

**European Polytechnic Institute, Ltd., Kunovice**  
**Study Branch: Finance and Taxes**

# **EVALUATION OF COMPETITIVE LOAN PRODUCTS OF SELECTED BANKS**

**(Bachelor Thesis)**

**Author: Jaromír Uhřík**  
**Supervisor: Ing. Hana Šedová Ph.D.**

**Kunovice, August 2009**

I confirm that I am the sole author of this work under the supervision of Ing. Hana Šedová Ph.D., and that all sources are listed in the bibliography.

Kunovice, August 2009

I would like to thank Ing. Hana Šedová Ph.D. for the very useful methodical help she provided to me during preparation of my Bachelor Thesis.

Kunovice, August 2009  
Jaromír Uhřík

## Contents:

<b>1</b>	<b>CHARACTERISTICS OF THE LOAN PRODUCTS .....</b>	<b>8</b>
1.1	HOW DO WE DIVIDE LOANS? .....	9
<b>2</b>	<b>FUNDAMENTALS OF PROVIDING LOAN .....</b>	<b>11</b>
<b>3</b>	<b>APPROACH WHEN PROVIDING LOANS.....</b>	<b>13</b>
3.1	APPLICATION FOR THE LOAN.....	13
3.2	LEARNING THE CREDIT SCORE OF APPLICANT.....	13
3.3	WAYS OF SECURING THE LOAN.....	14
3.4	CONDITIONS OF THE LOAN REPAYMENT.....	15
3.5	ACCEPTING THE LOAN AGREEMENT.....	16
3.6	CONTROL OF THE CLIENT BY THE BANK .....	16
<b>4</b>	<b>LOAN PRODUCTS IN THE CHOSEN BANKS .....</b>	<b>17</b>
4.1	KOMERČNÍ BANKA .....	17
4.2	ČSOB.....	18
4.3	ČESKÁ SPOŘITELNA .....	19
4.4	GE MONEY BANK .....	19
<b>5</b>	<b>ANALYSIS OF CHOSEN LOAN PRODUCTS .....</b>	<b>21</b>
5.1	MODEL OF FICTIONAL CLIENT .....	21
5.1.1	Description of applicant .....	21
5.2	SHORT-TERM LOAN .....	21
5.2.1	Komerční banka .....	22
5.2.2	ČSOB .....	23
5.2.3	Česká spořitelna .....	24
5.2.4	GE Money Bank .....	25
5.3	MEDIUM TERM LOAN .....	26
5.3.1	Komerční banka .....	26
5.3.2	ČSOB .....	27
5.3.3	Česká spořitelna .....	29
5.3.4	GE Money Bank .....	30
5.4	LONG-TERM LOAN .....	31
5.4.1	Komerční banka .....	31

5.4.2	ČSOB .....	33
5.4.3	Česká spořitelna .....	34
5.4.4	GE Money Bank .....	35
<b>6</b>	<b>EVALUATION OF INDIVIDUAL OFFERS .....</b>	<b>37</b>
6.1	SHORT-TERM LOAN .....	37
6.2	MEDIUM-TERM LOAN .....	39
6.3	LONG-TERM LOAN .....	45
	<b>CONCLUSION.....</b>	<b>50</b>
	<b>SUMMARY .....</b>	<b>51</b>
	<b>BIBLIOGRAPHY .....</b>	<b>52</b>
	<b>LIST OF GRAPHS.....</b>	<b>54</b>
	<b>LIST OF TABLES .....</b>	<b>55</b>
	<b>LIST OF ENCLOSURES.....</b>	<b>56</b>

## **Introduction**

The aim of this Bachelor Thesis is to analyze the selected loan products for businessmen and small companies. I chose following financial company for comparison: Komerční banka a.s., Československá obchodní banka a.s., Česká spořitelna a.s and GE Money Bank a.s.

First I want to concentrate on the offer range of loan products for businessmen and smaller companies in general and then I will compare three best offers of particular banks.

The comparison will be done according to time discrimination. These are short term loans, medium term loans and long-term loans. As a starting point I chose fictional client with his requirements and the best offer of chosen bank.

For short-term loan I will evaluate the level of credit restrictions provided by banks with evaluation of client's credit score, on the interest rate and the fees.

When evaluating medium-term and long-term loans I will evaluate mainly the variability of the use, conditions of the loan, guarantee subject and amount of participation. I will also concentrate on financial load of the loan in interest and fees paid to the banks for the money sources provided.

Most of the interest rates are defined individually according to credit score of the client, which is calculated based on fiscal statement and real accounting statements. When calculating interest rate, bank clerks will use basic facts defined in model case and assume that client has good credit score.

Collection of information will be done based on the public accessible information from official web pages of banks and other Internet pages, advertising materials and personal consultations in particular banks. I must expect some limitations in the form of information embargos.

This work will be used by the company Jaromír Uhřík to gain the knowledge about loan products for small companies and businessmen. Based on these data it will be able to make better decision of what product would be more advantageous for this company.

# **1 Characteristics of the loan products**

Loan products are the part of the most active bank's products. Another part are money and capital investments. The name "active" products means that in the balance sheet these products are on the side of assets (use of resources). The commercial bank offers its clients temporary loan by these products. This way bank becomes creditor and invoices interest to its debtor, which is price of loan.

Name loan comes from the Latin word credere and it means to trust, believe or donate. Loans are understood as time limited, paid providing of money and following repayment of the debt and also the promise that debtor will meet his obligations. In this case is offered credit of the bank, its good name. Bank does not lend money to the acceptor of the credit, but gives him the promise to do the payment if it does not meet its obligation to the third party. Lending of money is replaced by conditional payment promise that enables the client to get loan from other source using its good name. Bank is renting its good name, credit score to its customers. In the case that the promise is realized and bank must pay the debt of client, the rent of credit becomes money loan. [2]

Banks work on the financial market as:

## **Subject providing loan**

Lending money in the form of classical loans or by renting their good name, credit in the form of provided guarantee.

## **Acceptor of the loan**

Banks are accepting deposits for creditors who receive profit in the form of interest. Bank must be able anytime, on request provide payment of these money resources.

## **Mediator of the loan**

It is for example mediating of the loan from public loan programs to support development of economy.

The relation creditor and debtor can also happen between two banks, they are also lending or borrowing free money resources which helps them to keep the necessary level of liquidity. [3]

Capital, that would be otherwise unused, is in the form of loan given to the companies producing goods and services, autonomous authorities and individuals. Loans support economical activity this way. Bank becomes the element on the market that mediates the flow of money resources between subjects providing money and subjects accepting money. For all three parties is the mediation advantageous. Subject providing money can save his redundant money safely in any amount and for any time to the bank and he gets interest for it. Bank can freely operate with these money for given time and to lend them for money to the subjects that need the money. From these debtors bank gets interest income which is higher than the interest that banks pays to creditors for the deposit of money. This difference is called interest margin. On the other hand, debtor will better lend money from the bank than private owner of the capital. [2]

## **1.1 How do we divide loans?**

Banks divide loans according to different criteria into groups. This division helps the banks to consider particular features of loan, the conditions of providing the loan, calculating of interest rates and last but not least enables suitable coverage and time accordance of loan resources.

Loans can be divided by the following criteria:

### **By securing the loan:**

- Secured loans (i.e. blank loans)
- Not-secured loans are divided by the type of securing:
  - 1) Secured by personal guarantee (f. e. personal guarantee, bill securing)
  - 2) Secured by real guarantee (mortgaging of personal and real chattels)

### **By the relation to the provider:**

- bank, conglomerate loans, public (i.e. state loans) and provider loans



**By the receiver:**

- inter-bank, municipal, business loans and loans for individuals.

**By the purpose:**

- consumer, operative, investment, seasonal and bridging loans that should cover momentarily deficiency of resources, mortgage, import and export loans.

**By the method of loan:**

- Based on the state (balance) of the loan object – providing (increase) and repayment of loan is bound to the change of the state of object, or on the creation of resources.
- Overdraft loans – providing and repayment of the loan is done through current account with common payment system.
- Revolving loan – is used for repeating short-term needs. Loan can be used to the given limit. It is often used for receivables, resources.[4]

Loans can be divided by the currency to Crown accounts and foreign exchange accounts.

**Loans are often divided according the length of loan relation:**

- Short-time loans have usually maturity under 1 year. These loans are used for current assets, seasonal costs, momentary deficiency of financial resources. Typical example of these loans is overdraft loan, collateral loan, short-time purpose loans and bank guarantees.
- Medium-term loans – medium term is described by maturity under five years. These are used for financing of investments, payment of concern to the company, but also for financing of current assets.
- Long-term loans have maturity longer than 5 years. These are usually purpose loans for financing of big investments, housing constructions or buying of shares. These are the most risky for the bank and so banks are cautious when providing these. The condition to acquire such loan is always detailed analysis of the financial situation of applicant and evaluation of the income. Long-term loans have high interest rate and appropriate securing. Typical example are mortgage and investment loans. [1]

## 2           **Fundamentals of providing loan**

All provided loans must be covered by according deposit. No bank can afford to provide loan if it does not have loan source of similar quality.

Before bank decides to provide the loan, it is examining the value of applicant and his ability to meet the liabilities. Every loan provided must meet the two basic rules:

- Payoff, it is real certificate about ability to repay the loan in agreed term based on the reviewing of financial and income situation of the applicant in the time of loan's maturity.
- Profitability means interest income from executed active operations. This income ensures the economical results of the bank. [5]

Banks takes into consideration the safety, liquidity and profitability of active trade. It is also named magical triangle.

