

Alternatives for Adjusting the Debts towards Banks of the Companies facing Financial Difficulties and their Implications

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Abstract: The paper approaches the issue of restructuring of bank loans, under conceptual aspects, but, mainly, in an applicative manner, as financial phenomenon, which manifests itself, particularly within the context of the debtor companies confronted with financial difficulties, especially on the background of the recession and economic crisis. There are analyzed the premises of triggering and technical modalities of making (implementing) restructuring of bank loans, the author identifying perfectible elements and specific implications of it both at micro and macro level.

Keywords: restructuring of bank loans; changing loans' timetable; bank loans' rescheduling; bank loans' refinancing

JEL Classification: G30; G31; G32

1. Introduction

Adjusting the debts towards banks of the companies facing financial difficulties implies a restructuring of bank loans, which are considered the basic products offered by the commercial banks, represents a financial phenomenon less studied, although it is a distinctive issue of great interest. Such difficulties of the companies are not excluded even during the economical boom period, but they are amplified and exacerbated, especially on the background of economic recession or financial crisis (Munchau, 2010), the kind that manifested themselves in recent years, affecting more deeply and wide extended the companies activity and their financial status.

Moreover, it must be remarked that the existence of bank credit in the economy is materialising a typical process, which is done primarily within the context of the relations between banks and companies. But the running of this lending process collides, organically, with the pursuit of real economic processes and the decisions regarding lending for each bank's client must be substantiated by objective consideration of the interdependencies between the two categories of processes ensuring their correlation, primarily in terms of credit granting-repayment

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operations. Such an assumption appears to be essential and should be taken into consideration even from the stage of decision elaboration regarding lending the companies, starting with the analysis and forecast of the client's development, in economic and financial plan, for the entire period of credit reimbursement. Later, as the economic entities (beneficiaries of bank loans) are carrying on financial and economic activities and these are corresponding to the forecasted evaluations from the moment of establishing the original decision by the bank, credit operations, including repayments and interest payments for those granted loans, can be performed without major difficulties and there are not necessary any other re-evaluations likely to lead to any changes of operation.

Often, however, there occur in the evolution of economic and financial activities of the bank's clients significant changes, generated by objective or subjective factors, which naturally are reflected towards the progress of the lending process, making necessary sometimes reviews, under various aspects, of the decisions initially taken, including on resizing and restructuring the repayment or rescheduling payments to banks etc. In this context, we consider, however, that these changes can be designed, in principle, as possible in both directions, they manifesting themselves also as result of inaccuracy of forecasts, but mostly, as expression of different dynamics of the determined variables, which gives to their appearance a normal nature, which should be taken into account, admitting even the need for continuous adapting of the ongoing credit processes.

Therefore, it results as possible, useful and, under certain circumstances, absolutely necessary, the reconsideration of some defining elements that characterize the ongoing bank loans, known in practice under its technical, more general, name of loans' restructuring.

2. Defining and Sphere of Manifestation

In a broader sense, such a concept means changes in the development of credit processes regarding loans previously granted by the bank, starting from the observation of different manifestation of some impact factors against the forecasted evolution that reflects over the economic and financial state of the companies (Moinescu & Codirlasu, 2009). Such changes may occur in both directions and may regard both the global dimensions, structured on the categories (forms) of bank loans, and various other features of these loans. As result, finding the mutations occurred during the lending process of companies, is forcing banks to undertake economic analysis and reviews, to carry out a possible restructuring of loans, according to economic and financial condition that has been reached or is supposed to be reached by the bank customer, in a determined period of time. On this basis, it becomes possible for the bank, in agreement with the borrower and not

only at his request to modify some features of the loans in progress, which means restructuring of these loans.

Approached, however, in a narrow sense, the restructuring of bank loans is conceived as a financial phenomenon typical for bank's relations with those companies, which are unable to make the planned payments on loans and interest repayments under credit contracts.

Such a conception is promoted, especially on the background of the current recession, respectively that of the recent economic and financial crisis. According to this, it appears in the foreground the idea of restructuring the bank loans of the companies in default situations for relatively long periods of time, or threatened by the spectre of bankruptcy.

Obviously, in such cases, the restructuring of bank loans appears to be, in principle, necessary both in terms of immediate interests of the debtor and of the creditor and of the objective interdependencies involved in the economic and financial processes progress, including the lending of companies. Thus, it cannot be ignored the interest of the debtor companies for restructuring their loans, compared with the possibilities of revival their own business and make further the corresponding payments, avoiding the forced execution of the collaterals by the banks, respectively bankruptcy, assuming accompanying losses (Crouhy, Galai & Mark, 2005). Simultaneously, the creditor banks maintain their possibilities to recover such amounts, including earning of some revenues even on the restructured loans, as borrowers succeed to revive or amplify their activities, generating new sources of money. By default, restructuring of bank loans favour at the level of the companies the implementation of new real economic processes, which are, finally, a prerequisite for resumption of the specific flows of the bank credit and fulfil its role in the economy.

