

Procedure for Organizing Lending In Commercial Banks and Ways of Its Improvement

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Abstract: In the article, the order of crediting in the commercial banks of our Republic and the analysis of its current state, the measures implemented to improve the practice of lending in commercial banks, and the trends of their changes compared to previous years are compared. The article analyzes the past and current years, identifies problems, and gives recommendations for eliminating these problems.

Keywords: lending, mortgage, problem loans, loan portfolio, guarantor, interbank loan, interest, profit, commercial bank, bank assets.

Introduction.

Today, the increase in the volume of bank loans directed to the development of the economy in our Republic, the increase in the number of clients of various types of ownership and business management that use bank loans, and the rational placement of loans given by banks and their efficiency, ensuring the timely collection of loans and the interest calculated on them are the banks' loan portfolio. is required as the main work in constant monitoring. Also, in the Decree of the President of the Republic of Uzbekistan "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", it is emphasized to improve the quality of the credit portfolio and risk management, to follow a moderate increase in the volume of lending, and to pay attention to the implementation of lending only on the basis of market conditions. It is important to note that this strategy includes the strengthening of state participation in the underserved and vulnerable groups and the implementation of targeted measures, the widespread introduction of remote services for the population and small businesses, the development of a network of low-cost service points, as well as a complementary part of the unified financial system of the republic. work on increasing the popularity and quality of financial services by creating favorable conditions for the formation and development of non-bank credit organizations [1]. By the end of 2021, the loans allocated to the economy totaled 166,240.9 billion soums. This indicator is 39,033.4 billion soums more than last year [2].

Analysis of literature on the topic

A credit relationship is, first of all, trust. The word "credit" is derived from the Latin word credit, which means "trust". But there are other views on this point of view. For example: according to the German economist V. Lexis, the trust of the lender is not important for the creation of a credit

relationship, daily experience shows that lenders are in a mood of distrust rather than trust in the borrowers' ability to pay, and therefore they have to ensure the full protection of their interests. require a guarantee. V. Lexis is also right in his opinion, because he does not comment on a separate credit relationship, but on a set of credit relationships. The professor does not deny that "trust" has a certain characteristic in the essence of credit, but believes that "trust" does not have a decisive aspect in credit relations. The most profitable operation in commercial banks is the lending operation. Therefore, between the client and the bank, first of all, trust should be created as an integral part of the credit relationship [3].

According to economist scientist O.A. Lavrushin's researches show that the credit allows to save the general expenses and in this respect is of great importance in the development of the economy [4].

If we talk about the types of loans provided by commercial banks, they are classified according to certain groups. In particular, it is classified as follows in the textbook "Banking" by Sh. Z. Abdullayeva [5]:

- credit risk level;
- loan object;
- credit period;
- the size of the loan and its security;
- the client's creditworthiness, financial condition, form of property, etc.

Analysis and results

The main income of the bank is formed as a result of the correct and efficient organization of the crediting process in the activity of commercial banks. It can be seen that the main part of the bank's assets consists of loans. Therefore, the increase in the share of bank loans in GDP ensures rapid growth in the economy. We will analyze the weight of lending in the bank's assets using the following table.

1-table.

Dynamics of commercial bank loans (in billion soums)*

Indicators	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022
Loans	110572.1	167390.6	211580.5	276 974,8	326 385,6
Bank assets	166631.8	214419.6	272726.9	366 121,1	444 922,5
Share of loans in bank assets, in percentage	66.35	78.06	77.58	75.65	73.35

