to obtain additional profit and restart the lending activity. In the present work, we present the way in which the banking loans may represent a viable option for an efficient management of development process of local communities in Romania and also the ways and means for a responsible management of financial resources.*

Keywords: *banking loan; local community; economic development; local financial resources; insurance against non-reimbursement risk; Romania.*

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Introduction

In Romania, the financing resources available for local development have, each of them, both advantages and certain limitations. While the European funds are limited from the value's point of view and also from the destination's they are granted for, the direct foreign investments are sensitive to the economic crisis, political instability, CDS value, as well as to the lack of predictability of the business environment.

Under the crisis's effect, the bond market reflects the investors' lack of trust in the public sector, especially on a long term. In the public-private partnership, as a result of the diversity of the economic interests, delays in making decisions can occur and also an excessive bureaucracy, fact that limits the investors' appetite. All these mentioned aspects entitle us to affirm that, for the local economic development, the banking loan plays an important role, even if it is considered as a more expensive resource. This financing resource is available both for local public authorities and for entrepreneurs and population, each of them bringing a contribution by their own welfare to the overall local development. By contrary, the recent reality gives us many solid arguments for the fact that the lack of financial resources for regional and local development can hold in place the local communities' progress and welfare. The only opportunity for progressing remains an active and efficient management of the existing (insufficient) resources and identifying attracted and borrowed sources.

The conclusion that derives is that, in this moment, the partnership between local communities and banks is a benefic one, the former as loans requesters and users and the later, as suppliers of financing sources. The action and the proactive solutions are always welcomed rather than the inaction and appealing to motives and difficulties that might hinder evolution.

In the current paper we aim to analyze the actual context and to propose viable solutions for accommodating the strong need for financing of local communities with the need of banks to restart lending on healthy bases and by orienting the financial flows in correct directions, namely where the real economy needs them: investments and sustainable development.

The need for lending in the local economy

The general purpose of this paper is to evidence the impact of banking loan upon local economic development process in Romania. The local economic development varies from a region to another, from a county to another and even from a village to another. This aspect is, of course, found also in other countries, the difference being that, in Romania, the discrepancies between the advanced or medium levels of development and the ones that were left behind are very big, For the later, the existence of financing resources remains vital, being the ”oxygen” source that allows them to survive. Except the allocations from the budget, the public authorities have alternatives to finance the investments of public interest and also the activities that may have as a result economic and social development of the local community, from sources such as: local incomes, structural funds and of cohesion, instruments of public debt, direct foreign investments, etc.

In this context, *the working hypothesis,* we started the research from, is represented by the limited character and the pre-set destination of the resources, other than loans. The offer of the commercial banks, the banking loans and the letters of guarantee are financing alternatives for the investments or for certain activities, both for local public authorities and for entrepreneurs and individuals in any local community in Romania. They are, in fact, limited only by the capacity of reimbursing the loans, as proven by the forecasted cash flow and by the collaterals the borrowers can offer.

The National Bank of Romania, through the interest rate, manages the expansion of the credit and of the scriptural currency. This is why we can state that the interest rate is a fundamental instrument for the monetary policy. The interest is used, with certain limitations, for influencing the inflation and the deflation, for gathering the temporary available savings and for determining the level of investments.

Looking also from the economic perspective, the level of the applied *interest rate* is one of the decisive factors that influence the investments. When the interest rate increases consumption and investments, which have the loan as financing source, decrease and also the investments (fixed assets of long use goods), as a result of the credit cost increase. In these conditions, for observing if the authorities create favorable conditions for encouraging the lending activity, we analyzed the evolution of two of the relevant macroeconomic indicators. The analysis of the situation of the main macroeconomic indicators monitored in the lending activity, respectively the reference interest rate and the inflation rate, reflects their good management as led by Central Bank, even in crisis conditions. The situation of these indicators, on the analyzed interval, 2008-2013, is as follows:

Table 1. The level of the reference interest rate and of the inflation rate between 2008 and 2013 (% per year)

Year / Indicator	2008	2009	2010	2011	2012	2013
The Reference interest rate (% per year)	10.25	8.00	6.25	6.00	5.25	4.00
The average inflation rate	6.30	4.74	7.96	3.14	4.95	1.55

Source: NBR – Monthly Report (December 2008-2013).
The data reflect the situation by at the end of the period.

