AGRICULTURAL LAND AND BANK CREDITS

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SUMMARY

When granting credits, commercial banks can take agricultural land as guarantee. Because the three components of agricultural farm are land, work and capital, we consider that evaluation of agricultural land is of extreme importance when accepting it as a guarantee for the solicited credits for agricultural use. Agricultural customers prefer to offer land as guarantee for mortgage instead of personal houses or apartments for real estate mortgage. In Romania after 1990, commercial banks have been reticent in accepting agricultural land as guarantee upon granting credits for agriculture, due to difficulties that have appeared in the process of applying legislation in this domain. This attitude of the banks has also been motivated by the following reasons (Harangus, 2004):

- lack of a functional land market;
- non-existence, up to 1998, of a complete and coherent legal framework concerning selling and owning agricultural land;
- late procurement of title deeds by agricultural land owners;
- difficulty in establishing the value of agricultural land that could be taken into consideration as credit guarantee;
- difficulty of the bank to establish the value of the land of a debtor because of the pre-emption right upon alienation of any of the agricultural lands.

In 1998, Law nr. 54/1998 regarding juridical circulation of land established a juridical framework for the land market. The difficulty in evaluating the land of agricultural lands consisted also in the evolution of the number of households and their small surfaces. Evaluation of agricultural land is an extremely difficult task as the evaluator has to take into account and to analyse information regarding indicators specific for a particular cultural area (Mertz, Wadley & Christensen, 2005). Such information can be obtained from the centres for agricultural consultancy and from agricultural specialists. Because of the complexity of methodologies for evaluation of agricultural land, namely the six new standard methods of evaluation of agricultural lands, the banks have difficulties in establishing the value of the collaterals that can be considered as guarantees for credits granted to agricultural customers.

REFERENCES