

METHOD TO FIX THE PRICE FOR “YOUR HOME” CREDIT AT RAIFFEISEN BANK

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Abstract: *The price is an important element of the marketing mix that can not be fully controlled through the marketing function and an indication of value for both consumers and banking service providers. It has a leading role in ensuring the creditworthiness of the credit institution. Both directly and especially closely related to costs, the price determines the level and evolution of the supply of banking products and services. The paper aims to investigate the pricing strategies of the banking companies in order to highlight the role and importance of the price in the financial-banking marketing, to identify the factors influencing the formation of the price of financial-banking services, to analyze the main pricing strategies in the banking activity, in particular, to set out how to fix prices within Raiffeisen Bank.*

Key words: *credit, effective annual interest rate, margin, financial-banking marketing, price.*

JEL Classification: *G21, E43.*

1. Introduction

Establishing a fair price, both for the market and for competition, is a significant element in the banking sector. Another important factor to consider is that banks not only set their prices for individual services but also coordinate their package service prices. As competition in banking has increased, setting fair prices has become an essential element of marketing strategy.

The objectives of the study are:

- Description of the nature, role and importance of the price in financial-banking marketing;
- Analysis of the ways of setting the price of financial-banking services;
- Highlighting the main price strategies in banking;
- Determining the pricing arrangements for different banking products and services;
- Identifying the factors that influence the formation of the price of financial-banking services;
- Presentation of service pricing targets.

At the level of any organization, at different times in the life of the banking product (service), other specific objectives can be set, which the management team has to carefully consider in all the price objectives, all the more so since it is known some of the objectives outlined above are sometimes incompatible with different effects on performance indicators.

At the same time, the relevant pricing procedures for banking services are described, three representative price setting situations, among many others facing multi-product financial service providers, and argued that the factors to be analyzed are mostly similar, although the ways of finding the optimum solution may be different, namely: setting the price for a basic service, setting the price for a complementary service and setting the price on the spot (negotiation).

It follows from the above that it is possible to customize the pricing strategy, differentiate it even in the case of organizations with the same activity profile. Broadly speaking, the criteria that differentiate the price strategy refer to three aspects, namely the level, diversity and price mobility. The combination of variants of each such criterion

results in several types of pricing strategies, each of which is also presented in several concrete variants, the approach of which concludes this paper.

2. The nature, role and importance of the price in financial-banking marketing

Given the fact that in the field of services, in general, of financial-banking, in particular, the increasingly strong competition, the setting of fair prices is an important element for the marketing strategy. In the financial-banking field the price concept, viewed in its classic sense, is much less common than non-financial sectors. In this field, a number of specific forms of price have been delineated, and concepts such as interest, first, commission, exchange rate, banking, title, discount rate became known and used. Here is just one of the causes that led to a series of confusion in financial-banking marketing. Although the price of a product / banking service is a relevant element of the mix, being an important source of income for the institution, there are few cases where such importance is diminished, since, for example, a low price is sometimes perceived by the buyer as a negative signal, even as a disadvantage. Used as a marketing policy tool "the price goes into special relations both with the product and the distribution, and with the promotion, on the basis of which it defines a specific position in relation to each one"¹. With the product and distribution, the price occurs in multiple and complex relationships, because it contains both their content and their general and specific components, including the creation and delivery process.

The price offer as an expression of the product on the market is one of the conditions for adopting the pricing policy because the latter can be differentiated according to the way the product is offered, namely: as a global product or as separate individual products. Because each variant has advantages and disadvantages, the choice of one or the other is based on their implications for the bank's activity. The situation is particularly present in the insurance services, the differentiation of deposit products, credit (in the banking field).

The global offer of a banking product or service involves the use of a single price, such method allowing a better positioning of the product and providing a certain average profit margin. The disadvantages of the global offer method are the practical impossibility of knowing the profit margin and, implicitly, the profitability of each partial product, but also the perceived free of charge of some of the components and, last but not least, the inequality perceived in the case of not consuming some of the components, they were paid.

Consumer price perception is different from the role that the provider attributes for at least three reasons: the customer's knowledge of the price, the role of non-monetary costs and the price as an indicator of service quality. Practice has shown that in the banking financial sector, a complex that raises many problems for those involved in this area. This is because "the system of links between price and its factors is more complex and often contradictory to each other"².