- Security — because bank is lending deposits of its creditors in the form of loan, it has the duty to invest the money in the safest way possible. To meet this requirement, bank must do extensive analysis of client's credit score.
- Liquidity – bank cannot lend all its own and other financial resources in the form of loans, even if it would mean bigger interest incomes. Part of the money must remain as liquid reserve so that the bank is anytime able to meet the liabilities to the clients who want to withdraw their money. The rules of liquidity are defined by Czech National Bank.
- Profitability — major part of the bank's profit is the difference between accepted and paid loans, so called interest margin. This difference gives the information about profitability of the loan. [2]

In the case of providing the extensive loans, especially when signing loans with long-term maturity or high risk of payoff, bank signs loan conglomerate – i.e. occasional association of few commercial banks. The aim is to get enough loan resources to divide the risk to individual members of conglomerate by the size of their share (conglomerate participation). [1]

Banks invoice interest defined in the loan agreement for the providing of loan – the amount is defined by the margin of interest defined in the loan agreement. The interest rate can change with every new client. One of general factors influencing this rate are f. e. maturity, quality of securing the loan, risk rate connected to repayment, amount of loan, interest rate of CNB for the loans provided to the commercial banks and interest rates from other loan sources. Interest rates are usually defined in connection to basic interest rate. Basic (fixed) interest rate is the minimal interest rate for which the bank is willing to provide the loan. Every bank has different fixed interest rate and some of them do not have it defined. But if it is set, then it is used for determining of so called movable type of loans. [1]

Interest rate does not depend only on the factors connected to the loan, but also on the factors that are changing in time and other influences. These are for example risks connected to inflation and connected real and nominal interest rate, change of interest rate announced by CNB and also risk connected to the change of interest rate PRIBOR on inter-bank market and foreign interest rates.

## **3 Approach when providing loans**

### **3.1 Application for the loan**

Applicant must ask the bank for the loan first. It is advisable to get information first under what conditions he will get the loan. If he thinks that he can meet the requirements, he will apply for the loan in written form. He should do this in advance. He can also use the loan promise of the bank that enables him to get the loan in the future.

Application for the loan is written on standardized printed form that must include the type and amount of needed loan, way and terms of using it and repayment of the loan and suggestion to securing the loan.

### **3.2 Learning the credit score of applicant**

Client of the bank has no legal right for the loan and bank does not give the loan automatically. Providing of the loan always means risk for the bank that future debtor will not be able to repay his debt, or to pay the interest. Agreeing the loan is the trade which is signed after thorough evaluation of financial situation of the applicant.

So bank is evaluating the credit score of the debtor before signing the agreement, i.e. economical competency of the loan applicant. Evaluation of credit score is done through analysis of his financial situation. Structure of his property is analyzed, his financial resources that finance the property and future results of his economy. [6]

Bank usually analyses the profitability of the company first, because it provides the basic information if the debtor needs loan due to bad economy or if he needs to finance the facilities necessary for the economical activity. Profit is usually analyzed as profitability of the company. It means that it is compared with incomes, costs, total property and so on. The most important position in these values belongs to profitability of property. This value answers the question in what time will the company amortize the total property from the profit, but also financial sources, for example write-offs. Analysis of this profit is then followed by analysis of development of total income and financial situation called cash flow. In this case it is the analysis and evaluation of creation of all own financial resources that can be used by the company for financing of its development. Analysis of income and

financial situation provides information if company has enough financial resources to repay existing debts and if it will be able to repay also the requested loan and interest. Analysis of creation of financial resources is important for agreeing and repayment of this loan. It is clear that company with debts which is creating low own financial resources will not get the loan from bank. [2], [5]

Way, required details and difficulty of the analysis depends on:

- Knowledge of the client's position, credibility

When evaluating the credit score, the bank distinguishes if it is client with history in the bank or new client.

- Time characteristics of the trade, type, kind and size.

The evaluation of credit score and agreeing the providing the financial resources is easier for short-term and small loans. To verify the payoff of the loan for the starting businessman only authentic overview of his incomes and costs should be enough.

Medium-term and long-term loans mean individual evaluation of investment project for which the loan is requested. The influence of this business plan on the increase of production, lowering the costs, increase of profit is analyzed, which can be summarized as hopefulness and effectiveness of investment activity. [1]

Evaluation of credit score of the company is the base for the decision of the bank if it should provide the loan, under what conditions and in what extent.

### **3.3 Ways of securing the loan**

Even when the evaluation of financial situation of the company is done in a qualified and quality way, the economical situation can change due to unexpected external factors or failure of company's management, even in the relatively short time period. Risks are higher for medium term and long term loans when maturity of repayment is longer. These are the reasons why bank wants securing of the loan. These are different precautions that should prevent the loss from the loan debt even in the case that debtor is not able to repay his debt any more.

To secure the loan following possibilities are used:

- Guarantee of another person, legal entity or individual (in some cases even state). This person overtakes the commitment to repay the debt to the bank.

- Securing by bill of exchange – enables faster requisition of loan debt
- Deposit – these are personal chattels or rights that are provided by debtor to the bank to secure the debt. As deposit can be used for example immobilized deposits and insurances, some securities and goods or other values
- receivables – debtor hands over the receivables from his customers to the bank
- mortgage securing – debtor mortgages his real estate in favor of the bank
- transfer of belongings to the ownership of bank

Bank is usually also agreeing the right to automated cashing of the amount from client's account. It is also able to agree so called acceleration clause which means that if the loan agreement conditions are not met by the debtor, maturity of the loan is sooner than agreed term.

### **3.4 Conditions of the loan repayment**

Before signature of loan agreement the repayment of the loan based on the repayment calendar is agreed. This calendar includes:

- Way of calculating of individual repayments
- Time distribution of repayments to the whole time till maturity
- Way of paying the interest [6]

Loan can be repaid by nonrecurring repayment or in more repayments, regularly or irregularly.

According to the character of regular payments we distinguish between:

- Payment of loan by the same amounts, so called annuity repayment. The payment includes interest and also partial repayment of the debt. In the time the repayment of the debt increases.

- In common repayment the amount is not the same. In this case it is the same amount decreasing the loan by repayment of loan. Interest is calculated based on the remaining debt and repayment of the debt and interest is separated. [7]

### **3.5 Accepting the loan agreement**

According to the analysis of credibility and ability of client to repay his debt, considering the guarantees, considering the way of repayment and calculating the price of loan, bank employees will prepare the suggestion for providing the loan which is then considered by loan committee or loan board.

After discussing it, if the decision is positive, written loan agreement is signed. Loan agreement includes identification of creditor and debtor, the amount of loan, interest rate, interest time, fees, way of using the loan, terms of repayment and final maturity of the loan, purpose of the loan if it is not non-purpose loan, sanction conditions if loan agreement is not met or for other specific situations.

Part of the loan agreement are general loan conditions that client must accept and that mean other commitments for him, for example immediately inform the bank about changes of conditions under which the agreement was signed, about assumed guarantees and debts for other persons, etc. [2],[8]

### **3.6 Control of the client by the bank**

Loan risks remain for the all time of loan relation. Bank controls the debtor for all this time in the form of continuous monitoring and repeating evaluation of his financial situation. It uses the same approaches as described above.

At the same time the use of loan for agreed purpose is monitored, keeping the value securing the loan or further accepting of another approaches.

## **4            Loan products in the chosen banks**

Small and medium companies represent big segment that helps banks to increase the profit. Offer of the products to these subjects is very wide. We can say that banks divide all companies to two basic groups according to the amount of annual incomes:

- Businessmen, small and medium enterprises
- big companies

### **4.1            Komerční banka**

Komerční banka includes all companies with annual turnover under 60 millions CZK into small and medium companies. This segment is offered following possibilities of financing:

#### **a) For operations of the company**

Authorized debit on business current account

Credit card for businessmen

Profi loan

Profi loan FIX

EU Profi Loan

Businessman operating loans

Overdraft loan for a definite and indefinite period of time in CZK and foreign currency

Loan Medicum

#### **b) Financing of investments**

Profi loan

EU Profi loan

Loans for investment

Loan for operating and investment needs



Profi loan FIX

Loan Medicum

Loan for buying shares or shares in trade companies

**c) Loans for realty**

Mortgage loan

Program residential house

Development financing

Profi loan [9]

## **4.2 ČSOB**

Československá obchodní banka offers small, medium companies with annual turnover under 300 mil. CZK following possibilities:

**a) Financing of operating needs**

Minimal limits of authorized overdraft of the account

Authorized overdraft of current account from 20 000,- CZK to 5 mil. CZK

Repayment authorized overdraft of current account (from 20 000,- CZK to 5 mil. CZK)

Overdraft loan

Revolving loan

**b) Financing of investment needs**

Small loan for businessmen (from 50 000 to 8 mil. CZK)

Purpose loan

Mortgage loan

ČSOB Program for co-financing of projects supported from EU funds [11]

### **4.3 Česká spořitelna**

Česká spořitelna includes to businessmen and small companies all the companies with turnover under 30 millions CZK and it offers them:

#### **a) Finances for small investments**

MINI loans

Overdraft loan Profit

Term loan Profit

American mortgages 5 PLUS

Overdraft for the current account

Operating credit

Operating credit 5 PLUS

#### **b) Financing of bigger investment for company's development**

Investment loan

Mortgage loan for legal entities

Investment loan 5 PLUS

#### **c) Buying, repairs or reconstruction of real estate**

Mortgage loan for legal entities

Land – mortgage for buying agricultural land [13]

### **4.4 GE Money Bank**

GE Money Bank has divided its clients into individual and business subjects. Business subjects include all legal entities and individuals – businessmen regardless of their annual incomes.