It is interesting to note that the restructuring of bank loans has emerged, particularly as a process initiated at the request of the debtor company facing financial difficulties, rather than the creditor banks, but it also requires the review, based on updated analysis, of the decisions (previously taken by the bank) of lending the companies. Thus, it involves also another decision making process, focused on the new realities characterizing the financial-economic activity of the client, with the significance of relaxing the payments regarding the bank loans in progress, which should be made by the debtor companies. However, it has to be noticed that the restructuring process itself can and should be designed differently, especially in terms of technical ways of restructuring applicable, starting from accurate knowledge and assessment of present and future situation of the debtor company, including of the economic and financial environment, internally and externally, in which the company evolves. In this sense, such a restructuring process is justified to be triggered only if the debtor company demonstrates that

encounters real financial difficulties, in a temporary negative context, and easing repayment of bank loans is likely to help it to avoid financial blocking and recovery of activity, which would ensure resuming the payments towards the banks. This process helps, so, to avoid forced execution of the credit collaterals, which would have a major negative impact not only for the company, but also for the bank, which may not be able to recover the loan in an unfavourable economic situation, such as drastic reduction in demand and prices on the real estate market in Romania.

Simultaneously, we think that is natural the design of some alternative ways of achieving the restructuring of bank loans and also their judicious selection for implementation, taking into consideration the real economic and financial states of the debtor company and the accurate assessment of positive or negative effects that may occur both for the customer (debtor) and for the commercial bank (lender). Moreover, from the same angle, we consider it necessary that the modalities to implement the restructuring of bank loans have to be converging with the decisions of monetary and credit policies pursued by the Central Bank. This is necessary, having in mind, especially the implications of bank (overall) lending practice on monetary equilibrium in the economy because they manifest themselves differently in relation with the modality of restructuring of bank loans, which is applied in one case or another.

3. Modalities of Implementing and their Implications

In the context of the current economic and financial circumstances, we note also that banks have started to implement some modalities (methods) for restructuring of loans formerly granted to companies facing later financial difficulties, which cannot meet corresponding payment obligations to banks. They have features and generate implications that differ significantly, and between them, the most relevant appear to be: changing loans' timetable, rescheduling of loans, refinancing (reactivation) of loans. As possible solutions, but applicable in a much smaller measure, there can be mentioned also the transfer of claims, subrogation, novation or delegation and an overview of the restructuring of bank loans process can result also from figure no.1.

