

Factors of Credit Risk Management in Commercial Banks

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Abstract. The article describes the nature of credit risks in commercial banks, the factors that cause them, and ways to assess risk factors. As a result of the research, recommendations on credit risk assessment were developed.

Key words: commercial banking, credit risk, bank asset, factor.

Introduction

Due to the increase in the volume of loans granted by the banks of our republic to legal entities and individuals, the main part of bank assets are bank loans, the presence of problem loans in the loan portfolio of banks is noticeable. In order to eliminate these problems, especially in paragraph 32 of Appendix 1 of the Decision of the President of the Republic of Uzbekistan No. PQ-1438 of November 26, 2010, the introduction of a clear mechanism for the implementation of deep factor analysis in the management of bank risks, the formation of reserves, and the diversification of the loan portfolio, taking into account the assets of banks improvement of quality monitoring, as well as the adoption of warning measures to prevent the emergence of problematic debt [1].

Main part

According to prof. Sh.Abdullaeva, when a bank gives a loan to a sector, the volume of loans given for this sector should not exceed 35% of the bank's loan portfolio. This can also be one of the factors of credit risk prevention [2].

Credit risks include the following risks:

The risk associated with not repaying the loan on time. This risk is the borrower's failure to fulfill the terms of the loan agreement.

Liquidity risk (failure to make payments on time), this risk is associated with a decrease in the bank's liquidity funds as a result of not being able to repay the loan and interest on time.

The risk associated with securing the loan is not considered separately, but is studied together with the risk associated with non-repayment of the loan. This type of risk is related to the fact that the proceeds from the sale of collateral for the loan are not enough to cover the allocated loan, as a result of which the bank cannot fully satisfy its demand.

Risks related to the borrower's business. This risk is related to the business activity of the enterprise (purchase, production and sale), but unlike other risks, this risk is influenced by factors beyond the control of the enterprise manager, for example, the development of the industry and the economic situation. The size of this risk is determined by the investment program and the type and quality of the products produced.

Risks associated with the capital component. These risks are related to the composition of liabilities and business risk.

The level of bank credit risk depends on the following factors:

- degree of centralization of bank credit activities in a certain area;
- the appropriateness of credit and other banking services for customers experiencing specific difficulties;
- centralization of banking activity in less studied, new, non-traditional areas;
- making private and serious changes to the bank's policy on lending, forming a portfolio of securities;
- percentage of new and recently attracted customers;
- the implementation of many services in a short period of time (at that time negative demands on the bank may increase);
- Accepting valuables that can be sold on the market or things that fall quickly in value as collateral, etc.

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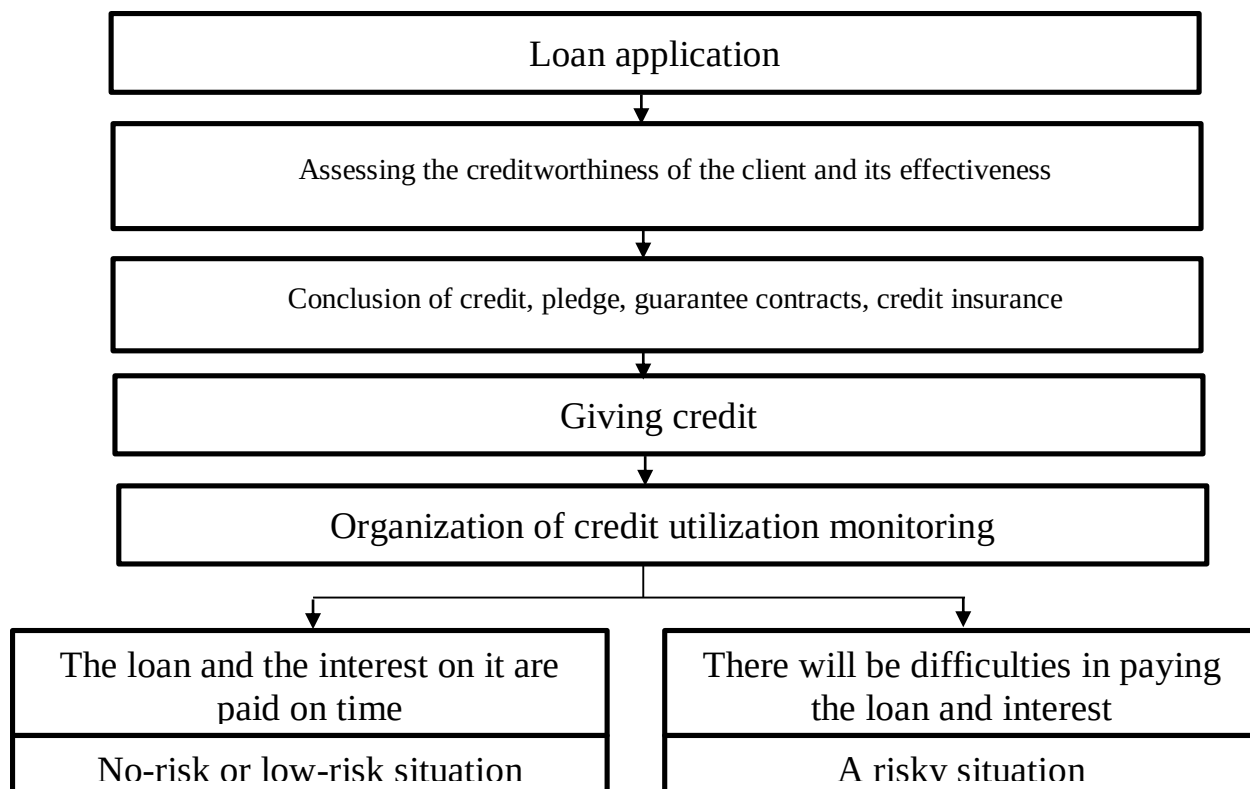


Figure 1. Lending process and assessment of risk situations

When commercial banks use the main part of their funds as lending, it is necessary to determine in advance the issue of full recovery of the funds from the borrower, not just for income. Because the bank, as the owner of the investment, does not sell the investment, but the right to use the investment for a certain period of time based on certain conditions and premium interest.