They offer following loans:

Express Business

Flexi Business

Operative Business

Operative Credits

Investment Loans

Financing of renovation or privatization of residential house

Sector of Agriculture

Sector of Light Industry

Sector of Eko-energiy

Medical Business

Legal Business

EU Servis

Financing of Information technology [15]

## **5 Analysis of chosen loan products**

All analyses of loan products were done based on the model of fictional client, information acquired from Internet, advertisement leaflets and personal consultations in individual banks. Calculation of the credit score of fictional client is not subject of this work and so when working with interest rate I will suppose that the client has good economy..

### **5.1 Model of fictional client**

#### **5.1.1 Description of applicant**

Brand name:	Broxtek s.r.o.
Legal title:	Limited Liability Company
Basic capital:	2.000.000,- CZK
Number of partners:	2
Number of employees:	7

Firm has been working in the area of advertising for 7 years.

It is prosperous company which does not have debts to the revenue authority nor State administration of social security. It has only short-term debts with customers in amount of 100 000,-Kč. Receivables are 110 000,- Kč, machinery and equipment is 530 000,- Kč. Property of the company is taken as basic capital.

Incomes for sales of the own products and services are increasing, incomes were 3,9 mil. CZK on 31<sup>st</sup> December 2007. Economic result was 350 000,- Kč.

### **5.2 Short-term loan**

Fictional client would like to get a loan through which we could variably use the money according to actual needs of the company. Loan should be non-purposeful with possibility of changing repayment amounts.

### **5.2.1 Komerční banka**

Komerční banka provides authorized overdrafts for business account up to 3 mil. CZK. This loan can be used by present and also new client based on the evaluation of his credit score using his accounting statements. Present clients with current account in KB for at least 6 months can have overdraft of 100.000 CZK without evaluation of credit score, based on the turnover of financial resources on the current account with KB.

Credit and debit balance is always with interest of the announced interest rate published in the Announcement of Komerční Banka, a. s., which defines the interest rates of deposits and loans. Interest rate consists of fixed KRS rate (i.e. Overdraft Reference Rate), which is 3% and movable rate which is calculated individually.

The present client for whom credit score will not be evaluated and who wants to borrow amount under 100.000 CZK can use fixed interest rate 15%.

Our fictional client could get 300.000 CZK with interest rate 8%.

Every payment coming to the account repays the loan and enables further use of financial resources till it reaches the agreed limit of authorized debit again – in next 180 days (from the day the debit is used again). [9]

Debit is always secured by blank bill.

If client gets the debit and does not use the money resources, he would have to pay fee for reserving the sources of 0,30% of the amount of authorized debit.

#### **Documents necessary for the debit use:**

Present client who applies for authorized debit under 100.000 CZK: gives only application (including Declaration on Word of Honor, Agreement with forwarding information and Information about property relations and property concern) and actual documents with authorization for doing business.

Present client applying for authorized debit higher than 100.000 CZK or new client will need:

- application (including Declaration on Word of Honor, Agreement with forwarding information and information about property relations and property concern) and actual documents with authorization for doing business.
- Financial statements including income-tax return and report of auditor, if this report is available (clients with double entry bookkeeping)
- actual statements in extent of balance sheet and profit and loss statement (clients with tax evidence or single entry bookkeeping)
- income tax return including enclosures and additional data (clients with single entry bookkeeping)

### **5.2.2 ČSOB**

ČSOB overdraft product for small and medium company. “Authorized overdraft of the account” (note – classical overdraft loan is provided only to the bigger companies with turnover over 10 mil. CZK).

It is non-purposeful loan in the form of agreed negative balance on the current account or as financial reserve for business.

Overdraft loan limit is generally from 20.000 CZK to 3 mil. CZK. The maximum and interest rate is decided for every client individually and based on the evaluation of client’s credit score or at large. [12]

In the case that client asks only for minimal maximum of loan, i.e. from 20.000 to 50.000 CZK, bank does not evaluate the credit score of client, but loan has interest rate 15%. The condition is the business turnover of the client higher than 50.000 CZK a month (i.e. minimum 600 000,- Kč a year).

If clients asks for higher loan limit, he must supply fiscal statement with enclosures. Based on the evaluation of credit score the bank will provide money with better interest. In the case when client is marked in credit score as A-C (i.e. good clients) – then bank is willing to lend 85% of client’s business turnover or turnover on his current account, but always the lower one. Loan is provided with interest rate 12,5%. If client has credit rate D, bank will be willing to lend him only 60% of his turnover with interest rate 14,15%.

Based on the financial statements I gave to the bank, fictional client could use maximum of 85% of his monthly business turnover 325.000,- CZK with interest rate 12,5%.

In the case of minimal limit, i.e. without evaluation of client's credit score, bank would be willing to lend him maximum of 50.000 CZK with interest rate 15%.

If client uses the overdraft loan, he would have to pay additional fee 100 CZK for every month of using the loan.

Overdraft is always secured by blank bill, in some cases also by aval of husband/wife or partners or other legal entities (according to the legal title of applicant).

Processing and providing of money is done in 24 hours from the application request.

### **5.2.3 Česká spořitelna**

As part of Profit program client can use advantageous overdraft facility to the limit of 1.000.000 CZK, with lowered non-recurring fee 50% of classical overdraft loan. Agreement is signed for the time of one year with possibility to renew. Preparation takes 1-3 days.

The amount of overdraft facilities depends on the sum of the transactions coming to the account of client. Overdraft can be acquired even by new client – in this case the overdraft loan is calculated from the value of credit transaction on the present account of such client.

Česká spořitelna offers 2 methods of providing the loan. Client can choose from following possibilities:

- If client supplies minimum of one fiscal statement and final statements based on which the credit score will be calculated, client can get advantageous interest of 9-10% for common overdraft.
- Or he will get fixed interest of 13%. The loan maximum will be defined based on the turnover of money resources on the present account of the client. In our case the client would get 325 000,- Kč.

In the case of implementation the client must pay non-recurring amount 2.500 CZK for providing of overdraft (this amount is lowered as part of the program Profit) and 300 CZK a month for administration and conducting the overdraft loan. Classical overdraw would has the non-recurring payment of 0,5 to 2% of loan maximum, minimally 5000 CZK + 300 CZK a month for using the loan. [14]

Bank needs the guarantee through letter of credit to the overdraft limit 1.000.000,- CZK.

#### **5.2.4 GE Money Bank**

Offers the clients business loan Flexi Business. It is overdraft non-purposeful loan. The amount of this loan depends on the credit score of client and is provided from 40 000,- to 1 000 000,- Kč. Interest rate is based on tariff of rates and it is 12,20% if client supplies at least 2 fiscal statements. For other clients applies interest rate of 14,30%. Overdraft of the loan is provided for the time period of 1 year with possibility to renew. Its amount can be changed by the client every 3 months. New client can also acquire the Flexi loan. It is just necessary to supply the statements from his previous account for the last 3 months.

#### **Securing and time of processing**

- Overdraft is secured by bill of exchange with aval of partners in the case of legal entity.
- In the case of individual – businessman, loan is secured by bill of exchange with aval of husband/wife. If at least 2 fiscal statements are submitted and if he asks for amount lower than 200.000 CZK, there is no need of guarantee.
- For all clients the request is processed in 20 minutes and money are available in 24 hours.

#### **Interest and fees**

Unlike other banks, the interest rate is based on the table. [17] The amount of overdraft depends on the credit score of the applicant and is provided in amount from 40 000,- to 1.000 000,- Kč. Interest rate is given by tariff of rates and it is 13,50%, if client delivers at least 2 fiscal statements. For other clients is the interest rate of 15,50%. Fees are only 300,- CZK per month. Other fees are free.



## **Conditions of the loan**

Condition to get overdraft loan Flexi Business is to have annual incomes of the company higher than 300.000 CZK, the result of economy must be positive and at least half of the overdraft maximum must come to the account every month. Once 180 days the current account for which the overdraft loan Flexi Business is agreed, must be at least for the five days positive. Client cannot have debts with Revenue authority nor Social security administration. Application must include Business Register Statement and at least one fiscal statement including enclosures (profit and loss statement, balance-sheet) with stamp of RA or copy stamp.

### **5.3 Medium term loan**

Firm wants to buy a car for 700 000,-Kč. Loan should be repaid in 4 years.

#### **5.3.1 Komerční banka**

Profi loan is product with universal use. It can finance the circulating capital (including short-term receivables from the business till the maturity), operating costs and intangible and tangible assets. Loan is provided to the amount of 8 mil. CZK. The repayment is also variable, it can be 5 years. For financing of circulating capital can be used revolving loan which works as short-term Profi loan.

### **Using and repayment**

Loan is received in one payment or continuously. Principal of Profi loan is repaid continuously by monthly repayments from the month after loan is received in full amount. Interest that is paid also monthly, but from the moment of start of using the loan.

## **Interest and fees**

Interest rate is variable, it is fixed on the reference rate of KB (it was 3,6% on 5.1.2009), and on the credit score of client. It is usually about 5,9 - 8,9%. For our fictional client it was calculated for 6,5%.

When accepting the loan client must pay:

- when accepting the loan under 1 mil. CZK      400,- CZK a month
- for providing the loan      4 200,- CZK

## **Securing and time of processing**

The Profi loan under 1 mil. CZK can be secured by blank bill and request will be accepted in 3 working days.

Loan over 1 million CZK needs guarantee of realty, movable assets or by receivables. In this case processing takes 5 working days.