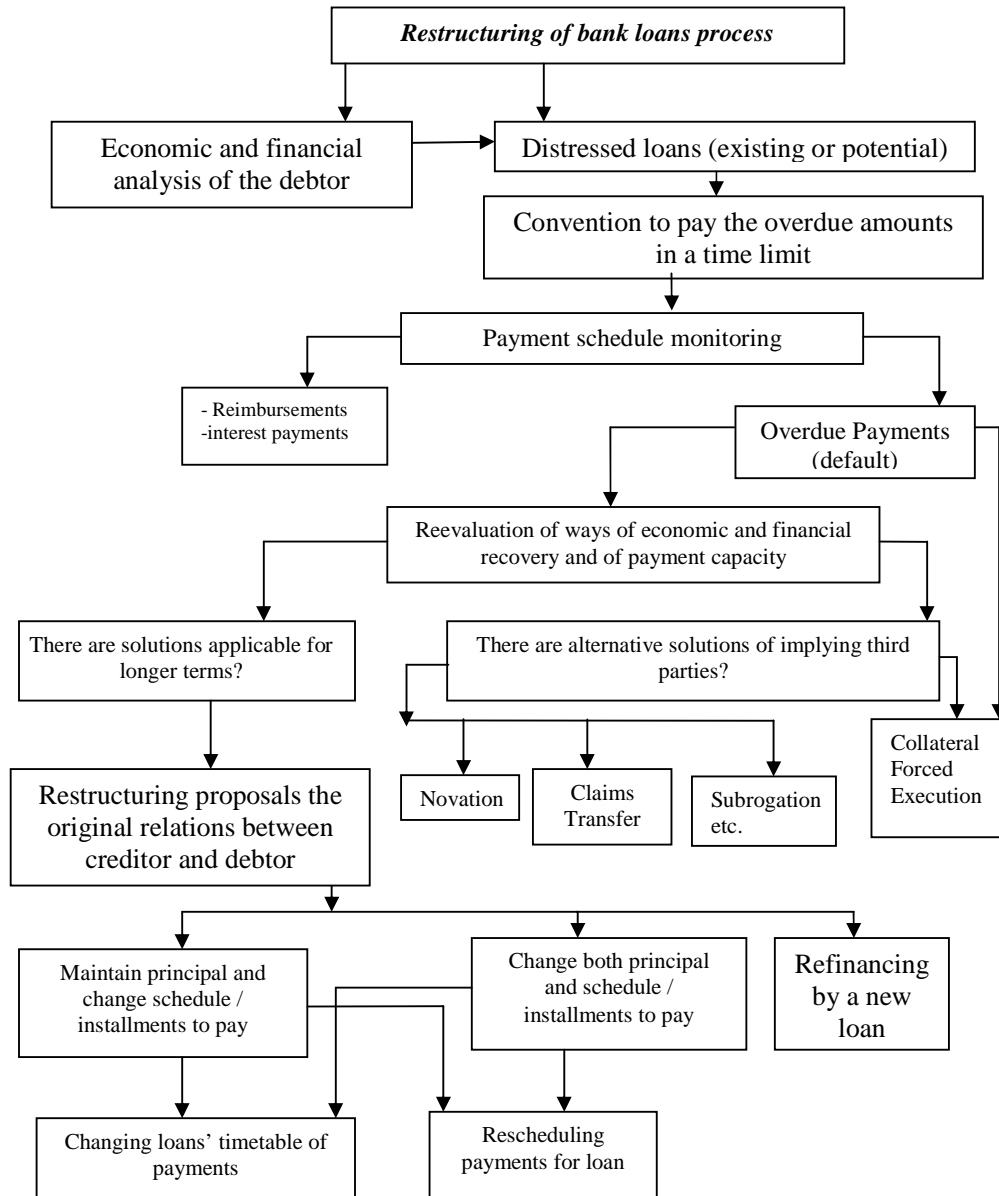


Figure 1. An overview of the restructuring of bank loans process

According to this figure, as a main modality of restructuring the bank loans, may be considered the change of the loan's timetable, which contains as essential technical element the change of payment dates for the overdue amounts for a loan in progress, provided it does not exceed the duration established on the initial granting of that credit. It involves a decrease of short-term financial effort of the debtor, although it may increase the overall amount paid as a result of increased lending period (Dănilă, Anghel & Radu, 2010). Applying the change of loan's timetable can lead to a financial relaxation of the debtor, giving him the opportunity to better manage his available financial resources to overcome some constraints of shorter duration and having subsequent recovery perspective of its optimal financial structure.

In turn, overcoming financial trouble by the company, through changing of loans' timetable, becomes a prerequisite to recovery the debts by the banks, due to resume and amplify of the debtors' economic activity, which can positively influence also the balance and financial monetary economy.

In light of the component elements of changing of loans' timetable, we consider that some of them have, undoubtedly, a strong impact on the results obtainable by its application, as is the case of an appropriate elaboration of a new repayment schedule. Others, however, such as granting of high grace periods (12 months), in which the debtor must repay the outstanding loans, appear to us to be questionable in terms of level of companies self interest to urge the implementation of economic and financial recovery measures, enhancing the new risk assumed by the bank resulted from restructuring the previous granted loan. At the same time, it appears possible the generation of an effect of disorder of the correlation between money supply in circulation and the real size of goods and services offered on the market, with implications on the purchasing power of money.

In turn, the method of restructuring of bank loans by rescheduling payments to be made by the firms in difficulty means to modify the maturity and / or of the scheduled outstanding amounts as liabilities in the balance, but with the possibility of exceeding the initial reimbursement period established for such loan and implicitly, its enrolment to another term category (medium or long term), without being able to overcome, however, maximum term for the specific credit product.

Many of the technical elements of rescheduling resemble those of changing of loans' timetable, including the possibility of granting a full grace period (12 months), while the debtor is not obliged to make any payment to the bank for the rescheduled loan. However, such an element is likely to generate managerial disinterest or ineffectiveness (Saunders & Marcia, 2010), inclusively through delays in implementation of measures to revive economic and financial activities of the companies, beneficiary of rescheduling of bank loans, not being neglected any potentially negative influences of this on the movement of its currency.