3. Methods of setting the price of financial-banking services

❖ Pricing for a basic service

In the case of centrally priced prices, the "price" designed for current personal accounts is a particularly complex issue. For this reason, it can be argued that a current account can be viewed as a service with a low profit margin or even a generator of losses, provided that the margin increase is quantified and controlled in both cases. Thus, the developer of the strategy marketing is "divided" between the desire to have a simple price structure that is

¹ Olteanu Valerica, *Marketing financiar-bancar*, Editura Ecomar, Bucuresti, 2007, p. 119

² Olteanu Valerica, op. cit., p. 171

easy to manage and highlight by advertising and sales promotion companies, and the refusal to subsidize active users to passive ones.

❖ *Pricing of a complementary service*

The main issue at the time of introducing a new or substantially redefined complementary service is the rarity or inexistence of relevant historical data on its costs. Therefore, the developer of the price strategy can solve the problem by Orthodox marketing methods, first establishing the optimal sales price and then estimating the "bearable" production and marketing costs.

❖ *Placement of the price (negotiation)*

Any attempt to approach the "scientific" approach to price policy is losing importance in cases that are fairly common in financial services marketing where a manager or an officer in charge of developing a business must negotiate a fee or commission more or less a little while.

4. Factors that influence the formation of the price of financial-banking services

In the financial-banking sector, in general, and in the banking sector, in particular, the price of products / services is influenced by a wide range of factors, the banking product being extremely complex, never standing alone. In such a context we notes that these many factors influence, more or less, the price charged by a bank for the product (service) delivered. These are both internal factors, endogenous to the bank, under its control, as well as exogenous factors of the bank, external factors, which exert a certain influence outside the institution. On the latter, the bank has little control, sometimes it does not have such control, but it is bound to know the impact it may have on the price.

- ❖ *The internal factors, endogenous* to the bank, refer mainly to its objectives, to the influence of the other components of the marketing mix, to the financial factors (here we are considering the possible costs and risks), etc.
 - *the objectives of the institution* when determining the price of a particular banking product or service, it is absolutely necessary to first take into account the general strategic objectives of the institution.
 - *the other components of the marketing mix (product, promotion and distribution)* are closely related to the pricing policy and service delivery process, any change to one of these having visible consequences on all other.
 - *the financial factors*, we will mention here only two: cost structure and possible risks.
- ❖ *The external factors of the bank, exogenous* to it, exert, as mentioned before, an influence outside of it. We consider the institution's external environment, mainly competition, customer behavior, consumers and intermediaries, but also the bank's shareholders and, last but not least, the legal and institutional framework in the field.

5. Method to Fix the Price for "Your Home" Credit

"Your Home" is a real estate credit granted by Raiffeisen Bank on the basis of a mortgage-backed security I established on the real estate purchased or on immovable property owned by the applicant or third parties. This type of credit can be contracted in both Lei and Euro, for a period of between 3 years and 30 years, and its value ranges between € 5,000 and € 200,000. E.g:

- ❖ Under the terms of "Your Home" loan in Lei (standard offer), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^n \frac{A_k}{(1 + X)^{t_k}}$$

where:

$$S = 10000 \text{ €}$$

$$n = 10 \text{ years} = 120 \text{ months}$$

$$A_k = 125,87 \text{ €}$$

The calculation formula for the variable interest rate is ROBOR 3 Months (5,35%) +Margin (3,5%).

