**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.*

**Capital.** Based on the Law No. 9662, dated. 18.12.2006 “On banks in the Republic of Albania” anddecision No. 69 of 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]](#footnote-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 this concept stands for assets held by banks in order to ensure the execution of the collateral from the borrower. Securities, real estate or compensating balances 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.** This indicator 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 would tend to lead to an increase in the demand for loans.

**Consumer credit and other lending.** Consumer credit includes every type of loan granted by the bank to households for personal consumption of goods and services, according to Decision No. 48, dated 01.07.2015 of the Bank of Albania, for the approval of the regulation “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 granted for financing the purchase of motor vehicles, furniture, 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.** Bank’s capital and the cost related to the bank’s capital position can become a balance sheet constraint that may inhibit the expansion of its lending. For a given level of capital, the bank’s loan supply could be affected by its liquidity position and its ability to increase capital in the market. A bank could abstain from granting a loan, or be less willing to lend, if it knows that it will not be able expand the required capital for granting the said loan. Moreover, risks related to non-performing loans may be reflected not only in the bank's risk perceptions, but also in its increase of cost of funds and balance sheet constraints.

**Covenant.** A covenant is an agreement or stipulation expressed in loan contracts, particularly contracts with enterprises, by which the borrower pledges to take certain action (an affirmative covenant) or refrain from taking certain action (a negative covenant), and is consequently part of the terms and conditions of a loan.

**Credit standards.** Credit standards are the internal guidelines or loan approval criteria of a bank. They are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval/rejection decision. They define the types of loan a bank considers desirable and undesirable, the designated sectorial or geographic priorities, the collateral deemed acceptable and unacceptable, etc. Credit standards specify the required borrower characteristics (e.g. balance sheet conditions, income situation, age, employment status) under which a loan can be obtained. Credit standards may change owing to changes in the bank’s cost of funds and balance sheet situation, changes in competition, changes in the bank’s risk perception, changes in the bank’s risk tolerance or regulatory changes, for instance.

**Credit terms and conditions.** Credit terms and conditions refer to the conditions and term of a loan approved, as laid down in the loan contract, agreed between the bank (the lender) and the borrower. They generally consist of the agreed spread over the relevant reference rate, the size of loan, the access conditions and other terms in the form of non-interest rate charges, commissions, non-interest costs, collateral or guarantees, credit conditions and agreed loan maturity. Credit terms and conditions are conditional on the borrower’s characteristics and may change in parallel with credit standards or independently of them. For instance, an increase in the bank’s funding cost, or a deterioration in the general economic outlook can lead to both a tightening in the approval criteria (credit standards) and a tightening of the terms and conditions on those loans that the bank is willing to approve and its customers are willing to accept. Alternatively, the bank may only change its credit terms and conditions (e.g. increasing the required spread to compensate for the additional cost/risk) and leave credit standards unchanged.

**Current and expected developments in the housing market.** This term is one of the factors influencing both the demand and the loan supply. It includes the perception of banks or households about the expected developments in housing prices. 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 house loan demand, 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 demand for credit. 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 Foreign Banks", which implies the facilitations that the bank makes to borrowers facing financial difficulties. These include the facilitations made under the terms of the credit agreement that are 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 loan demand growth, only in case of changes in contracts that are associated with the extension of the initial maturity or increase in loan amount.

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 by the factor “Loans from non-banks”.

**Demand for loans[[2]](#footnote-2).** Loan demand refers to gross demand for loans from enterprises or households, including requirements for the extension of the existing loan maturity. As defined by ECB, it refers to the bank loan financing need of enterprises and households, independent of whether this need will 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 from price level movements.

**Enterprises.** According to Law no. 8957, dated. 17.10.2002, as amended, "For small and medium 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 businesses, who work with handicrafts or other activities, as well as societies 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 enterprises” dated 17.10.2002, amended. The distinction between large and small and medium-sized enterprises is based on number of employees and annual turnover. A firm is considered large if its annual net turnover is higher than ALL 250 million and has more than 250 employees. Other firms are considered to be small and medium 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". In view 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.** Ideally, loan applications should cover formal loan applications as well as any informal loan requests which have not yet reached the stage of a formal loan application. If information on informal loan requests cannot be obtained, the bank's response should be referred to the volume of formal loan applications. Loan applications can be from both new and existing bank clients. However, applications from existing clients 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. Such a spread would capture changes in the bank’s lending rates related to changes in the bank’s funding cost as well as in borrower risk, as well as the perception of the bank about the country's political and economic prospects. 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 the formal loan application. In determining the loan rejection ratio, one should refer to the volume of loan rejections relative to the volume of loan applications/requests for that quarter. Loan rejections do not include cases in which the borrower withdraws a loan application/request because the bank's conditions are considered 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 indicator is one of the factors that has an impact over both demand and supply of loans. Marketing campaigns should be interpreted as factors that affect the loan supply only when the standards or credit 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 stimulating 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.** Theseare various kinds of fees which can be part of the pricing of a loan, such as commitment fees on revolving loans, administration fees (e.g. document preparation costs) and charges for enquiries, guarantees and credit insurance.

**Perception of risk and risk tolerance.** The perception of risk refers to the bank's perception of actual risk and its reaction to developments related to the general economic situation and outlook, the industry or firm-specific situation and outlook, the borrower's creditworthiness, as well as the collateral demanded (demand-side factors). By contrast, risk tolerance refers to the risk tolerance of the bank in its lending policy, which may alter due to changes in the bank's underlying business strategy (supply-side factors). Banks' perception of actual risk and their risk tolerance may either change in line with each other or move in different directions.

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. [↑](#footnote-ref-1)
2. For the purpose of this questionnaire the term loan is equivalent to the term credit. [↑](#footnote-ref-2)