The third way to implement the restructuring of bank loans is known as the refinancing (by other credits) and assumes that the bank, having to recover previous loans (with attached interest), has to proceed to the granting of a new loan, to be used by the debtor company for the reimbursement of the ongoing loan and having the size equivalent to the outstanding and overdue amounts of the previous loans, called “overdue loans” or “bad loans”.

From the perspective of the elements that compose the refinancing method currently applied for the restructuring of bank loans it is remarkable, in first place, concluding of a new credit agreement (the restructuring one) having specific clauses, involving cancellation of the previous loan contract or contracts which were in progress. Moreover, in this case, there is the possibility of including within the new loan also of the amount of any debts to the state budget more than 90 days old, accumulated by the company and of granting of a grace period by the bank, during which the beneficiary customer is not obliged to make any repayments.

In relation to its content, it appears clearly the positive impact of the application of “refinancing the ongoing loans” by granting of new loans, with the result of companies’ financial flows unlock, but we consider that this method includes itself the seeds of some disturbance of balance in the financial and monetary sphere, considered at macroeconomic level. In this respect, we believe that, in particular, including the amount of old debts towards the state budget in the amount of the new refinancing loan, granted to the company by the bank, without having a clear counterpart in certain real values can lead to over sizing money supply into circulation, on the background of carrying out the issue function of the bank lending activity, with the possible effects of depreciation of the currency and boost of inflation.

In the context of restructuring methods of bank loans, to which we are referring, a distinctive place is taken by the assignment of claims, subrogation, novation etc. Thus, assignment of debt, which is materialized into the transfer by the bank of its receivables (its customers debts) to third persons, the bank receiving from third parties the amounts owed by its debtors, on the occasion of signing the transfer contract. By its content, this method involves recovery of the specific loan and no other changes of loan’s characteristics. Similarly, if the application of subrogation a third party, pays to creditor bank the debts of its client, taking over, in turn, all the rights (claims) for the amounts that the debtor should have paid or has to pay to the bank. Bigger differences appear when applying the “novation”, which involves changing of the original debtor to another, the latter being the person who assumes the former debts towards the bank. It occurs, so, a transfer of a loan in progress between two borrowers, but which maintains the same relations, only between the new debtor and the same creditor bank. The application of such methods of restructuring of bank loans is less significant, although it brings advantages,

especially for the lending banks, but they assume the existence of third parties, financial potent, interested to be involved in such transactions.

A general scheme clarifying the procedures for analysis and decision (in terms of the bank), involved by the restructuring of bank loans that suggests also the possibility to carry out a decision making process conducted by electronic means, assuming the completion of some characteristic phases, can be structured as in figure no.2.

According to the exposed figure, in a first step, there is made an analysis and it is adopted a decision (approval or rejection) for the loan restructuring requested by a debtor company, which takes place in the local banking unit (front-office). If the decision taken at this level is of approval of the requested restructuring, in another step, this is transmitted (as proposal) to the headquarters of the lending bank. At the central level of the bank it will be taken a final decision (after the reconsideration of the received proposal, especially taking into consideration the risk aspects), which can also be a decision of approval or rejection. Based on the subsequent communication of the decision taken by the bank (towards the bank's customer and local bank's branch), it will follow the proceeding to its implementation by applying the modalities of loan restructuring, as they were approved.