### **5.3.2      ČSOB**

Small loan for businessmen is for all legal entities and individuals – businessmen, especially tradesmen and very small companies with registered office or place of business in CR and for small and medium enterprises with turnover under 300 mil. CZK. It is used for financing of small and medium investment needs. This loan is only for clients of ČSOB. As the only one it offers financing of the part of costs of the investment in last 6 months. Loan for investments can be from 50 000,- to 10 mil CZK.

## **Using and repayment**

Client can choose the way of using the money:

- Purposeful (based on invoices, contract of purchase or other documents according to agreement with ČSOB),
- Non-recurring or continuous,
- It can be used for the time of 18 months.

Repayment of the loan is done through linear monthly repayments, in one day is repaid the principal and also the interest. The repayment of principal can be postponed by 6 months. Repayment of the interest is not possible.

## **Interest and fees**

Interest rate consists of two parts, basic rate is fixed on PRIBOR (it was 2,99% on 20.12.2008) and second part depends on the subject of financing. For real estates there is interest rate of 4%, for cars 8% and 7% for technologies. In our case the fictional applicant would get the interest rate of 10,99%. We can say that Small Loan for businessmen does not depend on the client's credit score, but more on the subject of financing.

If fictional client had a loan of 700.000,- CZK, he would have to pay:

- For providing the loan 3 500,- CZK
- Services and works connected to providing the loan 200,- CZK a month

## **Conditions of the loan:**

- Individual, legal entity or businessman must be in business for at least 2 years
- Supplying of fiscal statement for last 2 years including enclosures and financial statements
- Client must meet the rating, if there is worse rating than necessary he will have to supply the confirmation that he has no debts with Revenue Authority.

- Applicant cannot have debts after maturity with Revenue Authority, Czech Social Security Administration. If he has only small debts, bank will decide individually.

### **Securing and time of processing**

If money are provided for real estate, bank wants mortgaging the realty, other investments can be secured by blank bill. Acceptance of the loan takes from 3 to 7 days.

### **5.3.3 Česká spořitelna**

Investment loan 5 PLUS is purposeful term account that serves for financing of tangible and intangible assets. Thanks to that bank can guarantee the fixed interest rate. This loan can be 5 mil. CZK with maturity of 1 to 10 years.

### **Using and repayment**

Using and repayment is defined by the plan.

### **Conditions, securing and time of processing the application**

Bank requires participation in financing of 5% by applicant. Securing is required according to the level of investment and deciding about the loan acceptance takes 5 days.

### **Interest and fees**

Interest rate can be set for the time the client wants, after this time period is defined the new interest. For example if client wants to borrow money for 10 years, he can fix the interest for 5 years and so he will get the interest rate 6,10%. Sixth year new interest rate will be set based on the new conditions and situation.

We will use interest rate of 6,00 % for 4 years in our situation.

Time of fixation	1 year	2 year	3 year	4 year	5 year	6 year	7 year	8 year	9 year	10 year
Interest p.a	5,1%	5,5%	5,8%	6,0%	6,1%	6,2%	6,3%	6,4%	6,4%	6,4%

Table No. 1. Interest rates of the investment loan 5 PLUS

Source: own

Our fictional client will have to pay following fees:

- For accepting, evaluation and processing of request 5 000,- CZK
- For account administration 300,- CZK a month

#### **5.3.4 GE Money Bank**

Expres Business is loan that is not bound to some purpose and it can be from 40 000,- to 1 000 000,- Kč with maturity for 2 to 5 years.

#### **Using and repayment**

Money resources are transferred to the current account in GE Money Bank. Repayment is done by monthly annuity payments in fixed amount.

#### **Interest and fees**

Interest rate is increasing according to the amount of the loan.

There is no fee for application nor processing of Express Business loan. This product has monthly fees for conducting the account of 300 CZK.

#### **Conditions of the loan**

Applicant must be in business for at least 12 months and must have minimal incomes of 300.000 CZK in the last year of doing business. He cannot have debts with Revenue Authority and Authority of social security.

## **Securing and time of processing**

- Individuals – businessmen use own bill of exchange with aval of husband/wife if they apply for loan over 200 000,- Kč. If they supply 2 fiscal statements and need lower amount, then guarantee is not necessary.
- Legal entities guarantee by the bill of exchange with aval of partners.
- It takes only 20 minutes till you learn the result of your application for loan. If decision is positive, money can be on your current account in 48 hours.

## **5.4 Long-term loan**

Fictional client would like to expand the company and to establish new production facility and for this purpose he applies for 1 000 000,- CZK for time period of 10 years. Securing the loan will be done by the building owned by the company of market value 1 400 000,- CZK.

### **5.4.1 Komerční banka**

Based on the model example we agreed the product Mortgage loan in CZK or in foreign currency. It is medium to long term loan provided for maximum time period of 10 years, it is for the investments connected to real estates. This product can be received in more currencies (CZK, USD, EUR and CHF).

#### **Using the loan:**

Mortgage loan is used based on the supplied documents, i.e. invoices, contracts of purchase, report about the state of construction or reconstruction. Money are paid usually by non-cash transaction (in some cases by cheque) in following payments:

- Non-recurring at latest 6 months from the date of loan agreement signature,
- Or continuous in the time period of 24 months from the time of loan agreement signature (if state grant is used then it can be 48 months).

## **Repayment**

Repayment starts after using of all finances of the loan. Debtor has two possibilities:

- Repayment by fixed amounts that include payment of interest and repayment of principal. Payment is done every month or every three months,
- Repayment of principal (once a month or three months) and separated payment of interest (again once a month or once three months).

## **Loan and fees**

Loan is paid by fixed interest rate with fixation from one year to 10 years. Fictional client would get the interest rate 6.70%.

When accepting the loan, client must pay:

- for processing and evaluation of loan 10 000,- CZK
- services and work connected with the loan 600,- CZK a month

## **Maximal amount of mortgage loan is limited by:**

- ability of the client to repay the loan
- amount of investment
- mortgaging value of the real estate

## **Conditions of providing the loan:**

Real estate must be in the region of the Czech Republic, membership state of European Union or another state of European Economical Area. In the case of real estate bank requests 30% of client's financial participation, for good clients full amount can be offered.

### 5.4.2 ČSOB

Based on my data, ČSOB offered also Small loan for businessmen, because this product is mainly for legal entities, tradesmen and very small companies, it is purposeful loan repayable in 20 years. Client can get from 200.000 to 10.000.000 CZK in the case of buying or repairs of real estate.

#### **Using and repayment:**

Client can choose form non-recurring continuous payment of loan money, which can be used for 18 months. Using of the loan for realty is always done based on the contract of purchase, supplier invoices or other documents.

Repayment of principal is done once a month (linear type of repayment) with possibility to postpone by 6 months.

#### **Interest and fees:**

Interest rate consists of fixed and changing parts. For our client there will be fixed part of 4% + 2,99% of changing interest rate PRIBOR.

Client must pay when accepting the loan:

- For providing the loan 5 000,- CZK
- Authentication of documents 8000,- CZK
- Services connected with providing the loan 200,- CZK monthly

#### **Conditions of the loan:**

When providing the loan bank requires participation of client of at least 10% of total costs of the investment into real estate. Our applicant must have at least 100.000 CZK available. Other conditions are the same as in previous example of CSOB Small Loan.



### **5.4.3 Česká spořitelna**

Česká Spořitelna offers the product Mortgage loan for legal entities for the companies and businessmen. It is long-term purposeful loan which serves to financing of real estate and it is provided for maximum of 20 years.

#### **Using and repayment:**

When loan accepted, money are paid in non-recurring payment or continuously based on the supplied contract of purchase or supplier invoices.

Loan is repaid in the form of fixed regular repayments once a month or based on the individual repayment calendar. For our example I will use regular monthly repayment.

#### **Interest and fees:**

Mortgage loan for legal entities can be repaid for 20 years, but interest rate is usually fixed by fixed interest rate for 1, 2, 3, 4, 5, 10 or 15 years. For model example I chose interest rate 6,40% for 10 years.

Applicant must pay following fees for processing and using of loan:

- For complex evaluation and processing of application 5 000,- CZK
- Report and managing the loan business 400,- CZK a month

#### **Securing the mortgage loan**

- Mortgage law as first to the realty for which loan is used or another realty in the Czech Republic region
- Realty which is the matter of mortgaging, it must be insured and insurance is in favor of Česká spořitelna

- Mortgage law for receivables from future contracts of purchase or future lease contracts, mortgage law to shares or business share of the applicant
- Additional securing by other instruments used by Česká Spořitelna.

#### **Conditions of providing the loan:**

Minimal share of own resources of the applicant must be at least 30% of total costs. For model example we need at least 300 000,- CZK of own resources.

#### **5.4.4 GE Money Bank**

GE Money Bank offers the product Universal Business. This loan is agreed according to the needs of clients for the time of maximum 20 years and it is always secured by the realty, which does not have to be owned by the applicant. This way the applicant can receive maximum of 5 millions CZK. Applicant will receive financial resources of 70% of the price of realty.

#### **Using and repayment**

Using the financial resources is not bound by purpose – money resources can be invested into development of business and also for financing of operational needs. After acceptance of the loan the money are sent by non-cash transfer to the current, overdraft or revolving account.

Investment part of the loan is paid in the regular monthly repayments in the form of separated payments of interest and principal and operational part of the loan is repaid by the client according to his needs.