* Website of the Central Bank of the Republic of Uzbekistan www.cbu.uz

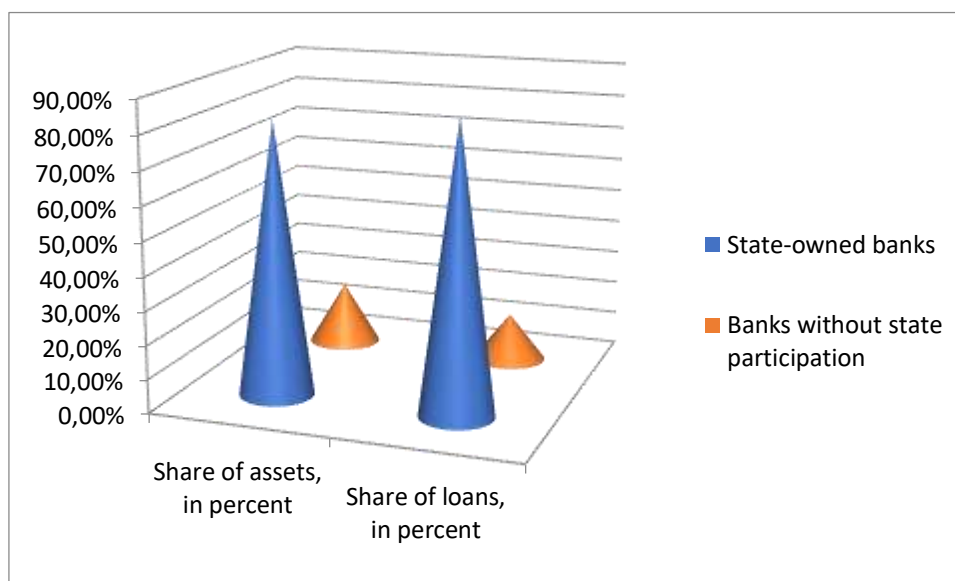
Based on the analysis of the five-year statistical data presented in Table 1, it can be said that the share of loans in the bank's assets increased significantly from 66.35% to 73.35%. (01.01.2018-01.01.2022). However, between 01.01.2019 and 01.01.2022, the share of loan deposits in bank assets decreased from 78.06% to 73.35%, and the amount of bank assets increased from 166631.8 billion soums on 01.01.2018 to 444922.5 billion soums. Based on the above data, it can be stated that the volume of bank assets has increased over the five-year period, but the share of loans in bank assets has decreased in the period from 01.01.2019 to 01.01.2022. The main reason for this is the increasing number of non-performing assets in the composition of bank assets.

If we analyze the above statistical data in terms of commercial banks, as of January 1, 2022, the total assets of commercial banks are 444,922.5 billion soums, and the amount of credit deposits is 326,385.6 billion soums. More than 85 percent of bank assets and loans belong to state-owned banks.

In this regard, in order to create a healthy competitive environment, measures are being taken to privatize state-owned banks, and large banks are being gradually privatized. Below we can see the share of banks with and without state participation in total bank assets and loans (diagram 1).

Diagram 1.

**Assets and loans in the segment of commercial banks
share of deposits, in percent ***



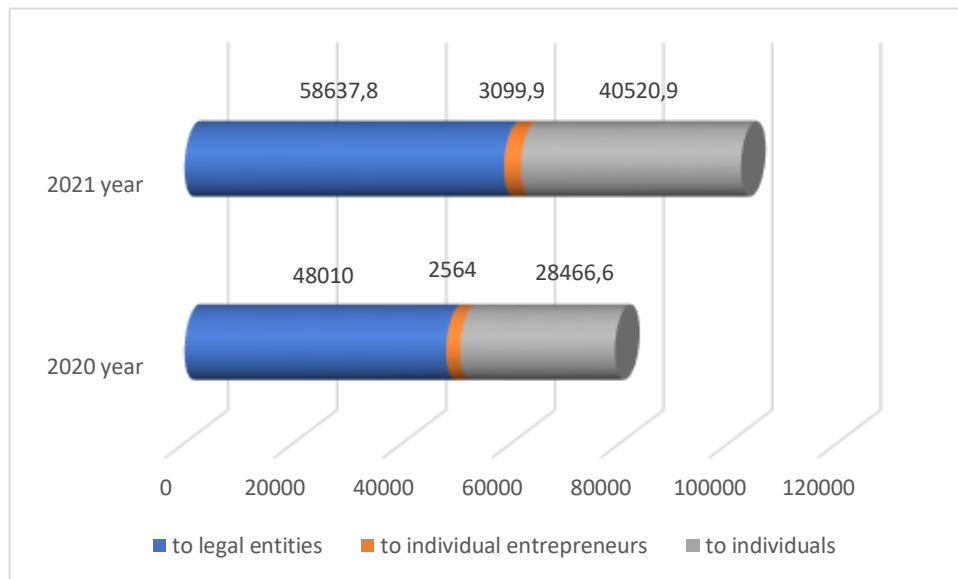
* Website of the Central Bank of the Republic of Uzbekistan www.cbu.uz

