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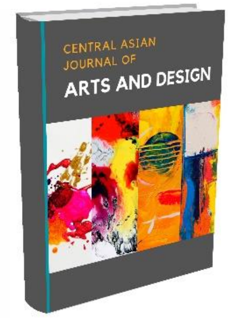

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Improving the Loaning Process in Commercial Banks

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Abstract
The article examines the current problems of lending in commercial banks, analyzes the traditional processes in the field of bank lending and possible problems, as well as factors that reduce the efficiency of lending and increase banking risks. It is concluded that most of the problems in the organization of the rules of lending of banks are caused by them . While studying the practice of organizing lending by banks, the article not only identifies the most pressing problems, but also provides recommendations for their solution.

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In the Republic of Uzbekistan, commercial banks are independent in making decisions on banking operations, develop and implement credit policy in the prescribed manner. The purpose of the bank's credit policy is to ensure the profitability and efficiency of the bank's activities by complying with the requirements and norms of current legislation in the lending process, ensuring uniformity of credit policy and lending procedures, regular diversification of risks, improving the quality of the bank's loan portfolio.

Commercial banks provide services for accepting and lending deposits, maintaining customer accounts, making non-cash payments, paying interest on deposits, buying and selling securities, foreign exchange transactions and other banking services. At the current stage of development of banking services, the most popular service provided by commercial banks is credit.

Lending is the main activity of banks, which not only provides them with the most important level of income, but also has a radical impact on the sustainable growth of the country's economy and the well-being of citizens. How effectively a bank evaluates its loan portfolio will depend on its position in the market, and therefore the needs of customers and the demand for banking services.

As lending is in demand by both legal entities and individuals, this service is provided on a large scale by banks. The interest received by the bank from the provision of this banking service is a large part of the profit. However, when commercial banks carry out credit operations , they run high risks . Therefore, it should be noted that the management of the loan portfolio and credit risk is a key factor determining the effectiveness of banking .

In this regard , the current state of affairs of commercial banks of the Republic of Uzbekistan in the field of lending is shown in the following data [1] (Table 1).

Table 1. Loan portfolio of commercial banks of the Republic of Uzbekistan, billion soums

Name of indicators	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022
Loan portfolio, total	110572.0	167391.0	211581.0	276975.0	326386.0
Loans to individuals	13600.0	24427.0	39934.0	54888.0	69496.0
Loans to legal entities	96972.0	142964.0	171647.0	222087.0	256889.0

According to Table 1, the balance of the loan portfolio of commercial banks in Uzbekistan (the balance of loans issued by banks to legal entities and individuals) as of January 1 , 2022 amounted to 32.6 , 4 trillion. soums. Growth in the analyzed period was more than 1.95 times , over the past year (2020) , the figure was 49.4 trillion . soums or by 1 7 , 8 per cent .

The bulk of loans fell to legal entities and amounted to 25.6 , 9 trillion . soums (78.7 percent) . Growth in the analyzed period was more than 1.6 times , over the past year (2020) , this figure increased by 1 5 , 7 percent .

The volume of loans issued to individuals amounted to 69.5 trillion soums . soums, an increase of 5.1 times over the same period . over the past year (2020) , this figure is 26.6 percent higher.

At the same time, the growth of bank loans is accompanied by an increase in the amount of overdue debt of borrowers, which leads to an increase in the risks of the banking sector and a weakening of its financial stability [2]. This leads to a deterioration in the quality of loans provided by banks, and this is naturally reflected in the growth of problem loans (Table 2).

Table 2. Information on the quality of the loan portfolio of commercial banks of Uzbekistan, billion soums

Name of indicators	01.01.2021y.	01.01.2022 y.	Growth,%
Total loan portfolio	276975.0	326386.0	17.8
Problem Loans (NPL)	5785.0	16974.0	193.4
Share of non-performing loans (NPLs) in total loan portfolio,%	2.1	5.2	147.6
Net profit for the current year	5642.0	3885.0	- 31.1

According to Table 2, in the analysis of the state of the loan portfolio, the share of problem loans in the total portfolio as of January 1, 2022 amounted to 16.97 trillion. soums, or its share in total loans reached 5.2%, or increased by 1.93 times in the analyzed period. According to the analysis, the net profit of commercial banks also decreased by 31.1% during this period, in line with the increase in non-performing loans.

Accordingly, it can be concluded that the most common criteria for a loan portfolio in the practice of commercial banks are the risk of lending activities and the “problem loans” of the loan portfolio.

In the current era of economic transformation, the importance of the “problem” criterion of the loan portfolio often comes to the fore, as timely diagnosis of the “problem part” of the loan portfolio allows reducing the number of overdue loans and bad loans, thereby preventing losses in the portfolio.

