**MONETARY POLICY DEPARTMENT**

# Bank lending survey Glossary

*This glossary is intended to assist the experts of respondent banks in filling out the bank lending survey questionnaire. It defines the most important terminology used in the bank lending survey of the Bank of Albania, revised in May 2018. The revision aimed to align this survey with the international best practices, particularly with that of the European Central Bank.*

**Capital.** Pursuant to the Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania" and Regulation No. 69 of the Supervisory Council of the Bank of Albania, dated.18.12.2014 "On the bank's regulatory capital", this term refers to the regulatory capital[1] required to cover credit risk, market risks and operational risk.

**Collateral.** According to Law no. 9662, dated. 18.12.2006 "On banks in the Republic of Albania" and Regulation of the Bank of Albania, No. 62 dated 14.09.2011, collateral stands for assets held by banks in order to ensure the borrower's collateral execution. Securities, real estate or compensating balances may serve as collateral. A compensating balance is the minimum amount of a loan that the borrower is required to keep in an account at the bank.

**Consumer confidence.** It is based on the perception of households on the current and expected situation of the main economic and financial indicators. Consumer confidence is a combination of assessments of the past, current and future financial situation of households, based on their judgement regarding the political and economic situation. These assessments help them in making decisions regarding residential investments and purchases of durable consumer goods. Theoretically, an increase in consumer confidence tends to lead to an increase in the demand for loans.

**Consumer credit and other lending.** Consumer credit includes any type of bank loan to households for both goods and services purposes, according to Regulation No. 48, dated 01.07.2015 of the Supervisory Council of the Bank of Albania "On consumer credit and mortgage loan", and Law No.9902, dated 17.04.2008, "On consumer protection", amended. Typical examples of loans in this category comprise loans for financing the purchase of motor vehicles, furniture items, household appliances and other consumer durables, holiday travel, etc. Overdrafts and credit card loans also typically belong to this category. Loans included in this category may or may not be collateralised.

**Cost of funds and balance sheet constraints.** The bank's capital and the cost related to the bank's capital position may turn into a balance sheet constraint. In turn, the expansion of its lending may be deterred. A bank's liquidity position and its ability to increase capital in the market can potentially affect its own loan supply, with reference to a given level of capital. When a bank knows it will not be able to expand the required capital for granting a certain loan, it may eventually decide to abstain from granting a loan, or show reluctance to lend. In addition, NPL-related risks may be reflected in the bank's risk perceptions as well as in a higher cost of funds and balance sheet constraints.

**Covenant.** A covenant is an agreement in the form of loan contracts, especially with reference to enterprises, whereby the borrower affirms to take certain action (or not to take certain action in order to obtain the required loan. The stipulations are part of the terms and conditions of a loan and may influence the banks 'credit.

**Credit standards.** Credit standards are the internal criteria a bank applies for loan approval. The standards are determined before the negotiation of the terms and conditions of the loan and the respective decision approving or rejecting it. They determined the desirable and undesirable types of loans, the priorities by sector or geographic location, the collateral considered as acceptable and unacceptable, etc. Credit standards set out the required characteristics (e.g. balance sheet conditions, income situation, age, employment status etc.) of a borrower for a successful loan application. Some changes that may result in an eventual change in credit standards are the bank's cost of funds,

[1] *Capital accounted for banking supervision purposes, including different capital and reserves categories, as well as other elements that are defined by the Bank of Albania by sub-legal acts.*

balance sheet situation, competition, the bank's risk perception, the bank's risk tolerance, or changes in the regulatory framework.

**Credit terms and conditions.** They refer to those of a loan approved and are set out in the loan contract between the bank and the borrower. In general, credit terms and conditions lay down the agreed spread over the reference rate, the loan size, the access conditions and other non-interest rate charges, commissions, non-interest costs, collateral or guarantees, credit conditions and loan maturity. Credit terms and conditions are tailored in accordance with the borrower's characteristics. In addition, they may change together with credit standards or independently of them. For example, higher funding costs or a worsening economic outlook may cause a tightening in credit standards and of the terms and conditions. On the other hand, the bank may decide to leave credit standards unchanged, but change its credit terms and conditions.

**Current and expected developments in the housing market.** One of the factors influencing both the demand and the loan supply, it includes the perception of banks or households about the housing prices outlook. In question 8, 3.b, this factor refers to the risk associated with the required collateral. In question 12, 3.c it refers to expected developments in the housing market, including a rise (decline) in the loan demand for house purchase, due to increase (decrease) in the expected cost of house purchase and/or perceived return from investing in real estate.

**Debt refinancing/restructuring and renegotiation.** This concept is included in the questionnaire as a factor that affects the credit demand. It refers to loan refinancing, loan restructuring and/or loan renegotiations, formulated in the Regulation of the Bank of Albania, No 62, dated 14.09.2011 "On Credit Risk Management by Banks and Branches of Foreign Banks". For borrowers facing financial difficulties, banks may decide to modify the terms of the credit agreement, especially those mainly related to the loan maturity, principal and interest rate; the use of collateral for partial repayment of the loan; or replacement of the initial borrower with an additional borrower. This factor will be considered to have affected the credit demand growth, only in case of changes in contracts that are associated with the extension of the initial maturity or increase in loan size.