Within the period 2008 – 2013, the reference interest rate followed a different evolution compared to the average inflation rate. In this time interval, the maximum level (10,25% p.y.) of the reference interest rate was reached in 2008 - the year when the financial crisis started, after that, following a descendent trend year by year, reaching 4,00%, in 2013. It is more than obvious that Central Bank - as the financial-monetary authority - decided, by its implemented policies, to give a clear sign to the market, of cheapening the loans and orienting them towards the real economy. More sensitive to the consequences and the effects of the economic crisis, the inflation rate - although all along the analyzed time interval had a general descending trend: from 6,30%, in 2008 to 1,55% in 2013 – registered in 2010 a maximum level of 7,96% and also registered an increase in 2012 of 4,95% compared to the previous year. In its graphic representation, the evolution of the two indicators shows as follows:

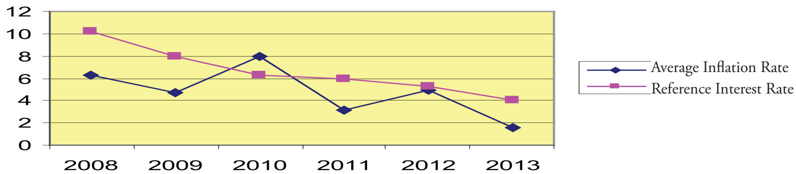

Figure 1. The Average Inflation Rate and the Reference Interest Rate between 2008-2013

Source: NBR – Monthly Report (December 2008-2013).

The data reflect the situation by at the end of the period

The curves of both indicators have a descendent trend, but for the reference interest rate we observe a better control and the lack of peaks, as registered in 2010 and 2012 for the inflation rate.

Despite all this descending trend of the two macroeconomic indicators, we consider that, the level to which the engines of the economy can start and the investments get the appropriate importance has not been reached yet. The level of the banking interests is still too high. Our opinion is also sustained by a recent measure taken by European Central Bank (ECB), that, in June 2014, reduced the monetary policy interest, namely the interest for the refinancing operations, from 0,25% valid for November last year, to 0,15%. They also reduced the interest for deposits from 0% to -0,1%, for the first time passing to the negative side. Banks must understand this signal given by ECB as the end of speculative operations and financial placements and as an immediate orientation towards lending SMEs and making investments in infrastructure, regional development and in real economy. ECB will grant banks an amount of 400 billion euro, for a price with only 10 b.p. higher than the refinancing interest, that is now 0,15%. Just that, this time, banks will not be allowed to use the ECB funds for buying governmental bonds but only for financing SMEs and investments in local economy.

From the performed analysis upon the clear signals from the European Banking Authority, we can state that, also the national authorities in charge placed efforts and created favorable conditions for reviving the lending activity. Yet, this signal must continue, namely for cheapening the loans that had to suffer all along the analyzed time interval (2008-2013) and does not offer real signs of recovery further on. This is why, we consider that, creating partnership bridges between the ones in need of financing sources and the ones that need to find safe and healthy placements destinations, to be very important for re-launching lending. In the following pages, we will come back with scientific arguments for sustaining the fact that banks need as much to re-launch the lending activity and to find viable and serious clients, with a good reimbursement capacity, as local communities need the banks' money. Like in any partnership, for completing the business, it is necessary to apply the win-win principle, for finding a middle way on which, further on, each of the two involved parties to be able to go on. The loans requesters, regardless how much they need the resources, cannot and must not accept just any price/interest conditions, as such an approach will come back to them as a boomerang, when not being able to pay their debts and interests. Such an unwanted situation would affect not only the borrower, but it is known that, it would also affect the banks' financial results that thus have to record non-performance loans (the so-called NPLs). In this paper, we also aim to review the extremely delicate aspect of the huge NPL level, of approximately 22% within the total non-governmental loans granted by the banks activating in Romania. The expenses with the specific risk provisions and the burdened financial statements with non-performance loans are the biggest worry for banks and also for prudential supervision authority currently have. The later is trying and apparently succeeding to identify measures for coming back to normal. Consequently, we explained the need to find an equilibrium level in what the lending cost concerns - expressed mainly as the interest rate level – to be supported by the debtor and thus to allow the lender to go forwards. In what the average active interests' rate applied by the commercial banks in Romania concerns, the situation is presented in the Table 2.

