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## CREDITS IN TIMES OF COVID-19: STRATEGIES FOR EFFICIENT RESPONSIBLE OBTAINING

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**Abstract:** The economic situation resulting from the health emergency caused by covid-19 has meant a significant reduction in income for many people and families. In this context, the need to access a credit to cover the payment of obligations, health expenses, the acquisition of essential goods or services for the time of confinement and the adoption of new ways of life and work, has become a alternatives to alleviate the situation. But in these situations, credit can become an ally of the personal, family and/or business economy. However, the inappropriate use of these resources can represent a serious financial complication in the short and long term. Therefore, it is essential to do so responsibly, in order to avoid falling into situations of financial risk that severely affect stability. This research aims to determine the most effective strategies when obtaining financing and choosing the most viable alternative, customers and users must carry out a thorough analysis of the use that will be given to their credit, interest rates that will be canceled and the term of payment. The public and private banks of Ecuador have had to adopt different measures to face the national reality: credit restructuring has been carried out, with refinancing and deferral of terms. Similarly, the creation of new credit products is considered a fundamental strategy to mitigate the impact caused by the restrictions established by the pandemic. This fact sheet details all this information and analyzes the behavior of deposits, loans and financial indicators in recent months.

**Keywords:** Interest, Financing, Placement, Liquidity, Term.

## INTRODUCTION

The global economy has received a strong impact due to the confinement measures that the governments of different countries have taken to deal with the crisis caused by the new coronavirus (Bancóldex, 2020).

In Ecuador, as in other parts of the world, citizens have had to find ways to guarantee their liquidity and take care of their money while the restrictions dictated by the national government are lifted.

Due to the health emergency generated by COVID 19, companies, businesses and families need financing sources to cover their operational activities. They can be internal or external to the company. Both generate explicit or implicit costs (Belén, 2020). A credit is a financing operation where a person called '**creditor**' (usually a **financial entity**), lends a certain amount of money to another, called '**debtor**', who from that moment, guarantees the creditor that he will return this amount requested in the previously stipulated time plus an additional amount, called: '**interests**' (Oca, 2020). The price that is put on the money that is borrowed is called interest. In other words, in order to use an amount of money that does not belong to us on loan and for a time, we must pay another small amount. This amount is what is known as interest, which is nothing more than the consideration for using said borrowed money. (Garcia, 2016)

To finance is the mechanism through which money is contributed or credit is granted to a person, company or organization so that it can carry out a project, acquire goods or services, cover the expenses of an activity or work, or fulfill their commitments to their suppliers. (Morales-Castro, 2014)

At the time of acquiring a credit or a source of financing, companies, especially people, make inappropriate use of credit, most of them are used to pay debts and do not invest in the activities for which it was obtained. Which leads to bad financial decisions.

This research aims to establish adequate strategies to obtain credit efficiently and responsibly, this way it manages to contribute significantly to companies and families on

the proper use of the administration of their personal and business finances.

With a good use of credit, a significant number of situations in the personal, family and business economy can be resolved in these times of the pandemic generated by covid 19. A bad use of credit can lead to an economic problem. The loan is therefore useful and problems are caused when it is used inappropriately, for example: incurring a debt greater than our ability to pay

With this research it is intended to give the ideal strategies or recommendations when accessing a credit for responsible obtaining and proper management of resources.

## MATERIALS AND METHODS

The methodology that was applied for the development of the research was analytical and descriptive in order to discern all the information obtained through statistical, documentary and bibliographic data that allowed reaching the conclusions regarding the analysis of behavior at the time of accessing lines of credit through the financial system.

## RESULTS AND DISCUSSION

Credits are a way to access money to meet personal and business goals.

The most important are Consumer Loans, Commercial Loans and Mortgage Loans, credit cards and microcredits.

Credit is a loan of money that a financial institution grants to its client, with the commitment that in the future, the client will repay said loan gradually (by paying installments) or in a single payment and with additional interest. that compensates the person who lends the money, for all the time that he did not have that amount (through prepayment).

Among the most common types of credits we find the following:

**Consumer Credits:** amount of money that

the Bank grants to people for the acquisition of goods or payment of services, and that is normally agreed to be paid in the short or medium term (1 to 4 years).

**Commercial Credits:** amount of money that the Bank grants to companies of different sizes to satisfy the needs of Working Capital, acquisition of goods, payment of services oriented to the operation of the same or to refinance liabilities with other institutions and short-term suppliers and which is normally agreed to be paid in the short or medium term. It must be noted that it is a commercial name, specific to each institution that grants it.

**Mortgage Credits:** Credit granted by the Bank for the acquisition of a property already built, a piece of land, as well as for the construction of houses, offices and other real estate, with the guarantee of the mortgage on the property acquired or built; It is normally agreed to be paid in the medium or long term (8 to 40 years, although the usual is 20 years) (Financial, 2020).

**Microcredits:** Small loans granted to people with a low level of economic resources, that is, those who lack sufficient guarantees to access the traditional banking system, but who have entrepreneurial capacity, for which they are also called "poor entrepreneurs". The economic resources thus obtained by the beneficiaries must be used to start up small businesses, thus generating self-employment (Martín López, 2020).