#### **Interest and fees**

Interest rate is set on individual base. Client would pay following fees in the case of loan for 1 million CZK:

- For providing the loan (0,5%) 5 000,- CZK
- For managing the loan account 300,- CZK a month

### **Securing and time of processing**

- Mortgaging the realty in favor of GE Money Bank
- Insurance of mortgaged realty and insurance payment in favor of GE Money Bank
- Signature of blank bill with aval of husband or wife (for individual businessmen) or of partners (Ltd.)
- Acceptance of the loan application will be announced to the applicant in 3 days from the application and supplying all necessary documents.

### **Conditions of providing the loan**

- minimum of 6 months of company's business with minimum of one finished taxation period

### **All banks will require following documents in the case of long-term loan:**

- application (including Declaration on Word of Honor, Agreement with transfer of information and data about ownership relations and property shares)
- actual documents with business permission
- financial statement including income tax return and report of auditor, if such report is available (clients with double entry bookkeeping)
- actual balance sheet and profit and loss statement (clients with tax evidence or single entry bookkeeping)
- Income tax return including enclosures and additional data (clients with single entry bookkeeping)
- No debts with Revenue Authority and State Social Security Administration

## **6 Evaluation of individual offers**

When evaluating the individual offers I used the percentage from price lists of individual banks. For medium term-loans I multiplied the monthly fee by required number of months.

I learned about interest rate in the banks or I found the information from data presented on Internet.

### **6.1 Short-term loan**

I was interested in changes of loan maximum and interest rate for the short-term loan in the case that there will be no evaluation of client's credit score and that he will need minimal loan amount, and in the case that applicant will need more finances and there will be evaluation of his credit score.

The products in the tables are in following order:

- Komerční banka – Authorized overdrafts on business account
- ČSOB – Authorized overdraft of the account
- Česká spořitelna - Program Profit Overdraft
- GE Money Bank - Flexi Business Overdraft

Data in tables:

The column Time of use shows the time in which it is necessary to repay the loan, after this time the loan is automatically renewed and client can use another money resources. This time is expressed in days.

The column Time of processing is in days and it means the average time of processing the loan after supplying all documents necessary for evaluation.

Product	Maximal loan	Interest rate	Time processing of	Fees	Time of use
KB	100 000	15,00%	3 days	Specific	180
ČSOB	50 000	15,00%	48 hours	100,-	90
Česká spoř.	325 000	13,00%	1 – 3 days	Specific	165
GE Money Bank	40 000	13,50%	48 hours	300,-	180

Table No. 2. Offer for stable clients without evaluation of credit score

Source: own

Banks have the offer of minimal loan for fixed interest rate for regular clients without requesting the accounting statements for evaluation of client's credit score. This limit is different in every bank. When KB, ČSOB and GE Money Bank have fixed amount, Česká spořitelna sets limit for their regular clients based on the total of transactions values coming to their current account (i.e. incomes from own products and services). In our example client could get 325.000 CZK, which is the highest offered amount. If overdraft loan is provided, client would have to pay non-recurring amount 2 500,- CZK and monthly fee of 300 CZK. Komerční Banka does not have monthly fee for authorized overdraft. But if client does not use the money resources, then bank has fee of 0,3% of not used money for reserving the resources. If maximal loan is 100.000 CZK, this fee would be 300 CZK. All banks try to decrease the time for processing the application for loan. GE Money Bank even offers processing of the loan in 20 minutes, money are sent to client in 48 hours.

Product	Maximal loan	Interest rate	Time processing of	Fees	Time of use
KB	350 000	8,00%	3 days	Specific	180
ČSOB	325 000	12,50%	48 hours	100,-	90
Česká spoř.	325 000	9,00%	1 – 3 days	Specific	165

Table No. 3. Offer to the fictional client with assumption of good credit score

Source: own

Because GE Money Bank refused to give me necessary information, I had to skip its evaluation.

Best offer was offered by Komerční Banka. Fictional client could get the biggest loan of 350 000,- CZK with low interest 8% and to get the longest repayment time of 180 days.

The only thing I did not like on their offer is time of processing that most of the banks try to decrease.

All banks required securing the loan by blank bill. ČSOB has the condition of applicant's turnover higher than 600.000,- CZK for authorized overdraft of the loan. Česká Spořitelna offers overdraft even to businessmen who are able to supply only one fiscal statement. GE Money Bank provides even short-term loans even for the clients who started doing business and cannot supply any fiscal statement.

## **6.2 Medium-term loan**

I enclosed the individual products and costs connected to using the loan in this part. For the purpose of calculation I used the loan of 700.000 CZK and 48 repayments (i.e. monthly repayments for 4 years). For calculation of final amount of interests I had to calculate the amount of monthly repayment first. After multiplying this amount by number of repayments and deduction of the loan amount I received the amount of paid interest. For calculation of monthly repayment I used the assumption that payments will remain the same and so I used the figure for fixed annuity:

$$a = \frac{D \cdot i}{1 - v^n}$$

Where:

a is annuity

D is amount of loan

i is annual interest rate

v is discount factor

n is time of maturity of the loan in years [7]

Because banks use annual interest rate and repayment is done every month, I had to modify this formula. Interest rate was divided by 12. This value is divided by one hundred and letter i is added. Letter n means the years multiplied by 12 months. This value will be 48 in the case of 4 years of repayment.

## Komerční banka – Profi loan

Bank offered interest rate of 6,7% and following fees to this loan:

- When using the loan under 1 mil. CZK 400,- CZK a month
- For providing the loan (0,6%) 4 200,- CZK

Calculation of monthly repayment:

$$6,5\% : 12 = 0,5416$$

$$a = \frac{7000000 \cdot 0,005416}{1 - 1,005416^{-48}}$$

$$a = 16\,600,21 \text{ CZK per month} - 48 \text{ repayments} = 796\,810,08$$

$$\underline{-700\,000,-}$$

$$=96\,810,- \text{ after round-off}$$

When taking this loan, fictional client would have to pay following fees:

Loan amount	700 000,-
Total interest:	96 810,-
Fees for managing the loan account:	19200,-
Non-recurring fee (0,6%)	<u>4 200,-</u>
TOTAL	820 210,- CZK

Komerční Banka advertises for this product free preparation and evaluation of loan application. This is good for the client if he supplies all necessary document and does not get the loan in the end. But there is still non-recurring fee which can be understood, because processing of the application costs money nobody will pay if loan is not provided. Profit loan has the highest fee for managing the account. When comparing with ČSOB where loan account has fee only 200CZK and other banks only 300 CZK, it is higher. Because the client learns the interest rate in the end of meeting, I suppose that, when

looking for the loan, the number one thing are the costs closely connected to the loan – and this applies especially to interest rate.

### **ČSOB – Small loan for businessmen**

Interest rate is set to 10,99%, fee is:

- Services connected to the loan 200,- CZK a month
- providing the loan 3 500,- CZK

calculation of monthly repayment:

$$10,99\% : 12 = 0,9158$$

$$a = \frac{700000 \cdot 0,009158}{1 - 1,009158^{-48}}$$

$$\begin{aligned} a &= 18\,088,33 \text{ CZK a month} \times 48 \text{ repayments} = 868\,239,84 \\ &\quad \underline{-700\,000,-} \\ &\quad 168\,240,- \text{ after round-off} \end{aligned}$$

Costs of the loan would consist of:

Amount of loan	700 000,-
Total interest:	168 240,-
Fees for managing the loan account:	9 600,-
Non-recurring fee:	<u>3 500,-</u>
TOTAL	881 340,-Kč

In this comparison the Small loan was the worst of all loans. Its interest rate is too high to compete with other offers. Loan has one advantage that is not offered by other banks,



which is financing of already paid costs. Bank offered me this product even for financing of real estate, which means that this product is very variable and has wide use possibilities.

### **Česká spořitelna – Investment loan 5 PLUS**

When using this loan, bank requires participation of the client of 5%. So the client would have to pay 35.000 CZK for the investment from his own money sources. For comparison with other product I will use the provided loan of 700 000,- CZK. Amount of 35 000,- CZK will not appear in graphs and tables.

Because interest rate is fixed for the years, I will use the interest rate of 6% for 4 years with following fees:

- managing the loan account 300,- CZK a month
- for accepting and processing the application 5 000,- CZK

Calculation of monthly repayment:

$$6\% : 12 = 0,5$$

$$a = \frac{700000 \cdot 0,005}{1 - 1,005^{-48}}$$

$$a = 16439,52 \text{ CZK a month} \times 48 \text{ repayments} = 489\,096,96$$

$$\underline{- 700\,000,-}$$

$$89\,097,- \text{ after round-off}$$

When accepting this type of loan, client would pay following fees:

Loan amount	700 000,-
Total interest	89 097,-
Fees for managing the loan account	14 400,-
Non-recurring fee	<u>5 000,-</u>
Total	808 497,- CZK

Investment loan 5 PLUS with ELF guarantee has the most advantageous interest and acceptable monthly fees. Interest can be fixed by every client. Disadvantage of this product is non-recurring fee which is the highest from all mentioned loans and it is paid during processing the request. Client, who would like to borrow money will have to pay 5000 CZK and there is no guarantee that he will get the loan. Bank requires participation of the client of 35.000 CZK for this loan. Client will have to pay this amount from his own money sources when using this loan.