The interest rate = 8,85% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$\begin{aligned} 10000 = & \frac{125,87}{(1+X)^{\frac{1}{12}}} + \frac{125,87}{(1+X)^{\frac{2}{12}}} + \frac{125,87}{(1+X)^{\frac{3}{12}}} + \frac{125,87}{(1+X)^{\frac{4}{12}}} + \frac{125,87}{(1+X)^{\frac{5}{12}}} + \frac{125,87}{(1+X)^{\frac{6}{12}}} + \frac{125,87}{(1+X)^{\frac{7}{12}}} \\ & + \\ & + \frac{125,87}{(1+X)^{\frac{8}{12}}} + \frac{125,87}{(1+X)^{\frac{9}{12}}} + \frac{125,87}{(1+X)^{\frac{10}{12}}} + \frac{125,87}{(1+X)^{\frac{11}{12}}} + \frac{125,87}{(1+X)^{\frac{12}{12}}} + \frac{125,87}{(1+X)^{\frac{13}{12}}} + \frac{125,87}{(1+X)^{\frac{14}{12}}} \\ & + \\ & + \frac{125,87}{(1+X)^{\frac{15}{12}}} + \frac{125,87}{(1+X)^{\frac{16}{12}}} + \frac{125,87}{(1+X)^{\frac{17}{12}}} + \frac{125,87}{(1+X)^{\frac{18}{12}}} + \frac{125,87}{(1+X)^{\frac{19}{12}}} + \frac{125,87}{(1+X)^{\frac{20}{12}}} + \frac{125,87}{(1+X)^{\frac{21}{12}}} \\ & + \\ & + \frac{125,87}{(1+X)^{\frac{22}{12}}} + \frac{125,87}{(1+X)^{\frac{23}{12}}} + \frac{125,87}{(1+X)^{\frac{24}{12}}} + \frac{125,87}{(1+X)^{\frac{25}{12}}} + \frac{125,87}{(1+X)^{\frac{26}{12}}} + \frac{125,87}{(1+X)^{\frac{27}{12}}} \\ & + \\ & + \frac{125,87}{(1+X)^{\frac{28}{12}}} + \\ & + \frac{125,87}{(1+X)^{\frac{29}{12}}} + \frac{125,87}{(1+X)^{\frac{30}{12}}} + \frac{125,87}{(1+X)^{\frac{31}{12}}} + \frac{125,87}{(1+X)^{\frac{32}{12}}} + \frac{125,87}{(1+X)^{\frac{33}{12}}} + \frac{125,87}{(1+X)^{\frac{34}{12}}} + \frac{125,87}{(1+X)^{\frac{35}{12}}} + \\ & + \frac{125,87}{(1+X)^{\frac{36}{12}}} + \dots + \frac{125,87}{(1+X)^{\frac{116}{12}}} + \frac{125,87}{(1+X)^{\frac{117}{12}}} + \frac{125,87}{(1+X)^{\frac{118}{12}}} + \frac{125,87}{(1+X)^{\frac{119}{12}}} + \frac{125,87}{(1+X)^{\frac{120}{12}}} \end{aligned}$$

However, according to the reimbursement schedule, the equation becomes:

$$\begin{aligned} 10000 = & 124,94 + 124,03 + 123,12 + 122,22 + 121,33 + 120,44 + 119,56 + 118,68 + \\ & 117,81 + 116,95 + 116,09 + 115,24 + 114,40 + 113,56 + 112,73 + 111,90 + 111,09 + 110,27 + \\ & 109,46 + 108,66 + 107,87 + 107,08 + 106,29 + 105,52 + 104,74 + 103,98 + 103,22 + \\ & 102,46 + 101,71 + 100,97 + 100,23 + 99,49 + 98,76 + 98,04 + 97,32 + 96,61 + 95,90 + 95,20 + \\ & \dots + 53,67 + 53,28 + 52,89 + 52,50 + \boxed{52,12} \end{aligned}$$

So,

$$\begin{aligned} \frac{125,87}{(1+X)^{\frac{120}{12}}} = 52,12 \rightarrow (1+X)^{\frac{120}{12}} = \frac{125,87}{52,12} \rightarrow (1+X)^{10} = 2,4150 \\ \rightarrow 1+X = \sqrt[10]{2,4150} \rightarrow 1+X = 1,0922 \rightarrow X = 9,22\% \end{aligned}$$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.19%), the annual effective interest rate will be 9.41%.

- ❖ Under the terms of "Your Home" loan in Lei (the offer for home customers), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^n \frac{A_k}{(1 + X)^{t_k}}$$

where:

S = 10000 €

n = 10 years = 120 months

$A_k = 124,52€$

The calculation formula for the variable interest rate is ROBOR 3 Months (5,35%) + Margin (3,25%).