Table 2. The average active interest rate applied by the banks in Romania between 2008 and 2013 (% per year)

Year		2008	2009	2010	2011	2012	2013
Interest (%)	RON	18,01	16,10	11,14	10,84	10,40	7,79
	EUR	7,73	6,13	5,75	5,84	4,84	4,78
Average Rate	RON/ EUR	3,68	4,24	4,21	4,24	4,46	4,42
Interest in Foreign Currency (%)	Equiv. RON	4,89	3,8	2,65	2,56	2,33	1,76
Interest Report (%)	RON/ EUR	2,33	2,63	1,94	1,86	2,15	1,63

Source: NBR – Data Series (2008-2013). Data processed by the authors.

For the time interval 2008-2013, both for the granted loans in RON and for the foreign currency ones, the average interest rate applied by the commercial banks had an obvious descending trend, respectively, for RON, from 18,01% p.a. in 2008 to 7,79% p.a. in 2013, while for euro, from 7,73% p.a. in 2008 to 4,78% p.a. in 2013.

From the presented data, there results that, in Romania, the average level of the applied interest rate for the loans in RON is, for the analyzed time interval, on average, approximately twice higher than the level applied to the euro loans, considering the fact that, the average exchange rate RON/EUR registered a constant increase, from 3,68 RON/EUR in 2008 to 4,42 RON/EUR, in 2013.

The difference between the applied interest rate, for the loans in RON towards the level applied for the loans in EUR, explains the Romanians' tendency to contract loans in EUR, forgetting, in general, about the exchange rate risk and about the fact that the borrowers' incomes are not obtained in EUR. This way, we reached a negative conclusion: due to the yet too high level of the banking interest rates applied by the commercial banks, and having in view the still low background in the respect of financial-banking culture some of the banks' clients have - these do not protect themselves towards the negative effects of the interest rate risk and of the foreign currency risk, that eventually turn into non-reimbursement risk. Due to the two identified root causes (high interest levels and the still reduced level of finance-banking culture), part of the bank's clients take these risks ignoring the negative financial effects they are exposing themselves to.

The identified risks are dangerous and we propose ourselves to transmit a warning signal and, if possible, to also offer solutions for mitigating these risks. For example, one of the solutions for diminishing these risks might be assuring these risks with an assurance-reassurance company, that to undertake part of the negative financial effects if these risks produce effects.

Measuring the benefits brought by lending

By attracting banking loans, the financing beneficiaries can develop their activities and, implicitly, can contribute to the increase of the employment degree. On the other hand, the development of the economic agents' activity generates working places – more or better paid – so that, the employed individuals can increase their degree of satisfying personal needs. This way, the production or services are encouraged, also the needs for intellectual and, implicitly, professional development (payments for studies, for some qualification and specialization courses) or the personal investments (purchasing or renovating houses, cars acquisitions or some other long usage goods).

Starting from this conclusion, we demonstrate that the income input brought by the capital insertion coming from a lending institution into the economic activity of a community can be analyzed and measured at local level, by the functional relation of consumption - as a dependent variable towards the local budget income - as an independent variable (Velicu, 2012, p. 256).

As a methodology of research, we started our analysis from the functional relation:

$$C = 800+0,8 \times LI,$$

where:

C represents the consumption, and

LI represents the income to the local budget brought by the collected tax per profit.

As other researchers in the field also argue (Popescu, 2008, p. 17), according to a mathematical relation as the one presented above, if the income increases with one monetary unit, the consumption will increase with 0,8 monetary units.

In an algebraically expression, $C = 800 + 0,8 \times LI$, represents the equation of the functional relation of the consumption - as a dependent variable, towards the income to the local budget - as an independent variable.

$$\Delta C = C_2 – C_1 \text{ or } \Delta C = 0,8\ (LI_2 – LI_1)$$

By applying this mathematic formula we obtain results that entitle us to affirm that the variation of the consumption (ΔC) is of c' times equal with the variation of the income (ΔLI), respectively:

$$\Delta C = \Delta c' \times \Delta LI$$

The report between the variation of the dependent variable of consumption (ΔC) and the variation of the independent variable of the income (ΔLI) is equal with c'.