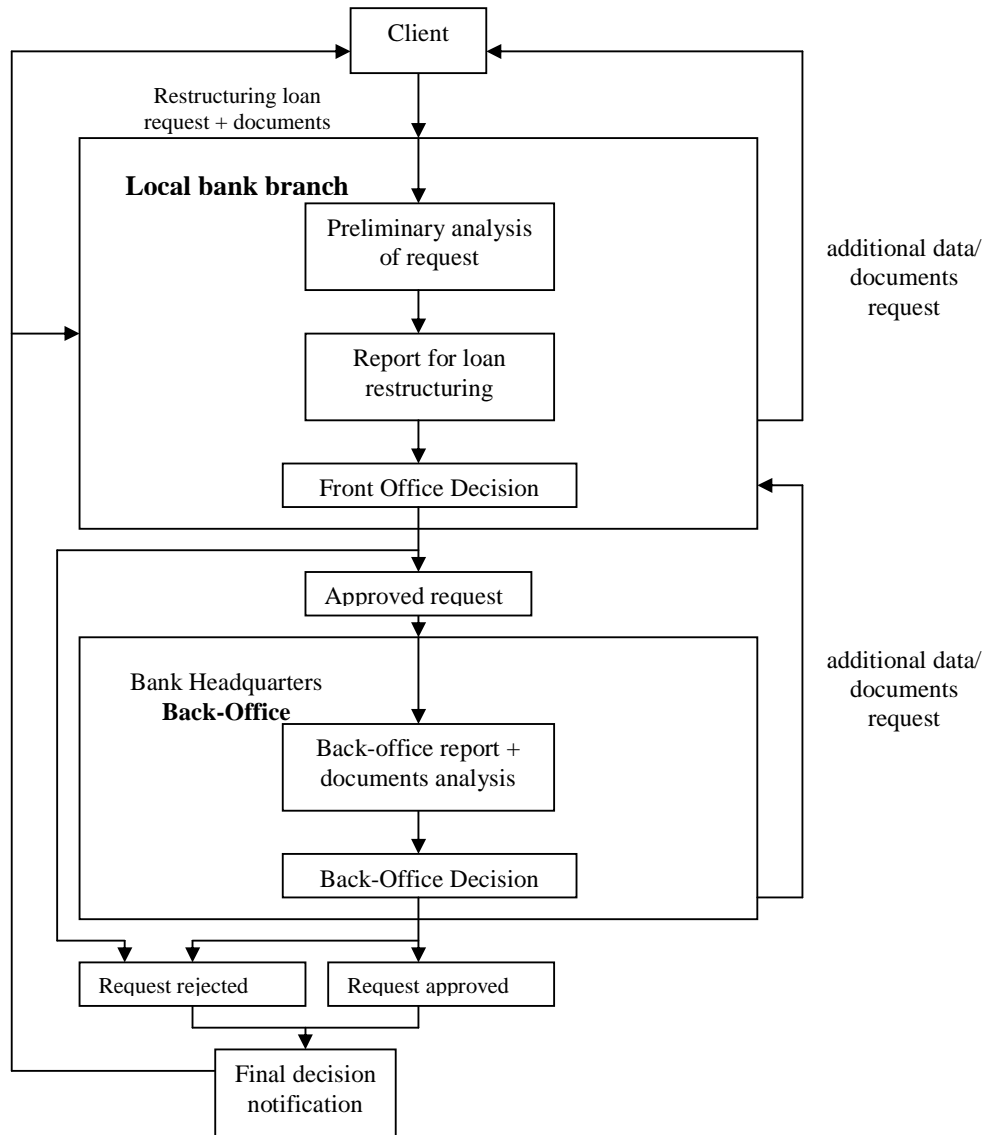


Figure 2. The analysis and decision process of a loan restructuring request

4. Conclusions

In relation to the specific issues and the way of manifestation of the phenomenon of restructuring bank loans it is of particular importance the appreciation that its application does not mean the acceptance, in principle, to extend the state of default or insolvency of the companies, it being a solution, with an exception character, generated by unpredictable reasons, including recession and crisis (Williams, 2010). Its application requires serious analysis and assessments of financial and economic activity of each debtor company, including of the prospects for economic recovery and restoration of its ability to pay, ensuring on this basis also the continuous progress of the payments towards creditor banks. At the same time, we appreciate that, it must be taken into consideration also the existence of some objective prerequisites of this phenomenon and, implicitly, the need for some common concerns from the debtor companies and the banks, in order to permanently pursue the running of the lending process, and to observe the real needs for restructuring of bank loans. From the same perspective, given the objective interdependence and the indicative nature of the projections that characterize the development of the process of bank lending for companies, in our opinion, restructuring of loans may be conceived also as a possible bringing forward of the reimbursements compared to the original maturities. As consequence, there might be permitted early repayments of loans, at the request of the debtor companies (borrowers), with greatly improved financial status, they coming to have sufficient financial resources, including by the faster growth of their equity, without being obliged to bear any possible interest or commissions having penalty meaning.

At the same time, the analysis of the content and of the implications of the main modalities (methods) of implementing the restructuring of bank loans outlines the presence of some similar effects. Out of these, it appears, primarily, the one regarding the relaxation of the payments to be made towards the banks, respectively of the reimbursements, which manifests itself at the level of the debtor companies, these ones being able to run other financial flows in order to continue and develop their activity.

However, from the analysis result also sensitive differences between the alternatives of the loans' restructuring regarding both the necessary premises and the impact potentially negative, determined by the application of each method. In this respect, refinancing of some previous granted loans, including, in the new refinancing loan to be granted, of some other liabilities of the debtor companies, as those towards the state budget, may influence negative the monetary equilibrium of state economy. This, because the use of the refinancing loans, in such conditions, may lead to the abnormal growth of the money supply in circulation and, implicitly, to the depreciation of the currency, respectively to amplifying of inflation.

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