The interest rate = 8,60% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$10000 = \frac{124,52}{(1+X)^{\frac{1}{12}}} + \frac{124,52}{(1+X)^{\frac{2}{12}}} + \frac{124,52}{(1+X)^{\frac{3}{12}}} + \frac{124,52}{(1+X)^{\frac{4}{12}}} + \frac{124,52}{(1+X)^{\frac{5}{12}}} + \frac{124,52}{(1+X)^{\frac{6}{12}}} + \frac{124,52}{(1+X)^{\frac{7}{12}}} + \frac{124,52}{(1+X)^{\frac{8}{12}}} + \frac{124,52}{(1+X)^{\frac{9}{12}}} + \frac{124,52}{(1+X)^{\frac{10}{12}}} + \frac{124,52}{(1+X)^{\frac{11}{12}}} + \frac{124,52}{(1+X)^{\frac{12}{12}}} + \frac{124,52}{(1+X)^{\frac{13}{12}}} + \frac{124,52}{(1+X)^{\frac{14}{12}}} + \frac{124,52}{(1+X)^{\frac{15}{12}}} + \frac{124,52}{(1+X)^{\frac{16}{12}}} + \frac{124,52}{(1+X)^{\frac{17}{12}}} + \frac{124,52}{(1+X)^{\frac{18}{12}}} + \frac{124,52}{(1+X)^{\frac{19}{12}}} + \frac{124,52}{(1+X)^{\frac{20}{12}}} + \frac{124,52}{(1+X)^{\frac{21}{12}}} + \frac{124,52}{(1+X)^{\frac{22}{12}}} + \frac{124,52}{(1+X)^{\frac{23}{12}}} + \frac{124,52}{(1+X)^{\frac{24}{12}}} + \frac{124,52}{(1+X)^{\frac{25}{12}}} + \frac{124,52}{(1+X)^{\frac{26}{12}}} + \frac{124,52}{(1+X)^{\frac{27}{12}}} + \frac{124,52}{(1+X)^{\frac{28}{12}}} + \frac{124,52}{(1+X)^{\frac{29}{12}}} + \frac{124,52}{(1+X)^{\frac{30}{12}}} + \frac{124,52}{(1+X)^{\frac{31}{12}}} + \frac{124,52}{(1+X)^{\frac{32}{12}}} + \frac{124,52}{(1+X)^{\frac{33}{12}}} + \frac{124,52}{(1+X)^{\frac{34}{12}}} + \frac{124,52}{(1+X)^{\frac{35}{12}}} + \frac{124,52}{(1+X)^{\frac{36}{12}}} + \dots + \frac{124,52}{(1+X)^{\frac{116}{12}}} + \frac{124,52}{(1+X)^{\frac{117}{12}}} + \frac{124,52}{(1+X)^{\frac{118}{12}}} + \frac{124,52}{(1+X)^{\frac{119}{12}}} + \frac{124,52}{(1+X)^{\frac{120}{12}}}$$

However, according to the reimbursement schedule, the equation becomes:

$$10000 = 123,64 + 122,76 + 121,88 + 121,01 + 120,15 + 119,30 + 118,45 + 117,61 + 116,77 + 115,94 + 115,11 + 114,29 + 113,48 + 112,67 + 111,87 + 111,08 + 110,29 + 109,50 + 108,72 + 107,95 + 107,18 + 106,42 + 105,66 + 104,91 + 104,16 + 103,42 + 102,68 + 101,95 + 101,23 + 100,51 + 99,79 + 99,08 + 98,38 + 97,68 + 96,98 + 96,29 + 95,61 + 94,93 + \dots + 54,39 + 54,00 + 53,61 + 53,23 + \boxed{52,85}$$

So,

$$\frac{124,52}{(1+X)^{\frac{120}{12}}} = 52,85 \rightarrow (1+X)^{\frac{120}{12}} = \frac{124,52}{52,85} \rightarrow (1+X)^{10} = 2,3561$$

$$\rightarrow 1+X = \sqrt[10]{2,3561} \rightarrow 1+X = 1,0895 \rightarrow X = 8,95\%$$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.19%), the annual effective interest rate will be 9.14%.

- ❖ Under the terms of "Your Home" loan in Euro (standard offer), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^n \frac{A_k}{(1+X)^{t_k}}$$

where:

$$S = 8000 \text{ €}$$

$$n = 7 \text{ years} = 84 \text{ months}$$

$$A_k = 118,09 \text{ €}$$

The calculation formula for the variable interest rate is EURIBOR 6 Months (0,318%) + Margin (6%).