### **GE Money Bank – Express Business**

This loan does not have interest rate, only monthly repayment. This is 17.922 CZK per month according to tables. Loan costs (i.e. interest in CZK) and interest rate was calculated based on these mathematical figures:

Loan costs = (time of repayment x monthly repayment) – amount of loan

$$\text{Annual interest rate in \%} = \frac{\text{loan.costs} \times 2 \times 12 \times 100}{\text{loan.amount} \times (\text{months.of.repayment} + 1)} \quad [2]$$

Loan costs = (48 x 17 922) – 700 000

Loan costs = 160 256,-Kč

$$\text{Annual interest rate} = \frac{160256 \times 2 \times 12 \times 100}{700000 \times (48 + 1)}$$

Annual interest rate = 11,21 %

Fee for processing the account is free, client pays only 300 CZK a monthly fee

When accepting the loan, client pays following costs:

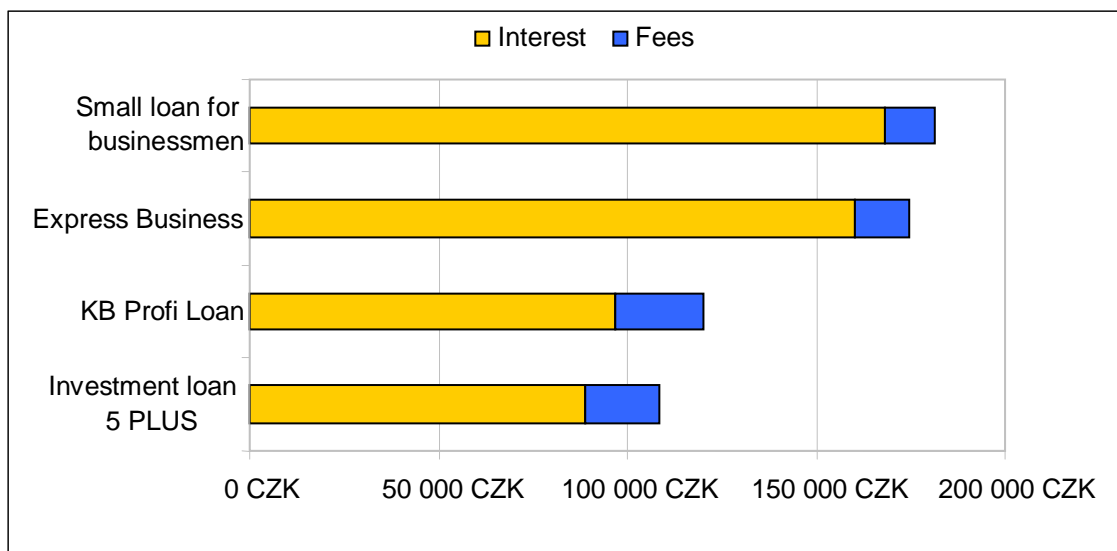
Amount of loan	700 000,-
Total interest:	160 256,-
Fees for managing the loan account:	14 400,-
Non-recurring fee:	<u>0,-</u>
Total	874 656,- CZK

GE Money Bank uses strategy of low fees and quick processing, all supported by massive advertisements. What they do not say are high interest rates that are required for the loan. Repayment of 17 922,- CZK means interest rate of 11,21%. For the comparison, I calculated minimal loan of 40.000,- CZK. With loan for 4 years, monthly repayment would be 1051 CZK. That would mean interest rate about 12,79%. As you can see, GE Money Bank does not have any non-recurring fee, monthly fees are similar to other banks, but interest is high for big loans and also small loans. Advantage of this product is only non-purposeful nature and speed of processing.

Name of product	Loan costs	Interest	Fees	Total
Investment loan 5 PLUS	700 000 CZK	89 069 CZK	19 400 CZK	808 496 CZK
KB Profi Loan	700 000 CZK	96 810 CZK	23 400 CZK	820 210 CZK
Express Business	700 000 CZK	160 256 CZK	14 400 CZK	874 656 CZK
Small Loan for businessmen	700 000 CZK	168 224 CZK	13 100 CZK	881 324 CZK

Table No. 4. Financial costs of individual products

Source: own



Graph 1 – Proportion of interest and fees

Source: Table No. 4

In our model example the interest and fees are best in the offer of Česká spořitelna with Investment Loan 5 PLUS. But because they require 5% of participation, client will have to pay 35.000 CZK from his own resources. That increased the total costs

to 843 497,- CZK. Offer of Komerční Banka is more suitable for the client. All banks required securing by blank form.

Komerční banka has the longest time for processing the loan from 2 to 3 weeks, second were Česká spořitelna and ČSOB that will process the loan in 2 weeks. The fastest is GE Money Bank which decides about accepting or refusing the loan application in 20 minutes, money are sent in 48 hours to the current account.

Graph shows the amount of interest and fees for loan of 700.000 CZK. Highest fees are in Komerční banka as.

### **6.3 Long-term loan**

I used figure for constant annuity for calculation of interest:

$$a = \frac{D \cdot i}{1 - v^n}$$

Because loan of 1 million CZK will be repaid for 10 years, I will use 120 monthly payments.

#### **Komerční banka – Mortgage loan**

Mortgage loan in CZK or foreign currency offers the fictive client interest of 6,70% with following fees:

- For preparation and processing of loan (1%) 10 000,- CZK
- Services connected with managing the loan 600,- CZK a month

Calculation of monthly repayment:

$$6,70\% : 12 = 0,5583$$

$$a = \frac{1000000 \cdot 0,005583}{1 - 1,005583^{-120}}$$

$$a = 11\,456,62 \text{ CZK a month} \times 120 \text{ payments} = 1\,374\,794,40$$

$$\underline{1\,000\,000,-}$$

$$374\,794,- \text{ after round-off}$$

Amount of loan	1 000 000,-
Total interest:	374 794,-
Fees for managing the loan account:	72 000,-
Non-recurring fee:	<u>10 000,-</u>
Total	1 456 794,- CZK

When providing the loan, bank requires participation of 30%. Komerční Banka offers as the only bank zero participation to long-time and good clients. All evaluated banks offer loan for maximum of 20 years, only Komerční Banka offers loan for 10 years – it would be advisable to make this term longer.

### **ČSOB – Small loan for businessmen**

This loan has interest rate 6,99% and following fees:

- For providing the loan 5 000,- CZK
- authentication of documents 8000,- CZK
- services connected to managing the loan 200,- CZK a month

Calculation of monthly payment:

$$6,99\% : 12 = 0,5825$$

$$a = \frac{1000000 \cdot 0,005825}{1 - 1,005825^{-120}}$$

$a = 11\,605,96 \text{ CZK a month} \times 120 \text{ payments} = 1\,392\,682,80$

- 1 000 000,-

392 682,- after round-off

Amount of loan	1 000 000,-
Total interest:	392 683,-
Fees for managing the loan account:	24 000,-
Fee for authentication of documents:	13 000,-
Total	1 429 683,-Kč

Small loan for businessmen has the lowest fees of all compared products, but its interest rate is higher than interest rate of compared products. Good is low participation of 10%.

### **Česká spořitelna – Mortgage loan for legal entities**

Has interest rate of 6,40% and following fees:

- complex processing of application 15 000,- CZK
- Managing of loan account 400,- CZK a month

Calculation of monthly payments:

$6,40\% : 12 = 0,5333$

$$a = \frac{1000000 \cdot 0,005333}{1 - 1,005333^{-120}}$$

$a = 11\,303,78 \text{ CZK a month} \times 120 \text{ payments} = 1\,356\,453,60$

- 1 000 000,-

356 454,- after round-off

Amount of loan	1 000 000,-
Total interest:	356 454,-
Fees for managing the loan account:	15 000,-
Fee for documents authentication:	48 000,-
Total	1 419 454,- CZK

Offer of Česká Spořitelna is the best. There is also an advantage that client himself can set the fixation time of interest.

### **GE Money Bank - Universal Business**

Because GE Money Bank did not want to give me necessary information about interest rate, I cannot fully evaluate this product. I will include the information about fees. These would be for the loan of 1 million CZK

- For providing loan (0,5%) 5 000,-
  - managing loan account (300,- CZK/month) 36 000,-
- Total fees 41 000,- CZK

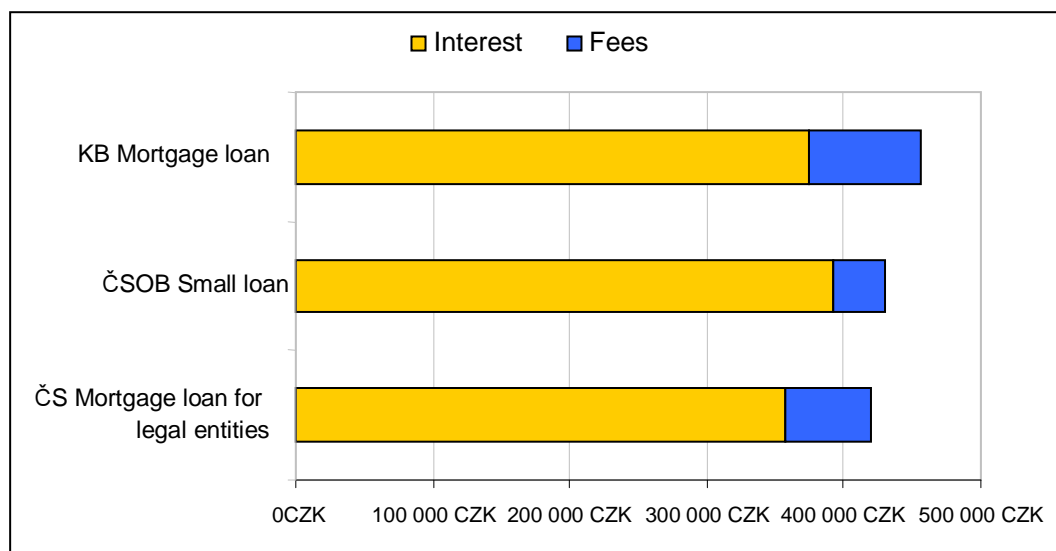
Following table shows the proportions of interest and fees in the total price of long-term loan. Products are in the order of financial load.