In the analyzed example, considering the source for LI to the local budget, we can state as follows:

The capital insertion in local economic activity, by banking loan, contributes the more to financing the social activities, the lower the interest rate applied *by the lending institution is. The higher the capital insertion is, the more the local consumption* (ΔC) *may increase, and based on this, the local income will increase (*ΔLI), from the taxes collected in relation with the salary income paid by the lent SMEs, with the additional profits achieved, with the purchased real estate's properties, etc.

As we stated all along this paper, both partners in the credit transactions should develop an efficient activity. If until this point, we analyzed which are the benefits for those who borrow, in the following part, we will analyze the reasons banks are interested to restart lending.

In what *the lending institution* concerns, we will analyze the economic profitableness of the placement into the granted loan, by using the calculation formula for assets profitableness (ROA – Return On Assets), according to the well-known formula (Treapăt, 2011, p.101), as follows:

ROA = (NET PROFIT /TOTAL ASSETS) x 100

This indicator evidences best the capacity of the financial resources of the lending institution to generate profit.

Simplifying the example, in a working hypothesis, we considered the total assets as equal with the value of the placement made in a loan (RON 1,000,000 in equivalent currency), and, for the net annual profit we considered exclusively the value of the cashed-in interest and the tax per profit (16%) related to this income. In this context, by performing the respective calculations, in a systemized manner, the results are presented as follows:

Table 3. The calculation of the economic profitableness (ROA) of a placement into a loan

Credit Value	Interest Level	Total value of the cashed-in interest (RON)	Tax on income (16%) (RON)	Total net profit (RON)	ROA (%)	Currency rate (RON/ EUR)
1,000,000 RON	10,08	306,600	49,056	257,544	25,75	4,4
227,273 EUR	5,46	166,074	26,572	139,502	13,95	
227,273 EUR	3,00	91,252	14,600	76,652	7,67	

The authors succeeded in demonstrating that, for any of these lending options presented above, the ROA indicator calculated for the made placement is higher than 1, fact that evidences the capacity of the lending institution to generate profit by placing RON 1,000,000.00 in equivalent currency, even in price conditions considered to be favorable for the economic agents (Velicu, 2012, pp. 257-258). Moreover, the calculations made by the authors demonstrate that, even if the bank reduces the interest rate with 45%, namely from 5,46% to 3% per year, the profitability reserves would still exist for the banks. For an interest rate of 5,46% per year for EUR, there resulted a ROA indicator of over 13,95%, that, in our opinion is exaggerated. For a reasonable interest rate, of 3% per year for EUR, there resulted an indicator with a very good level of 7,67%. The working hypothesis, subject to analysis and afterwards demonstrated by the authors by calculations in the Table 3, indicated the capacity of both partners (the lender and the debtor) to make a profitable transaction for each of them, a guarantee for success in business.

The collateral – burden or risk mitigation factor?

The collaterals that have to be constituted in the lending institution's favor, at lending, represent an aspect that must not be neglected in the lending activity. From the perspective of the banking loan applicants, the collaterals are very sensitive points, especially for the economic agents in the start-up category, but not only. On one hand, developing a prosperous business - in absence of capital of own contribution and collaterals - is not possible. On the other hand, attracting, by banking loan, some useful resources for developing the business requires the existence of some collaterals. Particularly, when starting the business, few are the entrepreneurs that have the necessary collaterals for obtaining financing from the lending institutions. This is why, there must be identified a sustainable equilibrium between the capital provided by the borrower, the material collaterals and the capital offered as a loan by the creditor.

The authors of the present work made a research upon the entire banking market in Romania, for providing comprehensive information to interested persons about the complete range of guarantees accepted by banks for the offered loans. From prudency reasons, the commercial banks request to their clients, according to the concrete situation of every loan requester, to bring one or more collaterals, as a mix of guarantees. We analyzed, for several banks in Romania, which are the most frequent types of collaterals they use in the relation with their clients. In the following part, we will present information about the most commonly used ones, respectively: guarantees (LG's), the banking deposit (collateral cash), the assurance for financial risk, pledge, cession of receivables, mortgage, etc.

Some authors (Treapăt, 2013, pp. 65-69) brought the necessary arguments for showing that, for being accepted by the bank, the collaterals must fulfill the following cumulative conditions:

- to have the markets or the potential buyers for the goods proposed as collaterals;
- to be easily turned into cash;
- to be materialized as a title or an authentic document, etc.;
- the goods to be the property of the requester and not to be affected by any receivables;
- the owner of the goods to have the capacity of bringing them as a guarantee.