The interest rate = 6,318% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$8000 = \frac{118,09}{(1+X)^{\frac{1}{12}}} + \frac{118,09}{(1+X)^{\frac{2}{12}}} + \frac{118,09}{(1+X)^{\frac{3}{12}}} + \frac{118,09}{(1+X)^{\frac{4}{12}}} + \frac{118,09}{(1+X)^{\frac{5}{12}}} + \frac{118,09}{(1+X)^{\frac{6}{12}}} + \frac{118,09}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{118,09}{(1+X)^{\frac{8}{12}}} + \frac{118,09}{(1+X)^{\frac{9}{12}}} + \frac{118,09}{(1+X)^{\frac{10}{12}}} + \frac{118,09}{(1+X)^{\frac{11}{12}}} + \frac{118,09}{(1+X)^{\frac{12}{12}}} + \frac{118,09}{(1+X)^{\frac{13}{12}}} + \frac{118,09}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{118,09}{(1+X)^{\frac{15}{12}}} + \frac{118,09}{(1+X)^{\frac{16}{12}}} + \frac{118,09}{(1+X)^{\frac{17}{12}}} + \frac{118,09}{(1+X)^{\frac{18}{12}}} + \frac{118,09}{(1+X)^{\frac{19}{12}}} + \frac{118,09}{(1+X)^{\frac{20}{12}}} + \frac{118,09}{(1+X)^{\frac{21}{12}}} +$$

$$+ \frac{118,09}{(1+X)^{\frac{22}{12}}} + \frac{118,09}{(1+X)^{\frac{23}{12}}} + \frac{118,09}{(1+X)^{\frac{24}{12}}} + \frac{118,09}{(1+X)^{\frac{25}{12}}} + \frac{118,09}{(1+X)^{\frac{26}{12}}} + \frac{118,09}{(1+X)^{\frac{27}{12}}} + \frac{118,09}{(1+X)^{\frac{28}{12}}} +$$

$$+ \frac{118,09}{(1+X)^{\frac{29}{12}}} + \frac{118,09}{(1+X)^{\frac{30}{12}}} + \frac{118,09}{(1+X)^{\frac{31}{12}}} + \frac{118,09}{(1+X)^{\frac{32}{12}}} + \frac{118,09}{(1+X)^{\frac{33}{12}}} + \frac{118,09}{(1+X)^{\frac{34}{12}}} + \frac{118,09}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{118,09}{(1+X)^{\frac{36}{12}}} + \dots + \frac{118,09}{(1+X)^{\frac{80}{12}}} + \frac{118,09}{(1+X)^{\frac{81}{12}}} + \frac{118,09}{(1+X)^{\frac{82}{12}}} + \frac{118,09}{(1+X)^{\frac{83}{12}}} + \frac{118,09}{(1+X)^{\frac{84}{12}}}$$

According to the repayment schedule, the equation becomes:

$$8000 = 117,47 + 116,86 + 116,25 + 115,64 + 115,03 + 114,43 + 113,83 + 113,23 + 112,64 + 112,05 + 111,46 + 110,88 + 110,30 + 109,72 + 109,15 + 108,58 + 108,01 + 107,44 + 106,88 + 106,32 + 105,76 + 105,21 + 104,66 + 104,11 + 103,56 + 103,02 + 102,48 + 101,94 + 101,41 + 100,88 + 100,35 + 99,83 + 99,30 + 98,78 + 98,27 + 97,75 + 97,24 + 96,73 + \dots + 77,58 + 77,18 + 76,77 + 76,37 + \boxed{75,97}$$

$$\frac{118,09}{(1+X)^{\frac{84}{12}}} = 75,97 \rightarrow (1+X)^{\frac{84}{12}} = \frac{118,09}{75,97} \rightarrow (1+X)^7 = 1,5544$$

$$\rightarrow 1+X = \sqrt[7]{1,5544} \rightarrow 1+X = 1,0651 \rightarrow X = 6,51\%$$

However, taking into account the analysis fee of 400 € / 1600 Lei and the guarantee fee of 111.6 € (0.168%), the annual effective interest rate will be 6.678%.

- ❖ Under the terms of "Your Home" loan in Euro (the offer for home customers), the annual effective interest will be calculated using the following formula:

$$S = \sum_{k=1}^n \frac{A_k}{(1+X)^{t_k}}$$

where:

$$S = 8000 \text{ €}$$

$$n = 7 \text{ years} = 84 \text{ months}$$

$$A_k = 115,79 \text{ €}$$

The calculation formula for the variable interest rate is EURIBOR 6 Months (0,318%) + Margin (5,4%).

