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## USURY VERSUS BANK CREDIT

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**Abstract:**

*Any individual, regardless of religion, social status, training or time of its existence in history was drawn like a magnet for money and power offered by them. The problem that is to be discussed briefly in the following pages has the purpose of obtaining money appealing to lenders or bankers. We do not intend to highlight the differences and similarities between the two precepts, trying to ignore the time factor, we present more a parallel between the two. An interesting parallel that highlights the origin of credit in times long forgotten, when the need of money urged you to knock at the usurer's door.*

**Keywords:** lenders, bankers, credit

### 1. Moneylenders

Along with the slow disappearance of the Western Roman Empire, the groups that formed the huge amalgam of people found themselves placed in front of the economic stagnation. Coins are made only at times but they do not disappear completely. Some historians characterize this period as one of the "natural economy" but the historian Marc Bloch refused this term in favor of the "money hunger".(Marc Bloch, *Societatea feudală. Formarea legăturilor de dependență*, Vol. 1, Editura Dacia, Cluj.Napoca, 1996)

The disappearance of the Empire and its replacement by Christianitas, signifies the appearance of a biblical filter for all human actions throughout the early Middle Ages. Amid this biblical filter in Christianity there was a traditional distrust of money, but scarcity of money in the early Middle Ages rather gave them a sign of

strength. Money becomes a symbol of political and social power rather than economic. (Jacques Le Goff, *Civilizația Occidentului medieval*, Editura Științifică, București, 1970, p. 335)

Money and money makers are those who participate in the sanctity and also the curse of the blacksmiths, enhanced here by the magic of precious metals, so one can speak here of a true aristocracy of the early Middle Ages, an aristocracy more magical than economic. (Jacques Le Goff, *Civilizația Occidentului medieval*, Editura Științifică, București, 1970, p. 335)

Economic rebirth and the boom of monetary economy entails an explosion of hatred against money because early economic progress is achieved in certain classes and profit at the expense of others. (Jacques Le Goff, *Civilizația Occidentului medieval*, Editura Științifică, București, 1970, p. 335)

Medieval society, as any society has its social hierarchy which generally reflects its structures and mentalities.. Trades also have found a place in this world, so there are noble trades, trades common, lawful trades and trades illicit. Since that period, two trades have always come out by their negative, wrongful character, usury and prostitution. (Jacques Le Goff, *Pentru un alt ev mediu. Valori umaniste în cultura și civilizația evului mediu*, Vol.1, Editura Meridiane, București, 1986, p. 150)

By usury, the Catholic Church understands all argument involving the payment of interest. According to the Church, loan, or the basis of great trading and banking operations is inconsistent with divine law. According to this definition, any merchant or banker is a usurer. (Jacques Le Goff, *Negustorii și bancherii în Evul Mediu*, Meridiane, București, 1994, p. 80)

Amid economic development a process of impoverishment of the peasants takes place, so borrowing from urban moneylender, who often was a Jew, is a common practice, an example in this direction is the region of Perpignan where around the year 1300 approximately 65% of debtors usurers in the city were peasants. They contract loans in autumn when marriages took place or when they had to pay taxes towards seniors, and most had to return loans after the harvest and vintage. During the same period, the Asti usurers had lending booths called "*casane*" in most regions owned by the House of Savoy. (Jacques Le Goff, *Civilizația Occidentului medieval*, Editura Științifică, București, 1970, p. 337)

All those who practiced usury are rejected and condemned by the Church. Arguments of the church are many, but two most important stand out. The first argument is that people are the children of God, participating in his divinity and their body is a living tabernacle. Man must work like God and God's work is creation. Any profession that does not is therefore evil or less. (Jacques Le Goff, *Pentru un alt ev mediu. Valori umaniste în cultura și civilizația evului mediu*, Vol.1, Editura Meridiane, București, 1986, pp. 154-155)

The second argument is that money can not make money. The time during which money is borrowed can not be valued and measured in money because time is something that does not belong to people, can not constitute an individual property, it

is only God's.( Jacques Le Goff, *Negustorii și bancherii în Evul Mediu*, Meridiane, București, 1994, p. 81)

Against usury, the Church has taken a number of measures such as excommunication and ban burial, the obligation to refund the unlawful profit, invalidation of testaments. But these measures have failed to discourage these illicit practices, and while the Church is more tolerant with the merchant, warranting some exemptions by introducing phrases and situations where the merchant is entitled to a win.( Jacques Le Goff, *Negustorii și bancherii în Evul Mediu*, Meridiane, București, 1994, pp. 86-87)

"*Damnum emergens*" occurs when there are obvious risks and the merchant supports real damage. He is entitled to receive compensation that will be called "interest". The borrowers are missing, for a period of time, a benefit as the amount borrowed immobilizes some money, he is entitled to charge an indemnity to compensate for that, "interrupted profit" or "*lucrum census*". "*Periculum sortis*" refers to the risk of insolvency or bad faith of one who has borrowed so that borrowers have the right to charge a fee.