**Credit card.** It is a means of payment or a line of credit that is paid with interest. Allows you to pay the total amount, minimum amounts or monthly installments. With it you can make payments in establishments and make cash advances (<https://cuidatufuturo.com>, 2020).

# Tasas de Interés

Octubre - 2020

## 1. TASAS DE INTERÉS ACTIVAS EFECTIVAS VIGENTES PARA EL SECTOR FINANCIERO PRIVADO, PÚBLICO Y, POPULAR Y SOLIDARIO

Tasas Referenciales		Tasas Máximas	
Tasa Activa Efectiva Referencial para el segmento:	% anual	Tasa Activa Efectiva Máxima para el segmento:	% anual
Productivo Corporativo	9.13	Productivo Corporativo	9.33
Productivo Empresarial	9.79	Productivo Empresarial	10.21
Productivo PYMES	11.03	Productivo PYMES	11.83
Productivo Agrícola y Ganadero**	8.48	Productivo Agrícola y Ganadero**	8.53
Comercial Ordinario	9.80	Comercial Ordinario	11.83
Comercial Prioritario Corporativo	8.96	Comercial Prioritario Corporativo	9.33
Comercial Prioritario Empresarial	9.87	Comercial Prioritario Empresarial	10.21
Comercial Prioritario PYMES	11.23	Comercial Prioritario PYMES	11.83
Consumo Ordinario	16.55	Consumo Ordinario	17.30
Consumo Prioritario	16.61	Consumo Prioritario	17.30
Educativo	9.45	Educativo	9.50
Educativo Social	7.06	Educativo Social	7.50
Vivienda de Interés Público	4.93	Vivienda de Interés Público	4.99
Vivienda de Interés Social <sup>3</sup>	4.99	Vivienda de Interés Social <sup>3</sup>	4.99
Inmobiliario	10.13	Inmobiliario	11.33
Microcrédito Agrícola y Ganadero**	19.35	Microcrédito Agrícola y Ganadero**	20.97
Microcrédito Minorista <sup>1*</sup>	25.97	Microcrédito Minorista <sup>1*</sup>	28.50
Microcrédito de Acumulación Simple <sup>1*</sup>	23.06	Microcrédito de Acumulación Simple <sup>1*</sup>	25.50
Microcrédito de Acumulación Ampliada <sup>1*</sup>	20.23	Microcrédito de Acumulación Ampliada <sup>1*</sup>	23.50
Microcrédito Minorista <sup>2*</sup>	23.91	Microcrédito Minorista <sup>2*</sup>	30.50
Microcrédito de Acumulación Simple <sup>2*</sup>	22.66	Microcrédito de Acumulación Simple <sup>2*</sup>	27.50

Current interest rates for the month of October 2020

Source: Central Bank of Ecuador

Among the most relevant results of this research is to capture strategies for customers and users who access a source of financing

through the various credit lines, to consider in order to make an excellent financial decision.

Strategies when acquiring a loan responsibly	
<ul style="list-style-type: none"> <li>Define the purpose of the credit</li> </ul>	<p>It is very important to identify the need and define the purpose that these economic resources will have, such as: payment of debts, education, emerging medical coverage, investments, among others. Once the objective is defined, make a detail of the expenses and/or debts that you are going to cover with this money.</p>
<ul style="list-style-type: none"> <li>Screen your finances</li> </ul>	<p>In the current situation, it is important to make a real diagnosis of your personal and/or business finances, both your income and expenses, to know your ability to meet this financial commitment. In the analysis of expenses it is important to include the deferred payments that you maintain with credit cards and other types of financing that you have acquired. Once the total amounts of each of the debts are clear, define the monthly value that can be committed and what the term will be, taking into account that this item will be permanent for a few months.</p>
<ul style="list-style-type: none"> <li>Analyze the options to obtain a credit</li> </ul>	<p>Identify the financial institutions that offer this type of service and verify that they are authorized by the regulatory entity. It is important to consider between 3 or 4 options so that you can make a decision based on factors such as requirements, amounts, interest rates, terms and times for awarding approved resources. In the face of the pandemic, several institutions have launched credit products, with facilities for obtaining and paying them. Cooperativa Andalucía, for example, offers credit alternatives from \$500 to \$30,000 dollars without a guarantor, with a preferential rate from 12.80%, and with grace periods of 30, 60 and 90 days to start the payment of the operation. in the case of the consumer product, without a guarantor and without a spouse's signature.</p>
<ul style="list-style-type: none"> <li>Evaluate interest rates</li> </ul>	<p>These vary depending on the type of credit and the entity that grants it. It is recommended that the client analyze the interest rates according to the credit segment and will be related to the destination of the resources and source of payment of the same.</p>
<ul style="list-style-type: none"> <li>Know the requirements for the application</li> </ul>	<p>Find out about the different requirements that financial institutions request to provide a loan in order to have all the necessary documentation at hand.</p>
<ul style="list-style-type: none"> <li>Be proactive in managing debt and avoid over-indebtedness</li> </ul>	<p>Keep your finances organized, manage a registry to control income and expenses and clearly identify your personal budget, always looking for the best alternatives to avoid falling into arrears. Self-control must prevail. Avoid impulsive use of credit cards or consumption that are not essential for now. If you decide to consolidate all your debts through a credit to alleviate the monthly flow, it is essential to control expenses, and save in case you have new resources available in the future. This fund will allow you to make payments to the capital of the loan, or in turn to the term of the loan.</p>

Source: <https://www.eltelegrafo.com.ec/noticias/pedro-el-economista/1/creditos-claves-obtencion-covid>

Based on the research carried out, five steps have been designed that must be analyzed to

make a good decision if you are looking for financing.