Debt restructuring does not include those cases where the borrower's financing changes from bank loans to debt securities instruments in the capital market. Meanwhile, debt restructuring in the form of inter-company loans is already covered under "Loans from non-banks".

**Demand for loans[2].** It refers to gross demand for loans from enterprises or households, to obtain financing from a bank. It includes also any form of the restructuring of an existing loan such as requirements for the extension of the loan maturity, loan size, loan currency etc. It refers to the bank loan financing need of enterprises and households, regardless of whether this need will eventually result in a loan or not. In the survey, banks should assess the developments in demand for loans (both for households and enterprises) compared to a quarter earlier and independently of movements in the price level.

**Enterprises.** According to Law no. 8957, dated. 17.10.2002, as amended, "On small and medium-sized enterprises", a firm or enterprise will be the entity that exercises an economic activity (production, sale of goods and services) regardless of the legal form. In this context, firms represent corporations and small and medium-sized enterprises. This category includes self-employed persons, family-run businesses, who work with handicrafts or other activities, as well as societies

*[2] For the purpose of this questionnaire the term loan is equivalent to the term credit.*

and associations that regularly conduct economic activities. State-owned enterprises, as well as non-resident enterprises should not be considered when filling out this questionnaire.

**Enterprise size.** The definition of enterprise size is based on Law No. 8957 "On small and medium-sized enterprises" dated 17.10.2002, amended. The distinction between large and small and medium-sized enterprises is based on the number of employees and the annual turnover. A firm is considered large if its annual net turnover is higher than ALL 250 million and has more than 250 employees. The other firms are considered to be small and medium-sized enterprises.

**Households/consumers.** Based on the Law No. 9902, dated 17.04.2008, as amended, "On Consumer Protection", a consumer is any person who purchases or uses goods and services to meet his / her own needs, for purposes not related to commercial activity or to exercising their profession. This law considers non-profit organizations consumers as well.

**House Purchase Loan.** This term refers to a loan granted to households by the bank for purchasing, constructing or reconstructing a residential real estate based on the Bank of Albania Supervisory Council Decision No. 48, dated 01.07.2015, "On Consumer Credit and Mortgage Loan". The real estate includes houses, buildings, apartments, or land on which the residential building will be built.

**Loans.** This term refers to the provisions of Law no. 9662, dated 18.12.2006 "On banks in the Republic of Albania". For the purposes of this survey, the loan includes all loans or credit lines to enterprises, loans to households for house purchasing, consumer loans and other loans granted to households. It should be noted that this term refers to the loan granted to residents in Albania and does not include interbank loans and loans to non-residents.

**Loan application.** It may refer to both formal loan applications and informal loan requests, which in a later stage may develop into a formal loan application. When a bank is unable to obtain information on informal loan requests, its response should be referred to the volume of formal loan applications. Loan applications may come from both new and existing bank clients. From existing clients, applications should be included only if the volume of an ongoing loan increases or a new loan is granted.

**Loan margin/spread over a relevant market reference rate.** The loan margin of a bank is the spread over a relevant market reference rate (e.g. EURIBOR, LIBOR or the interest rate swap of a corresponding maturity for fixed rate loans). The type of loan plays a crucial role in determining the margins. The spread shows changes in the bank's lending rates related to changes in the bank's funding cost, and in the borrower's risk, as well as the bank's perception of the bank about the country's political and economic outlook. In detail, the spread reflects changes in bank interest rates independent of changes in market rates (such as Repo, Treasury Bills, EURIBOR or LIBOR).

**Loan rejection** refers to the rejection of a formal loan application. In determining the loan rejection ratio, one should refer to the volume of loan rejections vis-à-vis the volume of loan applications/requests for the respective period. Loan rejections do not include withdraws of a loan application/request by the borrower, for considering the bank's conditions as unfavourable.

**Loan-to-value ratio.** The ratio of the amount borrowed to the appraisal or market value of the underlying collateral, usually taken into account regarding the loans used for real estate financing.

**Marketing campaigns.** This is one factor that affects both demand and supply of loans. Marketing campaigns may affect the loan supply only when credit standards or conditions change. In other cases (when credit standards or terms and conditions do not change through marketing campaigns), this indicator is grouped among the factors boosting the credit demand. If this is the case, respondents should indicate the role of marketing campaigns under "Other factors" in questions 6, and 12, on the factors affecting loan demand for enterprises and households.

**Maturity.** The concept of maturity refers to the original maturity, the duration of the loan as agreed and signed between the borrower and the bank.

**Non-banks.** In general, these are non-monetary financial corporations. They include insurance corporations and pension funds, financial auxiliaries and other financial intermediaries.

**Non-interest rate charges.** These charges are various fees, part of the pricing of a loan. Some examples include, commitment fees on revolving loans, administration fees and charges for enquiries, guarantees and credit insurance.

**Perception of risk and risk tolerance.** It refers to the bank's risk perception and its reaction to developments from the demand side, such as: the actual economic situation and outlook, the industry or firm-specific situation and outlook, the borrower's creditworthiness, as well as the collateral demanded. By contrast, risk tolerance refers to the bank's risk tolerance in its lending policy. It may alter as a result of changes in supply-side factors, i.e. the bank's strategy. Banks' perception of actual risk and their risk tolerance may change in the same or in different directions.