The interest rate = 5,718% (according to Raiffeisen sources, available on the official website)

Granting this type of credit involves the receipt of an analysis fee of € 400 / € 1600 and a guarantee fee of € 111.6.

This will result in the equation:

$$8000 = \frac{115,79}{(1+X)^{\frac{1}{12}}} + \frac{115,79}{(1+X)^{\frac{2}{12}}} + \frac{115,79}{(1+X)^{\frac{3}{12}}} + \frac{115,79}{(1+X)^{\frac{4}{12}}} + \frac{115,79}{(1+X)^{\frac{5}{12}}} + \frac{115,79}{(1+X)^{\frac{6}{12}}} + \frac{115,79}{(1+X)^{\frac{7}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{8}{12}}} + \frac{115,79}{(1+X)^{\frac{9}{12}}} + \frac{115,79}{(1+X)^{\frac{10}{12}}} + \frac{115,79}{(1+X)^{\frac{11}{12}}} + \frac{115,79}{(1+X)^{\frac{12}{12}}} + \frac{115,79}{(1+X)^{\frac{13}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{14}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{15}{12}}} + \frac{115,79}{(1+X)^{\frac{16}{12}}} + \frac{115,79}{(1+X)^{\frac{17}{12}}} + \frac{115,79}{(1+X)^{\frac{18}{12}}} + \frac{115,79}{(1+X)^{\frac{19}{12}}} + \frac{115,79}{(1+X)^{\frac{20}{12}}} + \frac{115,79}{(1+X)^{\frac{21}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{22}{12}}} + \frac{115,79}{(1+X)^{\frac{23}{12}}} + \frac{115,79}{(1+X)^{\frac{24}{12}}} + \frac{115,79}{(1+X)^{\frac{25}{12}}} + \frac{115,79}{(1+X)^{\frac{26}{12}}} + \frac{115,79}{(1+X)^{\frac{27}{12}}} + \frac{115,79}{(1+X)^{\frac{28}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{29}{12}}} + \frac{115,79}{(1+X)^{\frac{30}{12}}} + \frac{115,79}{(1+X)^{\frac{31}{12}}} + \frac{115,79}{(1+X)^{\frac{32}{12}}} + \frac{115,79}{(1+X)^{\frac{33}{12}}} + \frac{115,79}{(1+X)^{\frac{34}{12}}} + \frac{115,79}{(1+X)^{\frac{35}{12}}} +$$

$$+ \frac{115,79}{(1+X)^{\frac{36}{12}}} + \dots + \frac{115,79}{(1+X)^{\frac{80}{12}}} + \frac{115,79}{(1+X)^{\frac{81}{12}}} + \frac{115,79}{(1+X)^{\frac{82}{12}}} + \frac{115,79}{(1+X)^{\frac{83}{12}}} + \frac{115,79}{(1+X)^{\frac{84}{12}}}$$

According to the repayment schedule, the equation becomes:

$$8000 = 115,24 + 114,69 + 114,15 + 113,61 + 113,07 + 112,53 + 112,00 + 111,47 + 110,94 + 110,41 + 109,89 + 109,37 + 108,85 + 108,33 + 107,82 + 107,31 + 106,80 + 106,29 +$$



105,79+105,29+104,79+ 104,29+ 103,80+ 103,31+ 102,82+ 102,33+ 101,84+
101,36+100,88+100,40+ +99,92+ 99,45+ 98,98+ 98,51+ 98,04+ 97,58+ 97,11+ 96,65+ . .
. + 79,16+ 78,79+ 78,41+ 78,04+ 77,67

So,

$$\frac{115,79}{(1+X)^{\frac{84}{12}}} = 77,67 \rightarrow (1+X)^{\frac{84}{12}} = \frac{115,79}{77,67} \rightarrow (1+X)^7 = 1,4907$$

$$\rightarrow 1+X = \sqrt[7]{1,4907} \rightarrow 1+X = 1,05869 \rightarrow X = 5,869\%$$

However, taking into account the analytical fee of € 400 / € 1600 and the guarantee fee of € 111.6 (0.168%), the annual effective interest rate will be 6.037%.