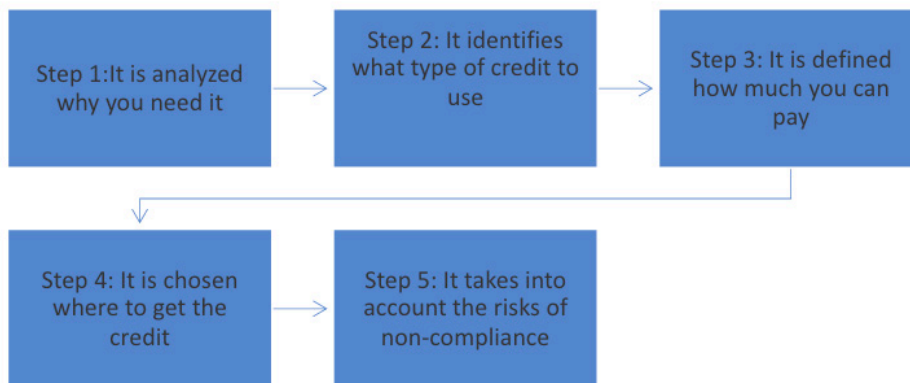


Illustration 1: Strategies for obtaining a loan

Source: elaborated by the authors

### STEP 1 ANALYZE WHY YOU NEED IT

The main destinations of a **loan** are:

- **Inverction:** purchase of durable goods that generate additional income or increase wealth.
- **Emergency:** to cover the expenses of an unforeseen event.
- **Consumption:** to buy items when you don't have enough money.

If the **credit** is going to be used for emergencies or consumption, it must be taken into account that its payment will be one more expense, since it does not generate income to cover it.

### STEP 2: IDENTIFY WHAT TYPE OF LOAN TO USE

There are two main types:

- In installments
- Credit card

The installment **loan** is money that must be repaid in regular installments with interest, with equal payments throughout the term.

The *credit card* is a means of payment or a line of *credit* that allows you to pay minimum amounts or in convenient installments, with

interest.

### STEP 3: DEFINE HOW MUCH YOU CAN PAY

The ability to pay is the money that is available each month. To find out how much it is, apply this formula:  $\text{Income} - \text{Expenses} - \text{Debts} - \text{Savings}$ . use this calculator to know your ability to pay.

### STEP 4: CHOOSE WHERE TO GET THE CREDIT

The formal sources that grant **credits** are:

- Banks and **credit** card issuers regulated by the Superintendence of Banks.
- Cooperatives and Mutualists regulated by the Superintendence of Popular and Solidarity Economy.

### STEP 5: CONSIDER THE RISKS OF NONCOMPLIANCE

- **Additional costs:** default rate (interest charged according to amount and period of non-payment) and collection management (cost of recovering overdue payments).

- **Use of guarantees:** depending on the type of **loan**, the financial institution can execute the associated guarantees.
- **Access limitation:** the possibilities of taking out other loans in the same or another institution are affected.

## DISCUSSION

According to (inQmatic, 2020), a line of credit is a type of financing or economic support by which a bank, financial institution or a capital provider provides you with an amount of money funds for a certain time so that you can use it in your business. The amount to give you depends on the size of your business and its financial capabilities to be able to use that fund, and to return it with interest.

Credit strategies according to the content presented by (Morales Castro, 2014), are characterized by being created to measure and must be adaptable. Since this occurs, because the state of each company is unique, in which if there is a change they must adapt without any problem. According to the news published by the (Virtual University of America, 2016), traditionally the large number of companies have been considering that the credit and collection functions are linked in a single department; in which it consists that only one person is responsible for the adequate application of the established norms, policies and techniques, being able to be a director, manager, boss, etc., within the organizational structure. The responsible official must be at a higher level than the manager of the sales department, since, if not, he can be easily manipulated by a superior; he must have sufficient authority, because he is the one who manages and can defend the interests of the company.

According to (Rodriguez, 2020), if you want to avoid monetary decisions that you may regret later, start by **saving and defining**

**your values.** With this clear information, you can **prioritize** which experiences you want to invest in. And finally, it **creates an emergency fund and don't give in to the inflationary lifestyle.**

## IMPORTANT TAKEAWAYS

- Customers and users of the financial system and the popular and solidarity economy have little planning for their personal finances.
- Use of the resources obtained through the credits in activities other than those for which they were acquired.
- Over-indebtedness by customers and users, expenses exceed income, because they generate money outflows greater than the income they receive, due to the health emergency caused by covid 19.

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