Thus, banks need to study in depth several indicators related to lending in their business, namely, the nature of the loan, its security, the correct calculation of interest and timely receipt in the income accounts, repayment periods, and so on. Banks are implementing a number of advanced banking management methods, such as improving the quality of their assets and loan portfolios, timely identification of credit risks to improve banking risk, including credit risk management, application of modern information technology-based integrated risk management system are required.

The analysis shows that most of the problems that arise and are identified can occur in each individual bank, and the existence of these cases depends on how the credit process is organized in the banks.

It is known that the lending process includes several stages: the initial stage, ie the stage of assessing the borrower's creditworthiness, the selection and evaluation of collateral for the loan, the execution of the loan agreement, credit monitoring and risk assessment, the stage of debt repayment [3].

Thus, in the preparatory phase, an acquaintance with the borrower is made, i.e. the qualities of his performance and stability in the market segment. To obtain a loan, the client must submit a set of documents to the bank, which include: application for a loan; questionnaire; Business plan; loan justification; copies of contracts for the purchase of goods, services, works for the use of borrowed funds; information on cash flow in bank accounts and cash flow plan - forecast for the term of the loan agreement; copies of contracts for the sale of manufactured products; financial (accounting) report, audit report; certificates from other banks confirming the existence of a borrower’s credit debt, as well as a good credit history.

Based on the submitted documents, the borrower's need for funds is compared with the current credit policy of the bank. It specifies the purpose, type, method of lending, sources of loan repayment and interest payments, etc.

At this stage, you may face the problem of gathering the necessary documents directly, i.e., it may be difficult to obtain a sufficiently large list of documents from the borrower at the same time. In this case, the banks will not start considering the client's application until all the necessary documents are collected. Therefore, the interest of the borrower himself in resolving this issue as soon as possible lies in his interest in providing all the necessary documents as soon as possible. This situation is directly influenced by the consideration and approval of the loan application by the bank, as well as the faster receipt of credit.

The second stage of the lending process involves assessing the borrower’s creditworthiness, i.e., studying the borrower’s ability and willingness to repay the principal and accrued interest in a timely and complete manner, as well as the borrower’s reputation and solvency.

According to the results of the analysis, banks determine the terms of the contract and approach each contractual relationship individually, which serves as a barrier to cover the losses of the borrower and the loan funds provided, and this is an urgent condition for further cooperation with the client. There are many methods of assessing creditworthiness, but the most popular are the coefficient method and rating assessment. The quality of the collateral provided is also checked in the assessment of creditworthiness [3].

At this stage of the lending process, problems may arise due to the fact that the bank does not underestimate the amount of credit risk and the amount of reserves for possible losses. In addition, based on the purpose of the borrower and the collateral value of the collateral provided to the bank, there is a question of compliance with the real capacity of the bank to provide loans to the customer. Sometimes the collateral available to the client may not be sufficient to secure the full amount of the required loan, or the collateral offered may have low liquidity, which risks not being able to secure collateral in the future, and the borrower may not be able to meet its obligations [4]. In this case, the bank should pay more attention to the property of the enterprise or its owners, which can serve as collateral for the loan, in assessing the financial condition of the borrower and the prospects for repayment of loans granted to them. This is due to the unstable economic situation in the country during the current transition period, in which the borrower's activity becomes more secondary. Therefore, banks should not only take into account the supply provided by the borrower, but also make a long-term plan for the future development of the enterprise or organization for the entire credit period, based on current indicators and taking into account factors that may affect the borrower. However, this situation can simultaneously lead to the problem of overestimation of the value of the collateral.

When concluding a loan agreement, the terms of the loan are formed and then the borrower's loan file is created, which contains all the necessary information about the client, including information about the risks, and for this it is necessary to have all the documents.

In the process of credit monitoring, the bank monitors the borrower's compliance with the terms of the contract, lending limits, targeted spending, terms of interest payments, the amount and timing of repayment of the principal amount, as well as the borrower's creditworthiness and terms of payments by the borrower does. The main purpose of monitoring is to ensure the repayment of loans and interest within the agreed period.

In the process of credit monitoring, the bank, of course, assesses its real and potential risks, determining the probability of maximum possible losses. The choice of credit risk assessment method is determined independently by the bank. However, it should be noted that the use of statistical methods alone is not sufficient, as in this case the bank relies solely on the entity’s past performance. It is also necessary to take into account both internal economic changes and external economic conditions, based on the subsequent development of events .