Name of the product	Loan costs	Interest	Fees	Total
ČS Mortgage loan for legal entities	1 000 000,- CZK	356 454,- CZK	63 000,- CZK	1 419 454,- CZK
ČSOB Small loan	1 000 000,- CZK	392 683,- CZK	37 000,- CZK	1 429 683,- CZK
KB Mortgage loan	1 000 000,- CZK	374 794,- CZK	82 000,- CZK	1 456 794,- CZK

Table No 5. Financial costs of individual products

Source: own

Graph shows the proportions of fees of Komerční Banka in comparison with competitive offers. You can see that interest is similar, but fees are much higher in Komerční banka.



Graph No. 2 – Proportion of interest and fees

Source: Table No. 5



## **Conclusion**

The aim of this bachelor thesis is comparison of loan products for businessmen and small companies.

If you have big company or small or medium sized firm, you must at first realize that in search for suitable loan is always done by individuals.

It is clear in the case of small companies and especially businessmen, that they do not have their own financial advisors who would give them expert advices, what bank and what loan is best for their situation. These businessmen and managers of small companies are often experts in their branch of business, but when choosing the type of loan they are usually not able to decide well. They can be easily influenced by advertisements or by advice of their friends. Because they often have no idea about possibilities to get a loan, about documents needed for the application nor about interest rate of competitive banks, they are looking for primary information through public media, such as newspaper, Internet, advertising leaflets, etc. But they will learn only basic characteristics of individual products, general conditions, fees, etc. from these media.

This comparison will be very valuable source of information for my firm and also a guide how to choose and evaluate the offers of different financial companies. Situation on the market is changing very quickly. Offer that is the best one day can loose its attractiveness with new competitive products. If I decide about some loan, I will do the comparison of as many banks as possible to choose the most beneficial one.

## Summary

UHRÍK, J. *Evaluation of competitive loan products of chosen banks.*

Kunovice 2009. Bachelor Thesis, European Polytechnic Institute, Ltd.

Key words: client's credit score, evaluation, interest, product, using the loan, fees

This Bachelor Thesis is prepared on the topic "Evaluation of competitive loan products of chosen banks" and its aim is to compare the loan products for businessmen and small companies with offer of competitive banks.

Comparison is done on three types of loans according to time. These are short-term loans, medium-term loans and long-term loans.

In the case of short term loan I concentrated on the maximal amount of the loan without evaluating the credit score of client. For medium-term and long-term loans I was comparing the interest rate, way of securing, conditions for providing and fees connected to providing the loan.

I believe that results and data acquired during preparation of my Bachelor Thesis will help to better orientation in loan products for small and medium firms. They can also serve to preparation of similar comparison.

## Bibliography

- [1] ŠTĚPÁNIK, Lubomír .*Little visit of the bank for all bank clients*. 2<sup>nd</sup> edition. Ostrava: Sagit,1993. ISBN 80-901215-3-5
- [2] BARTOŠEK, Karel a kol. *Banking in the Czech Republic*. 1<sup>st</sup> edition. Praha: Serifa, 1995.
- [3] POLÁCH, Jiří a kol. *Základy kapitálových trhů*. Ostrava: VŠB — TU, 2006. ISBN 80-248-1046-8.
- [4] VALACH, Josef a kol. *Financial management of the company*. 1<sup>st</sup> edition Praha: Ekopress, 1997. ISBN 80-901991-9-X
- [5] NEJEZCHLEBA, Miroslav a kol. *Chosen chapters of finance*. 1<sup>st</sup> edition Ostrava: Petr P. Pavlík, 1991. ISBN 80-85574-02-0
- [6] VLACHOVSKÝ, Karol a kol. *What should a businessman know about finance*. Bratislava: Firma & Trh, 1993
- [7] RADOVÁ, Jarmila. *Financial mathematics for everyone*. 5<sup>th</sup> edition. Praha: Grada 1993-2005 ISBN 80-247-1230-X
- [8] GROSJEAN, Klaus René. *Dealing with bank. Bank services guideline to client*. 1<sup>st</sup> edition. Praha: Management Press, 1994. ISBN 80-85603-66-7
- [9] Komerční banka: *Businessmen and small companies* [online]. 2006,[quo.2008-12-20]. Available on WWW: <http://www.kb.cz/cs/seg/seg3/index.shtml>.
- [10] Komerční banka: *Price list and interest rates* [online]. 2006, [quo.2008-12-20]. Available on WWW: <http://www.kb.cz>.
- [11] ČSOB: *Loan products* [online]. 2008, [quo. 2009-01-04]. Available on WWW: <http://www.csob.cz/bankcz/cz/Firmy/Podnikatele/Uvery>.
- [12] ČSOB: *Price list* [online]. 2008, [quo. 2009-01-04]. Available on WWW: <http://www.csob.cz/bankcz/cz/Csob/Sazebniky/Sazebnik-pro-pravnicke-osoby-a-fyzicke-osoby-podnikatele.htm>.
- [13] Česká spořitelna: *Firms and towns of financing* [online]. 2008 [quo. 2008-12-15]. Available on WWW: [http://www.csas.cz/banka/menu/cs/firmy/nav00000\\_firmy\\_nds\\_183/](http://www.csas.cz/banka/menu/cs/firmy/nav00000_firmy_nds_183/).

- [14] Česká spořitelna: *Price list* [online]. 2008, [quo. 2008-12-15]. Available on WWW: [http://www.csas.cz/banka/menu/nav00006\\_sazebnik](http://www.csas.cz/banka/menu/nav00006_sazebnik).
- [15] GE Money Bank: *Loans* [online]. 2001 – 2008, [quo. 2009-01-04]. Available on WWW: <http://www.gemoney.cz/ge/cz/2/uvery>.
- [16] GE Money Bank: *Price list of fees* [online]. 2001 – 2008, [quo. 2009-01-04]. Available on WWW: <http://www.gemoney.cz/ge/cz/2/zakaznický-servis/sazebniky-poplatku>.
- [17] GE Money Bank: *Interest rates* [online]. 2001 – 2008, [quo. 2009-01-04]. Available on WWW: <http://www.gemoney.cz/ge/cz/2/zakaznický-servis/urokovy-listek>.

**List of graphs**

Graph 1 – Proportion of interest and fees ..... 44

Graph No. 2 – Proportion of interest and fees ..... 49

## List of tables

Table No. 1. Interest rates of the investment loan 5 PLUS .....	30
Table No. 2. Offer for stable clients without evaluation of credit score .....	38
Table No. 3. Offer to the fictional client with assumption of good credit score .....	38
Table No. 4. Financial costs of individual products.....	44
Table No 5. Financial costs of individual products.....	48

## List of enclosures

- P1 Price list of Komerční Banka a.s.
- P2 Price list of Československá Obchodní Banka a.s.
- P3 Price list of Česká Spořitelna a.s.
- P4 Interest rates of GE Money Bank a.s.
- P5 Price list of GE Money Bank

## Enclosure P1: Price list of Komerční banka a. s.

### Business loans in general

For complex processing and evaluation of loan application	0,3 %, min. 5 000 CZK, max. 30 000 CZK <sup>1)</sup>
For receiving the loan	0,6 %, minimum 5 000 CZK <sup>2)</sup>
Loan Medicum <sup>5)</sup>	Discount 50 %
Managing the loan	600 CZK a month <sup>3)</sup>
Changes of the conditions in the loan requested by client <sup>4)</sup>	0,6 %, minimum 5 000 CZK

1). Price is set according to the value of required loan in CZK, for business plan from the amount of financing through loan for clients who have MSP rating of Chamber of Commerce. The price of processing and evaluation of the loan is decreased by the fee paid by client for rating. If the rating fee the same or higher than the price, the processing and evaluation of loan application is free. The price is non-recurring and non-returnable, supplying the receipt for fee is the condition of processing the application for loan or evaluation of business plan.

2). Price is set from the value of accepted loan in CZK and in foreign currency and it is non-recurring for the loan for definite period of time. For revolving and overdraft loans with indefinite period of time it is paid regularly in agreed time period, f.e. once a year. For loan promise the price is paid in the moment of issuing the loan promise. If loan promise is for the projects where client applies for grant from CR state budget or EU fund, the price can be divided into two payments; first part is paid in the moment of issuing the loan promise, second at the moment of lodging the application.

3). Price is paid from the date of loan agreement signature for every started month for the all time of using the loan and it applies even to overdraft loans.

4). Price is calculated from the amount of loan in the agreement, if all money were not used, from the amount of principal on the day of sending application, if use of loan was not closed, or from the limit agreed in the agreement for the overdraft loan and revolving loan, the price is non-recurring and non-returnable.

5). Action price

### Authorized debits

Reserving of resources	0,9 % p.a.
Reserving of resources for municipality	Individual

Price is calculated from not used amount of authorized debit.

### PROFI loans

For processing and evaluation of loan application	
For receiving the loan	
Managing the loan – for agreed loan under 1 mil. CZK	300 CZK a month
Managing the loan – for agreed loan over 1 mil. CZK	600 CZK a month



**Mortgage loans**

Processing and evaluation of loan application	1 %, min. 10 000 CZK
For acquiring the loan	0,8 %, min. 10 000 CZK
Managing the loan	monthly 600 CZK
Managing the mortgage loan with state financial grant (grant according to state norm No. 244/1995 Sb., as amended)	monthly 600 CZK <sup>1)</sup>

1). Price is paid monthly – starting the month in which the agreement about state financial grant is signed, till the month in which was the agreement about financial support closed, if 0% interest rate of state financial grant, the fee for managing the account with state financial support is the same as fee for managing the account without state grant.