The crediting phase of commercial banks begins with the development of the bank's credit policy. It is known that the bank's credit policy is a document that determines the measures and methods adopted by the bank's management in managing the risks arising in the lending process, and provides the bank's management and employees with instructions on the effective management of the bank's loan portfolio. The credit policy should include a clear definition of the concept of "non-payment" for all categories of loans, criteria for not increasing interest, as well as requirements for relevant reports of the bank's Management and Board. The bank's credit policy should require consistent, step-by-step measures to repay debts. The management of the bank should develop loan write-off measures in accordance with the requirements set by the Central Bank. Changes in the weight of overdue loans in the total volume of loans issued by commercial banks should be continuously analyzed. Because the change in the weight of overdue loans in the total volume of loans issued by commercial banks is one of the main indicators describing the effectiveness of the credit policy.

In the banking practice of developed foreign countries, in particular, in the bank lending practice of Western European countries, it is considered normal that the weight of overdue loans in the volume of total loan deposits does not exceed 3 percent. The permissible limit of this indicator is 5 percent.

Each bank loan has its own unique features. That is why uniform laws and regulations have not been developed to ensure repayment of problem loans. The following activities are mainly carried out by

banks to eliminate problem loans:

- taking measures to extend (prolong) the loan term;
- request additional supply;
- to take measures to repay the loan on the basis of the property pledged as collateral or the guarantee of a third party;
- sell the loan to another bank;
- to offer consulting services to the management of the enterprise on solving the existing problem;
- selling idle assets and property of the enterprise, solving the problem in exchange for collecting receivables in case of existence and other measures.

At the moment, the concept of "problem credit" is causing much more debates and discussions by theoretical and practical scientists in our country than before. It is certainly not in vain, because today the share of problem loans in the credit portfolio of commercial banks of our republic is quite high, despite the measures to reduce it.

It is also noted that one of the main causes of credit risks in the banking sector is the corruption of bank employees and the granting of loans that are known in advance to be unrepaid [3].

The main part of the credit risk arising in commercial banks is inextricably linked with the possibility of a decrease in the demand and production of products in some sectors of the country. In addition to these, it would be safe to say that the following factors affect the level of bank credit risk:

- the degree of concentration of bank credit activity in a certain branch or circle that quickly adapts to changes in the economy, as well as has an elastic demand for its products. This is due to the degree of concentration of bank customers in certain sectors or geographical areas, especially sensitive to market changes;
- level of formation of banking activity in new, unconventional branches and circles;
- the application of new types of services to banking practice in large quantities for a short period of time may result in negative results for the bank due to the low demand for new banking services;
- forming a large part of newly attracted customers in the near term;
- the fact that most of the credit and other bank contracts are for customers who are experiencing certain difficulties, etc.

Today, due to the fact that many countries are facing the problem of increasing bad debts in the banking system, the urgency of improving the system of working with problem loans of banks is still gaining importance. Therefore, there are unsolved problems of credit repayment by customers as well as creditors.

Different definitions of problem loans are given in scientific literature. In some literature, the term "problem loan" refers to a loan whose object, subject, and provision are in doubt by the bank, while in some literature, the term "problem loans" is defined as "the fact that the borrower has not made one or more payments or the decrease in the value of the loan provision means that the loan is transferred to the category of problem loans."

In our opinion, problem credit refers to loans classified as "substandard", "doubtful" and "bad". In its economic essence, non-performing loans are the result of the actual manifestation of credit risks, as it is a consequence of the bank's inability to properly manage credit risks. The concept of "problem credit" is directly related to the category of "credit risks". Therefore, it is appropriate to focus on the economic content of bank credit risks when revealing the nature of problem loans. This serves as a basis for achieving the above goal.

Banks should be aware of risks such as inability to pay due to lack of funds, inability to continue

financial and economic activities. If the bank has given a very large amount of loans without thoroughly analyzing the given loan application, there is a possibility that they will not be returned, such "bad" loans can cause a lot of damage to the bank.

According to Z. Mamadiyrov, a reliable credit risk management system is a prerequisite for a healthy banking system. Because bank credit risk must be distributed among a large number of debtors [4]. It is especially necessary to solve the issue of diversification of the credit portfolio during the period of liberalization of economic relations.

Conclusion

In our opinion, in order to prevent loans issued by commercial banks of our country from becoming problem loans, we think it is appropriate to make the following suggestions:

- comprehensive approach to the loan application received by the banks, i.e. correct and perfect implementation of initial monitoring. Here, first of all, focus on the character of the client, his financial situation, his position among business partners and his experience in this field;
- checking the completeness and correctness of the set of documents submitted by the client to the bank during the review of the loan application. It is necessary to analyze the client's financial situation in depth and give an objective assessment by the employee of the credit department;
- from the time the loan is granted, to continuously monitor the work performed by the client according to the business plan, the circulation of funds in the account, to take measures to prevent overdue receivables and payables;
- to create more opportunities for the bank's property appraiser when appraising the company's property. Because if the customer uses a paid appraisal service, his expenses before getting the loan will increase.

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