Finally the work of the merchant is recognized and also the right to a salary called "*stipendium laboris*" or "work pay". Over time the idea of community work familiarizes, so the merchant is the one who makes a public good, later recognition of the economic interdependence of countries and nations makes the merchant a necessary evil.( Jacques Le Goff, *Negustorii și bancherii în Evul Mediu*, Meridiane, București, 1994, pp. 87-88)

## **2. A brief history of the emergence of the credit**

By the 7<sup>th</sup> and 8<sup>th</sup> centuries, there can't be any word about the existence of the credit as a commercial operation. The payment was made in cash. There were two kinds of commercial operations. In the first case, the transaction ended with the delivering of the object. In the second case, the object, whether it was paid or not, was handed to the buyer - but only temporarily. The owner had the right to redeem it within a specified period before, or to retain the received cost. The buyer did not become the owner of the object - even if he had paid for it at the beginning - than the deadline. "This was the starting point of which, little by little, the credit will develop." (JM Kulischer). (Drîmba O., *Istoria culturii și civilizației*, Ed. Științifică și Enciclopedică, București, 1987, pag.493).

Historical documents (as well as the literary ones - satire, comedy) show that since the 10<sup>th</sup> century in Venice and the 6<sup>th</sup> century in other parts of Italy and Flanders, the great merchants were borrowing great sums of money to the abbots, knights, nobles and even kings. In the 12<sup>th</sup> century it was a habit that wholesale sales and purchases of spices, wine and cloth was made on credit. The loans were secured by pledges, which could be sold by the creditor if the debtor did not surrender to the term

loan agreement. The practiced percentage was very high: between 30% and 40%. This was the reason the usurers were so hated by the society. (Drîmba O., *Istoria culturii și civilizației*, Ed. Științifică și Enciclopedică, București, 1987, pag.495).

The origin of the commercial credit, which was mainly linked to financial operations, is found in the usurer's activity.

The coins in circulation minted in several mints of kings, counts, bishops of the towns, were of types, shapes and very different values; that a usurer presence was absolutely indispensable at major fairs and exhibitions.

The usurers: in a strictly limited number authorized by kings, counts and those seniors of the fairs, or the city's authorities, exposing its many types of coins on a table or on a bank; where the name of the future institution and the name of "bankers" who were given (in Genoa for example), usurer. They were not only limited but to exchange operations, but also dealt with "deposits" and "transfers". They received money to be entrusted by the customers, usually for reasons of prudence required by the risks of longer trips, money that the usurer - "the banker" - undertook to return it on request, in the currency left in the deposit or in its equivalent. The operation of restitution could be made directly to the client, or to another person specified by the client. "The banker" could make, at the client's request, the transfer operations to another banker of the assigned amount, in which case, the first banker paid no cash, but by a letter of transfer to the other banker who was to reimburse to the client the amount. As normally the claims of the customers did not exceed one third of the total amounts that "the banker" had received in the deposit, the remaining two-thirds could be used as a fund to invest in a commercial business, or could give advances to its customers in a current account. The loans granted to the customers, or the amounts invested by the bankers in a commercial enterprise brought them the profit of the interest rate charged. On the other hand, in order to have as many funds as that they could operate within this way, the bankers sought to attract depositors by offering them some percentage for the amounts held in the current account. Both the type of bank deposits and the bank transfers and the investment occurred during the twelfth century - in Genoa. (Drîmba O., *Istoria culturii și civilizației*, Ed. Științifică și Enciclopedică, București, 1987, pag.495)

During the 14<sup>th</sup> and 15<sup>th</sup> centuries the use of written documents spread, business letters and double entry accounting (invented in 1494 in Venice by Luca Paciolo: Epuran M., Baba V., Imbrescu C., *Teoria contabilității*, Ed. Economică, București, 2004, pag. 13).

During this time, all these had evolved, and today is all dependent on a lesser or greater extent than unit banking in general and credit in particular.

The banking unit means a set of organizational entities, institutionalized and autonomous, authorized to conduct banking operations within a country. These entities have not operating for profit and use in this sense, techniques, processes and domain-specific tools. They use a flexible set of mechanisms, often an extremely complex one, designed to define the basic elements of its market strategy.