In the banks where we analyzed this issue, we acknowledged that, not fulfilling these criteria or not identifying further collaterals leads to the impossibility of granting the requested loan. We would like to underline that the loan requests cannot be approved based only on the fact that the goods offered as collaterals by the requesters' can be easily transformed into cash. If, from the financial analysis and of the business plan results that the loan reimbursement and of the corresponding interest are not sure to come mostly from the liquidities generated by the developed economic activity - this being the main source for reimbursement while the collateral a secondary one - the loans are not eventually granted.

A principle met in the banks where we studied this subject requires that the loans granted by the bank and the corresponding interests must be fully covered with collaterals. The value taken into consideration for the tangible and non-tangible assets accepted as collaterals by the banks is calculated by applying a variable margin, according to the dimension of the risk involved by their recovery, as presented below:

Table 4. Types of collaterals admitted by the banks

The Collateral Type	The Estimated Value (%)	The Value Accepted as Guarantee (%)
Non-conditional guarantees (LG's) received from the Government	100	100
Irrevocable banking guarantees, received from 1st rank banks from the European Union	100	100
The banking deposit (the collateral cash)	100	100
The assurance contract against the risk of not paying the loan installments and the corresponding interest (financial risk assurance)	100	Up to 100 *)
The mortgage	100	Up to 80 **)
The cession of receivables (in RON and FX)	100	75
The real estate guarantees, out of which:		
- with dispossession	100	Up to 70 **)
- without dispossession	100	Up to 80 **)
The personal pledges (surety ship guarantee)	100	Up to 100**)
The company pledges	100	Up to 75 cash flow ***)
The business plan	100	½ cash flow ****)
Other collaterals	-	-

Source: The information's at this Table were issued upon the information sources (norms, procedures, reports) in the banks where the research was done.

Table 4 Explanations:

*) The value accepted by the bank for the assurance contract for non paying the loan installments and the interest (financial risk assurance) is according to the clauses of risk coverage stipulated in the lending contract and it may vary between 80 - 100%.

**) These values are upper limit, they usually having lower values keeping in mind the risk of recovery estimated by the bank.

***) The company guarantee is based on the firm engagement from the debtor's side, under authentic or private signature, to wind up the cash flow from its current activity through the bank's cash offices. This is, in fact, a cession of receivables that is not necessary to be legally formalized. The value accepted by the bank is according to the company's financial standing, to the turnover run through the bank's offices, to the company's name and fame within the business community and may reach 75% of the total cash flow run through the bank's cash offices.

****) The business plan may be brought as a guarantee for loans, especially for the SMEs that do not have other types of guarantees available. The bank may admit as a guarantee for the loans maximum 50% from the cash-flow resulting from the business plan, under the condition that, according to the plan, the incomes to be higher than the expenses.

Considering the different liquidity of the various collaterals and the real possibilities the debtors have to issue these collaterals, our opinion is that the most recommendable solution is to use a mix of collaterals, namely, to request the debtors to issue collaterals in various forms and in different shares (e.g. 25% collateral cash, 50% cession of receivables, 25% mortgage, etc.). The banks can accept as collaterals for the granted loans also letters of guarantee issued by other banks and the insurance policies for the loans (the financial risk insurances) issued by the assurance-reassurance companies agreed by the lending bank.

Our aim in making this research upon the banking market in Romania for identifying the complete list of guarantees, is for being able to offer the convenient options of collaterals both to the debtors (as can be seen, the value accepted by the bank is of minimum 75% from the estimated value on the market), and for the bank - this aiming to accept only sure and safe collaterals.

Assuring the lending risk, a financial stability factor both for the creditor and for the debtor

The actual banking reality shows us that granting loans that afterwards may become non-performance represents the main disturbing factor in banks' activity. For reducing the loses from the non-performance loans, the persons that are involved in the lending activity of a bank must action responsibly when evaluating the risks involved by granting loans and make all the necessary efforts for cashing-in at tenor, fact that, in the last few years became more and more difficult. In this context, the assurance against the non-reimbursement risk for the granted loans protects the banks towards the risk of not cashing-in the due amounts from the bank's debtors, this way preserving the bank's cash flow, its liquidity and profitability. But, in the same time, this measure for reducing the credit risk also protects the debtor in trouble, as this will not be forcefully executed and will not find himself in the situation of remaining without patrimonial elements, so necessary for developing the activity.