In most cases, banks will have integrated programs to assess the credit risk they use in their operations. As part of the organization of the loan process, the bank manages its total loan portfolio. The structural units of the bank, which are part of the organizational structure of the credit process, are directly involved in the management of the loan portfolio in accordance with the goals, objectives, credit policy and current regulations [5].

Loan portfolio analysis is an integral part of bank credit monitoring. It is necessary to be able to make management decisions and minimize potential credit risks and t should be done for the purpose of obtaining dead data . At the same time, the structure of the loan portfolio is analyzed by industry, limits, groups of borrowers, types and quality of loans. The dynamics of overdue loans, their causes, total profit from the total loan portfolio and its individual elements were studied in depth . In general, assessing the overall risk of a loan portfolio is a more difficult task, as it is important that the efficiency of the entire loan portfolio, the portfolio achieves a certain level of risk and return, and maintains the optimal characteristics of the portfolio [5].

Thus, the increase in the volume of loans issued and the decrease in the profit of the credit institution amid the unstable trend of growth of related expenses confirm that the bank has problems with adequate assessment of credit risk and reserves for possible losses.

During the monitoring phase, there may be problems with borrowers submitting the necessary documents to analyze their current financial condition. After receiving a loan, not all borrowers immediately submit the next set of documents to prove their current rating and solvency. In this case, banks should set appropriate requirements and possibly more restrictions on the borrower's current

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credit obligations, and include relevant clauses in the loan agreement to prevent such delays by the customer in the future .

In addition, there is a current problem associated with the deterioration of the borrower's financial condition, which casts doubt on its solvency, leading to overdue payments on the loan. In this case, the sanctions provided for in the loan agreement are applied to the customer. To solve this problem, in the initial analysis of the borrower's activities should use several methods of assessing creditworthiness, as well as to create a forecast cash flow from all available information about the client to minimize credit risks for the bank in the future (financial statements , accounting data, available liabilities, the ability of companies to influence the borrower , the business owners and their ultimate benefactors , etc.) [2].

Based on the recommendations of the Basel Committee, banks can rely on external ratings to improve their risk assessment approaches, as well as create their own internal credit ratings at the same time. The advantage of the approach of determining the rating of the borrower by the bank itself, of course, increases the accuracy of the assessment. This situation allows banks to save up to 20% of the value of risk-weighted assets compared to the calculation under the Basel II approach . The old approach overestimated credit risk and thus reduced capital [6]. However, banks should have such a right to use their internal credit ratings to assess risk when determining capital coverage for a particular risk . Currently, the use of domestic credit ratings is considered very slowly, as this methodology is new and unusual for the banking system, and the Central Bank is a supporter of the conservative methodology. Only a few commercial banks have approved a new internal program to determine customer ratings, or intend to do so in the next few years [7].

Debt collection is the final stage of the credit process, which is carried out after the expiration of the contract or in case of violation of the terms of the contract by the client. At this stage, perhaps the most important problem in the entire lending process is the failure of the borrower to fulfill its obligations under the loan agreement.

If the borrower fails to fulfill its obligations and an overdue debt occurs, the bank has the right to apply its claims in accordance with the agreement on guarantee obligations, including a written request to the guarantor bank to pay the loan amount and interest. In addition, banks have the opportunity to use other methods of repayment of loans established by the Civil Code of the Republic of Uzbekistan, such as the transfer of claims, compensation, accounting for liabilities, etc.

These solutions must be agreed in advance in the loan agreement. If the loan is not repaid by any of the above methods, then the loan is recognized as uncollectible and, after the relevant period, is written off to the reserve account for possible losses on the loans or written off against losses.

The use of modern information technologies in the daily activities of the bank to improve the credit market and the collection, storage and processing of information necessary for the organization of the credit process is important, as it eliminates the irrational use of resources, duplication of functions performed by bank employees. leads to. However, today the growth of bank credit risks is also associated with the widespread use of electronic terminals, mobile phones and other devices, remote methods of obtaining bank loans using the Internet [2].

Thus, during the entire process of lending in a commercial bank, in general, certain problems may arise that reduce the efficiency of lending and affect the financial condition of the bank itself. To solve the existing problems, commercial banks need to reconsider their approach, taking into account some aspects of the lending process, namely:

- at the stage of creditworthiness assessment it is necessary to analyze both the collateral offered by the borrower and its financial condition, taking into account the internal and external factors that may arise in order to avoid the problem of underestimation of credit risk and overstatement of collateral;

- Develop their own methodology for assessing credit risks, which may be more effective on the basis of internal ratings of borrowers.

The necessary conditions for the implementation of these recommendations can be provided by a properly developed credit policy by the bank, which, on the one hand, serves as a basis for organizing the credit process, on the other hand, a changing domestic policy as a factor adapting to the current unstable external economic environment.

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