## Enclosure P2: Price list of Československá obchodní banka a.s.

AUTHORIZED OVERDRAFT OF CURRENT ACCOUNT	
Processing and evaluation of loan application	Free
Providing the loan	Free
Services connected with managing the loan (loan limit under 100.000,-) <sup>1)</sup>	100,- for every started month of loan validity
Services connected with managing the loan (loan limit over 100 000,-) <sup>1)</sup>	350,- for every started month of loan validity
Services connected with the loan managing – municipality	200,- for every started month of loan validity
<sup>1)</sup> Fee is collected starting the month in which client started to use the loan resources	

LOAN PRODUCTS	
Evaluation of the application for loan, loan promise, bank guarantee or other loan product	Contractual max. 50 000,-
Providing the loan, range of bank guarantees	max. 1 % of loan amount or bank guarantees
Obligations factorage	0,1 – 3,5 % p.a.
Services connected with managing the loan, or providing the range of bank guarantees (monthly fee for time of loan validity, or range of bank guarantees)	0,01 – 0,05 % from total amount of loan, range of bank guarantees, min. 300,-
Services connected with verification and evaluation of provided documents (annual fee for all time of loan validity)	max. 0,5 % of loan amount

SMALL LOAN FOR BUSINESSMEN	
Processing and evaluation of loan application	Free
Providing the loan	0,5 % from loan amount, min. 2 000,-
Services connected to managing the loan	200,- for every started month of loan validity

OTHER SERVICES IN THE AREA OF LOAN PRODUCTS	
Change of agreement conditions requested by client	max. 1% of actual remaining loan resources
Internal analysis of values for complex evaluation of loan application	0,03 – 0,2 % of analyzed value of securing, min. 2 000,–
Application for money/prompt to pay amount due	200,–/500,–
Fee for preparing the electronic statement of ownership from land registry	250,– per statement
Fee for external legal and other services <sup>1)</sup>	Contractual
<sup>1)</sup> If fee is paid separately, it will be taxed by 19% VAT.	

## Enclosure P3 : Price list of Česká spořitelna a.s.

### Commercial loans

Text	Price in CZK
<b>Accepting, processing and evaluation of loan application (or loan promise)</b>	<b>Is set individually, 0,5% to 2% of loan value, min. 5.000,-</b>
Accepting, processing and evaluation of application for Term loan mini Profit and Overdraft loan mini Profit	<b>Free</b>
<b>Accepting, processing and evaluation of loan application by simplified approach.</b>	
Overdraft loan Professional	<b>Free</b>
Overdraft loan Profit as part of Program Profit	<b>2.500,-</b>
<b>Providing overdraft loan by simplified approach</b>	
As part of Program Profit	<b>2.500,-</b>
Overdraft loan Professional	<b>Free</b>
<b>Price of prolonging the overdraft loan provided as part of Program Profit and Overdraft loan Professional.</b>	<b>1.000,-</b>
<b>Debt fee</b>	<b>Is set individually, 0,5% to 1% from remaining loan resources</b>
Debt fee for Overdraft loan mini Profit, Note. There is no debt fee for Overdraft loan mini Profit	<b>0,5%</b>
<b>Managing the loan in Czech currency (including overdraft loan) – per month</b>	<b>300,-</b>
Managing the loan for Term loan mini Profit and Overdraft loan mini Profit – per month	<b>100,-</b>
<b>Per entry (except overdraft loan)</b>	<b>10,-</b>
<b>Postage for sending account statement</b>	<b>According to post tariff</b>

### Mortgage loans – mortgage and construction loans in Czech and foreign currency

Text	Price in CZK
<b>Managing the loan – per month</b>	<b>400,-</b>
<b>For complex processing and evaluation of loan application (including loan promise), fee can be paid from the loan</b>	<b>Is set individually, 0,75% to 1,0% of loan value, min. 15.000,-</b>
<b>For complex processing and evaluation of applications for Mortgage Global (including loan promise), fee can be paid from loan</b>	<b>1% to 2% of loan value, min. 25.000,-</b>
<b>Evaluation of the price of flat, family house, non-residential space in the case that bank is doing the appraisal on its own</b>	
For flat size smaller than 50 m <sup>2</sup>	<b>1.000,-</b>
When area of flat is higher than 50m <sup>2</sup> but smaller than 100 m <sup>2</sup>	<b>1.500,-</b>
For family house or flat larger than 100 m <sup>2</sup>	<b>2.000,-</b>
For non-residential space for business	<b>2.000,-</b>
<b>Issuing the confirmation about loan interest for tax purposes</b>	<b>Free</b>
<b>For take-over of the loan by different client</b>	<b>0,5% of remaining loan balance</b>

Prices of processing and evaluation of the loan application should be paid when signing the loan agreement when agreement is valid

## General entries

Text	Price in CZK
<b>Change of agreement conditions requested by client</b>	
For commercial loans	<b>0,3% of actual balance, min. 2.500,-</b>
For mortgage loans	<b>0,3% of actual balance, min. 10.000,-</b>
<b>For every repayment of loan in cash</b>	<b>10,-</b>
<b>Written call for money (prompt) to pay the due amount of loan (including the prompt to debtor before complaint)</b>	
1 <sup>st</sup> prompt	<b>Postage</b>
2 <sup>nd</sup> prompt	<b>300,- + postage</b>
3 <sup>rd</sup> prompt	<b>500,- + postage</b>

## **Enclosure P4: interest rates of GE Money Bank**

### **Loans with fixed rate**

<b>EXPRES Business not-secured</b>	
Loan amount (in thousand CZK)	Interest rate
40 – 100	From 7,9 % p.a.
Interest rate Express Business can be increased by risk additional fee for clients with higher business risk according to bank's evaluation.	
<b>Other loans with fixed rate</b>	
Loan interest rate is agreed individually.	
Late interest rate	Interest rate + 20 % p. a..
Late interest rate with annuity type of repayment of principal is 30 % p.a.	

### **Loans with announced rate**

<b>1. Flexi Business</b>	
For clients with GE Money Bank a.s. certificate	9 % p.a.
For chosen group of clients *	10,5 % p.a.
For clients who supplied 2 fiscal statements, Small businessmen overdraft	13,5 % p.a.
For other subjects	15,5 % p.a.
<b>2. MiniFlexi Business</b>	
For chosen group of clients *	11,5 – 13,5 % p.a.
For other subjects	15,9 – 18,9 % p.a.
<b>MiniKontokorent (Mini-Overdraft)</b>	
For health care subjects	11,5 % p.a.
For other subjects	15,9 % p.a.
* chosen group of clients – individual businessmen: doctors, dentists, veterinary surgeons, lawyers, notaries.	

## Enclosure P5: Price list of GE Money Bank

<b>MiniKontokorent (Mini-Overdraft)</b>		
Starting the loan	Free	
Commission del Credere	Monthly	150 CZK
Canceling the MiniOverdraft loan (client's request)	Free	
Opening the account MiniOverdraft	10 % of actual framework	
Managing the account MiniOverdraft	Monthly	300 CZK
<b>MiniFlexi Business</b>		
Starting the loan	Free	
Fee for reserving the resources	Monthly	150 CZK
Canceling the MiniFlexi Business	Free	
Managing the account MiniFlexi Business	Monthly	300 CZK
<b>Flexi Business / Small business overdraft</b>		
Application for loan	Free	
Providing loan (signing agreement)	Free	
Fee for reserving the resources	Monthly	300 CZK
Canceling loan Flexi Business (client's request)	Free	
Opening loan account Flexi Business	10% of actual range, max.10 000 CZK	
Managing loan Flexi Business	Monthly	300 CZK
<b>Express Business /Optimal Business</b>		
Application for loan	Free	
Providing loan (signing agreement)	Free	
Not-secured loan	Monthly	Free
Secured loan	Monthly	0,5% min.3000 CZK
Managing the loan account	monthly	300 CZK
Loan under 1 000 000 CZK		
Loan over 1 000 000 CZK		

Fee for early payment or early repayment of whole loan requested by client from early repaid principal or by bank		
Not-secured loan	5 % min. 1 000 CZK	
Secured loan	5 % min. 3 000 CZK	
Changes of loan conditions requested by client. Fee is paid when giving request and it is not returnable even if not accepted.	3 000 CZK	
<b>Renewing+</b>		
Processing the loan request	Free	
Providing loan (signing the agreement)	Fee will be agreed in loan agreement	
Managing loan account	Fee will be agreed in loan agreement	
Change of loan conditions requested by client. Fee is paid when giving request, it is not returnable even if not accepted.	3 000 CZK	
Fee for not using whole loan	Free	
Fixed rates		
Early payment when changing the interest period	Free	
Early payment when not changing the interest period	2 000 CZK p.a. till the end of interest period from early repaid principal	
Movable rate		
Early repayment	From early repaid principal	5%min. 3 000 CZK
<b>Other business loans</b>		
Processing loan application	5 000 CZK	
Providing loan (signing agreement), repeating providing of loan (signing agreement)	From loan amount / loan range	0,5 % min. 5 000 CZK
Change of loan conditions requested by client. Fee is paid when giving request it is not returnable even if change is not accepted.	3 000 CZK	
Managing loan account		
Loans for financing agricultural technology	monthly	250 CZK
Other business loans	monthly	250 CZK
Fee for early fee or early repayment of the loan by client from early repaid principal	5 % min. 3 000 CZK	