This way, the assurance against the non-reimbursement risk for a loan, actions as a factor of financial stability. In this case, loans assurance actions as a particular assurance, whose scope is different towards the other types of assurances. This assurance implies, for the lending bank, the protection against two major types of risks: the financial risk - related to solvability, liquidity and the requester's good will and the life risk - related to the possibility that, in the requester's life, a major event to occur such as death or permanent invalidity, putting him in the impossibility to generate further incomes necessary for paying the loan back. In what the financial risk concerns, the banks own instruments and policies for appreciating and monitoring, verified by a long previous experience, but, in what the life risk concerns, the actuarial experience of the assurers is considerably superior. This is the reason why the banking international practice in the lending field requires the loan requester to sign a life insurance policy transferred in the lending bank's favour, thus offering the guarantee of paying the borrowed amounts back, even in the situation in which the debtor finds himself in an objective impossibility to obtain the necessary incomes.

The life insurances assigned to the loans portfolios are much more advantageous if offered in a bank assurance partnership (Brophy, 2013). On one hand, the lending institutions obtain incomes from selling insurance products commissions, but also achieve a significant cost reduction related to the loan administration and also the possibility to immediately and easily recover the loan assured this way, without following the specific steps of hard collections. On the other hand, the assurance companies have a relatively controlled market for selling their products. This partnership arrangement can be profitable for all the involved parties. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance brokers. For the clients, the advantages the life insurance has are both of an economic nature and also subjective. These have the possibility to obtain at reduced costs the guarantee that, if the assured event occurs, the balance of the contracted credit will be paid by the assurer to the lending company. This way, the goods objects to the collateral for the contracted loan remain unexecuted.

The assured risks must be controllable. This way, the insurer requests and the lending institution obliges itself to perform the financial analysis for the loans requesters, at high standards. The simple accept to pay the cost of such a financial non-payment risk insurance, does not qualify the requesters for obtaining the loan if the economic and financial analysis performed by the lending institution does not conclude with the accepted values for the targeted financial indicators (Treapăt, 2011, pp. 252-256).

The international commercial exchanges, the enlargement of the economic and financial cooperation among the states contributes to the local economic and social development. Using the credit for exports can facilitate these exchanges. Performing exports by means of credits engages risks both for the exporter and for the financing lending institution. The risks assigned to the export activity, by their nature, can be grouped in: commercial risks, risks due to natural disasters or other acts of God, political risks and foreign currency risks. For assuring and guaranteeing the loans for export, The Exports and Imports Bank of Romania (EXIMBANK) operates in the market similar to the other banks and assurance companies within the European Union. As Treapăt (2011) argues, EXIMBANK is not the only institution that supports the borrowers to obtain loans from banks, having collaterals offered by third parties. Assuring the loans against the non-reimbursement risk can be performed by specialized institutions, such as National Loan Guarantee Fund, Rural Loan Guarantee Fund and other assurance-reassurance companies agreed by the bank (Treapăt, 2011, p. 30). Where the classical assurance cannot take the risks over, the state interferes by its specific instruments and leverages (Văcărel & Bercea, 2007, p. 284).

Conclusions and solutions for optimizing the partnership based on loan

We appreciate that the banks should be interested in developing the community they are part of and, because of that, in our opinion, they should keep a balance between their own objective concerning the risk dispersion and the general interest, that aims the development of the area and of the region they are part of. They must prevalently sustain some branches considered to be strategic or potentially competitive on the external and internal market and must avoid concentrating the credit risk in sectors of activity that do not have development perspectives… (Treapăt, 2011, p. 29). The actions of Corporate Social Responsibility – CSR (Wood, 1991) of those banks that have such an approach, represent a major benefit that we identify as a result of the cooperation between the two business partners, the bank as a lender and the local authorities, as loans beneficiaries. However, the banks may support the economic and social development at a local level, both by financing public interest investments belonging to the local administration and by supporting the current activity of the local entities by CSR actions.