In conclusion, the annual effective interest calculated for previous examples of granting a "Your Home" loan can reach one of the values shown in the following chart:

Chart 1. Annual effective interest for your "Your Home" credit



Source: Data processing available on <http://www.raiffeisen.ro/persoane-fizice/credite/casa-ta>, accessed on 12.02.2019

Analyzing the previous chart, it can be noticed that the annual effective interest rate is positively corrected with the variable interest rate, because when the interest rate changes in the direction of the increase and the actual annual interest rate changes in the same sense. Taking this into account, in Lei, the variable interest rate is calculated by adding up the ROBOR 3 months (currently 5.35%) with a margin set by Raiffeisen Bank according to the quality of the clients:

- *Standard offer* (for any client) - the margin is set at 3.50%
- *Domestic customers offer* (for customers who have or will open salary or pension accounts with Raiffeisen Bank) - the margin is set at 3.25%.

For ROBOR 3 months, the interest rate is updated four times a year, namely: the last day of March, June, September and December.

In the case of a "Your Home" loan in Euro, the variable interest rate takes EURIBOR 6 months (currently 0.318%) and the margin set by Raiffeisen Bank according to the quality of the clients:

- *Standard offer* (for any client) - the margin is set at 6,00%
- *Domestic customers offer* (for customers who have or will open salary or pension accounts with Raiffeisen Bank) - the margin is set at 5,40%.

For the 6-month EURIBOR, the interest rate is updated twice a year, namely: the last day of June and December.

Therefore, clients who have an account with Raiffeisen Bank and apply for a home loan will benefit from a reduction in the annualized interest rate resulting from the diminution of the variable interest rate for both Lei and Euro loans. According to the graph presented previously, the difference between the effective annual interest rate for a standard offer and the offer for household customers is 0.27% for a "Your Home" loan in Lei and 0.641% for a "Your Home" credit in Euro.

Also, the annual effective interest rate is also influenced by the fees and commissions charged by Raiffeisen Bank. So, in the case of "Your Home" loan, Raiffeisen Bank has set the following fees and commissions:

- ✓ Analysis fee of 400 Euro / 1600 Lei (for credits in Euro / Lei);
- ✓ Standard guarantee valuation fee of 111.6 euro (or equivalent in Lei);
- ✓ Unique post-award fee of 90 Euro / application (or equivalent in Lei).

In conclusion, for the purpose of contracting a floating rate loan, it is important to know that the annual effective interest rate expresses the total cost of the loan at that date, taking into account the interest rate charged by the bank. Thus, a change in the interest rate leads to an increase or decrease in the annual effective interest rate. However, taking into account that all credit institutions use the same indices (ROBOR, EURIBOR), this does not affect the analysis of prices for loans contracted at variable interest rates. Thus, it will be possible to calculate the annual effective interest rate for choosing the cheapest loan, regardless of the level at which the benchmark for that type of credit.

With regard to fixed interest loans, the annual effective interest rate calculation provides accurate results as the interest rate level remains constant from the day of the contract signing to the last installment payment date. It is more difficult to compare a fixed interest credit with one with variable interest, since in this case, the choice should also take into account estimates of the evolution of interbank interest during that period.

6. Conclusions

Today, the emphasis is on the development of marketing in the financial and banking field, as it is more profitable for banks to keep current clients to establish long-term relationships and to find strategies to attract new customers. The phenomenon of globalization has allowed the expansion of the branch network of international banks, which has led to the impossibility of a competitive differentiation, given that a banking institution has thousands of competitors at local, regional, national and global level. leave the interest of another bank and give up the relationship they have with a particular bank. However, in order to increase the performance of a bank, it must be able to make the best use of resources and information through an appropriate management. Thus, the way to obtain a competitive advantage in the case of retail banks results in customer loyalty by optimizing product costs, while for corporations, it is important to have the flexibility to provide tailor-made services tailored to the needs of each individual customer. In spite of the difficult economic climate, the lending of all customer segments by Raiffeisen Bank was an advantage of the bank, an advantage that facilitated its maintenance of the market share on loans granted to individuals.

Taking into account that the current trend is heading for savings, banks should offer customers the most affordable products to enable the credit activity to be relaunched since it is the bank's main source of profitability.

In conclusion, the most important is for banks to realize that their primary target is represented by clients, because the conduct of a bank's business depends on their existence, as they are a part of the business. Moreover, to make them available the entire supply of products and services, there needs to be a strong relationship between the bank and the clients, which leads to their preservation, respectively their loyalty, because only in these

conditions will the level of banking performance increase. Also, the bank assists the clients through all what it does, precisely to establish an effective collaboration with them, based on mutual trust.

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