The normative acts elaborated by the legislative bodies of the country are outlining the legal framework, which allows the bank machine to behave as an active lever in the macroeconomic construction and development of the country.

The banking activity cannot be separated from economic and social activity, seen as a system, to which there is a relation of dependence and whereby influence each other.

It should be stressed that each country must devise its own banking system; it's banking activity domain-specific structures, which establishes them as a global strategic objective, the financial and monetary support for the plan of socio-economic development of the whole, of the progress of the entire society.

The lending activity of banks represents the most important segment of all banking services. As the multiplication of the loans granted ,and the default risks that accompany them, it have appeared new tools and skills assessment of risks, new regulations on legal lending issued by the central bank.

Throughout the lending activity, the banks comply with the legal provisions and regulations issued by the central bank, it had the supervisory and regulatory responsibilities with monetary, credit, currency and payment. On the basis of these regulations there are a number of principles and general rules on lending operations.

**The elements of a credit relationship are:**

1. the participants in the credit report;
2. the promise of reimbursement;
- 3.the credit guarantee ;
4. the date of payment;
5. the interest (the credit price).

1.**The participants in the credit report**, the creditor and the debtor are defined in the literature with the term "subjects of the credit report." (Cezar B., Dardac N., Constantin F., Monedă, Credit, Bănci, Ed. Didactică și Pedagogică, București 1996, pag.126)

2.**The promise of reimbursement** represents the debtor's obligation to repay the loan amount plus the interest at the date of payment, as the price of the credit.

3.**The credit guarantee** represents a legal feature related to it's redeem ability. After the nature of items that cover the object of this guarantee, this may be real or personal.

Real guarantee is based on "pledging" credit with material values, which in case of default of the loan can be sold.

A distinct form of real guarantee is the mortgage. Through mortgage the debtor gives the creditor the right to the grant without dispossession.

The personal guarantee commitment is given by a third party to pay the amount matured in case of the default of the debtor.

The most common form of credit guarantee is the financial guarantee.

4.**The date of payment** and repayment terms specified in the contract differ depending on the features of the particular sector of activity and efficiency of the activity of the credit beneficiary.

The deadlines fall on an axis of 24 hours (in the case of the interbank market) to the medium and long duration (20 or 30 years) in the case of debentures.

5. **The interest** represents a feature of the loan and it is, as emerges from the literature, the price of capital employed, or "the rent" that the borrower pays for the right which is granted, the use of the borrowed capital. (Dardac N., T. Barbu, work quoted. pag.159).

**The credit** is a commitment, the transfer of ownership on the amount that is the subject to credit has an obligatory character for the bank from the moment in which the bank has made a commitment to the availability of the credit. A very important aspect in practice, because from the moment the credit contract is signed by the credit institution, the obligation to provide the borrower the amount of money agreed becomes overdue. From this moment until the moment of the withdrawal of the amount from the credit account by the borrower, the bank is the debtor of the remittance obligation of the amount in the credit account and the borrower has, on the bank and within that amount, an outstanding debt, liquid and eligible. (Andronache V., Banca și operațiunile comerciale. Spețe și soluții practice în raporturile dintre bancă și client . Ed. Universitară, București 2006, p. 66-67).

**The credit** may be regarded as a credit institution's commitment to extend the maturity of a debt. In this context the legal text has to extend the maturity of a debt arising from the bank credit.

Following many changes throughout the social, cultural, economic, financial, the credit, of course takes many forms depending on the market's needs.

**The banking system**, the offered product is provided by several institutions which are in competition and is essentially the same. The customer chooses the bank based on his personal preferences which often are not directly related to the product itself. The bank may retain the best the customers using the concept of "customer care", thereby achieving the best service in the market. (Halmi M., Managementul relațiilor dintre bancă și clienți, Volumul: Dezvoltarea culturii antreprenoriale pentru un management performant bazat pe investitii si cunoaștere" Ed. CIBERNETICA MC, Bucuresti.

### **3. Instead of conclusions**

These are some of the summary reports of the experts with regard to usury.

How far or how close we are for all the precepts listed above is up to each of us. What is most tragic, results from the fact that although we have evolved so much in many fields, social, economic, technological, informational, etc., it is still resorting to usurers and in some cases for considerable sums.

Why? ... Perhaps simply because they are more readily available ... and we do not realize the risks we expose to.

Specifically for many participants in the economic life of our days: from individuals to large businesses usury is not an unknown precept. Perhaps this is due to ignorance and not knowing the facilities offered by the banking system. To understand

it would be needed some instruction before and in this regard certain knowledge by the members of the society (individuals or legal persons) of the elements that characterize a bank loan with its advantages and disadvantages.

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