The investments made in production objectives or in the services area must be significantly stimulated, so that their weights in economy become obvious. Such accomplishments can be supported by optimizing measures we promote:

- increasing the entrepreneurial culture by programs of specialized studies, with strong applicability;

- increasing the banking culture among the individual producers so that the partnership with the banks stop representing a "force majeure" only, but a current practice;

- developing specialty consultancy activities in the field of investments, sustained by governmental

programs, for stimulating the investments among the individual producers;

-improving the lending activity by creating the lending products, with including some flexible components in what the costs (interests/ commissions) concerns;

-paying the lending costs with an active involvement from the lending institutions' side, by granting some convenient and encouraging grace periods to the debtors and by offering them some instruments for assuring and guaranteeing, of the types previously presented in the current work;

-increasing the efficiency of the lending activity, by involving the lending institutions in the development of their clients' businesses, cooperating with the local decision factors for identifying the investments areas that have to be stimulated, for assuring a good correlation and prioritization for the investment loans with the local priorities (e.g. investments in areas that create working places so that, after the investment is done, the occupied population also to access loans or other banking operations);

-the banks have to give up on the immediate temptation to primarily look at the cost of the credit that was and is still high in Romania.

The banks' priority must become, in our opinion, the quality of their loan portfolio, knowing the fact that, the profit cannot occur from non-performance loans and either restarting the lending activity cannot be done with high interest rates and also big amounts of bad loans.

The banks' problems usually reflect the economy's health. The weight of the non-performance loans (NPL) in the total loans has permanently increased in Romania, starting with the crisis debut and reaching, in the moment of writing the current paper, an alarming level of approximately 22%. We cannot remain careless just thinking that NPL indicator reached a level of 32% in Greece and of almost 28% in Ireland. A reason for which we wrote the current work is, among the rest, because the bankers in Romania have constantly complained during the crisis times, about the lack of demand for loans. In the same time, they avoided to take too big risks in the economy, after the lending exuberance in the economic boom period was over and presented a big amount of non-performance loans and risk provisions that push on the incomes and profitability. The non-performance loans reached, by the end of the second Semester of 2014, little over 22% from the total banking loans portfolio. We support the new Central Bank regulation to be applied, so that to allow banks to write-off the non-performance loans, that were fully provisioned and amounting EUR 1,3 billion equivalent, out the balance-sheet. Due to this measure, the non-performance rate would decrease with approximately 17%, and will allow banks to accelerate the lending activity.

A solution of optimizing and stimulate the benefic partnerships based on loans is, in our opinion, the loans securitization. The Romanian banking system misses the loans securitization. In conditions in which the banking loan represents 97% from the financing resources, the difference of 3% (extremely small) being represented by the stock exchange and investment funds, the securitization would have transformed the loans in instruments for transitioning, fact that would determine an increase at the Stock Exchange level. The securitization of the mortgage loans, by mortgage bonds issuing aims to sell the value papers to various investors, this way the banks obtaining additional funds for granting new loans and, in the same time, trying to achieve a corresponding dispersion of the risks assigned to every category assets.

And, at last, while being aware that we currently are in the 3rd millennium, we consider that the banks must turn to operations digitalization, virtual branches development and changing the way they interact with their clients. We believe that the banks have the moral obligation to be prepared to face the Y generation's requirements that is an exponent of the digital natives (Dumitrescu, 2013) and the nursery for tomorrow's banking clients, the ones that will technologically dominate the future of our country. Equally, the banks also owe something to those who want to physically enter the branches, to ask a councilor about the problems they are concerned about, and also to those who are not well familiar with the high speed internet, the 4G technology and with using the cloud data storage systems, technologies that push the elder clients off the new trends.

We appreciate that, the highest risk we seem to have reached is the fact that the financial and the lending products became so complicated that, the most of the clients cannot understand them anymore (Treapăt, 2011, p. 364). Besides this, there are more and more opinions according to which the change is not only necessary but also mandatory (Bridges, 2004), a change must overlap another one, and from end to end, everything has to be a continuous change.

We, the authors of this paper, consider that, the mirage of the change just for the sake of profits must not be pushed to hazard, that the morality, the correct partnership between the bank and its clients and the presence of the equilibrium in all the actions and decisions, must remain the most important challenge for the transactions with banking loans. And this is why we elaborated this paper.

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