Based on the data of the above diagram, it can be noted that as of 01.01.2022, the share of banks with a state share in the total bank assets and total loan deposits is high (81.5% - 85.8%).

In diagram 2, we can see the volume of loans allocated by banks to both legal entities and individuals, as well as to individual entrepreneurs. In particular, as of 2020, although 28,466.6 billion soums of credit were allocated to individuals, 48,010.0 billion soums were directed to legal entities. In the middle of 2021, the value of loans allocated to individuals increased by approximately 12,054.3 billion soums compared to 2020, and amounted to 40,520.9 and 28,466.6 billion soums, respectively. The credits allocated for individual entrepreneurs had the lowest result, i.e. 3099.9 billion soums in 2021 and 2564.0 billion soums in 2020.

Diagram 2.

Loans granted by commercial banks to legal entities and individuals (in billion soums) *



* Website of the Central Bank of the Republic of Uzbekistan www.cbu.uz

Classification of loans is carried out in accordance with the Regulation of the Central Bank of the Republic of Uzbekistan on December 10, 2021 No. 2696-3 "On amendments and additions to the Regulation on the classification of asset quality in commercial banks and the formation of reserves to cover possible losses on assets and the procedure for their use". According to this regulation, assets of commercial banks, including loans, are classified into "standard", "substandard", "unsatisfactory", "doubtful" and "hopeless" categories, and according to them, credit balances are 1; 10; 25; 50 and 100 percent reserves are formed. With the help of diversification, it is possible to reduce the overall risk level of the credit portfolio. In some cases, if the risk of a separate loan does not change, the actual income can be equal to the expected income. It should be noted that the degree of diversification of the loan portfolio in large commercial banks of our republic is low. The share of industry in the credit portfolio of commercial banks of our country is extremely high, on average it is 40%. The increase in the share of loans allocated to individuals in recent years is a positive situation for the banking system. Increasing the volume of lending to natural persons stimulates domestic demand in the country and accelerates the activity of economic entities. At the same time, the role of loans in ensuring the stability of the national economy will increase. We can see that the share of other industries and sectors is even lower, and this indicates that the credit risk in the banking system is high.

2-table.

Composition of the credit portfolio of commercial banks of the country*

Indicators name	01.01.2020		01.01.2021		01.01.2022	
	billion soums	share, in percent	billion soums	share, in percent	billion soums	share, in percent
Total credits	211 581	100	275 280.6	100	324 681.5	100
Industry	75 636	35.7	102 162.4	37.1	117 638.5	36.2
Agriculture	17 205	8.1	28 080.5	10.2	35 022.4	10.8
Construction industry	5 930	2.8	7 380.3	2.7	9 281.8	2.8

Trade and public service	14 480	6.8	19 916.2	7.2	27 406.0	8.4
Transport and communication	23 516	11.1	26 626.0	9.7	28 708.1	8.8
Development of material and technical support	3 302	1.6	3 962.1	1.4	3 814.4	1.2
Household utility service	2 512	1.2	3 759.0	1.4	2 284.1	0.7
Physical persons	39 934	18.9	54 887.7	19.9	69 496.2	21.4
Other fields	27 513,8	13.7	28 506.4	10.3	31 030.0	9.6

* Website of the Central Bank of the Republic of Uzbekistan www.cbu.uz

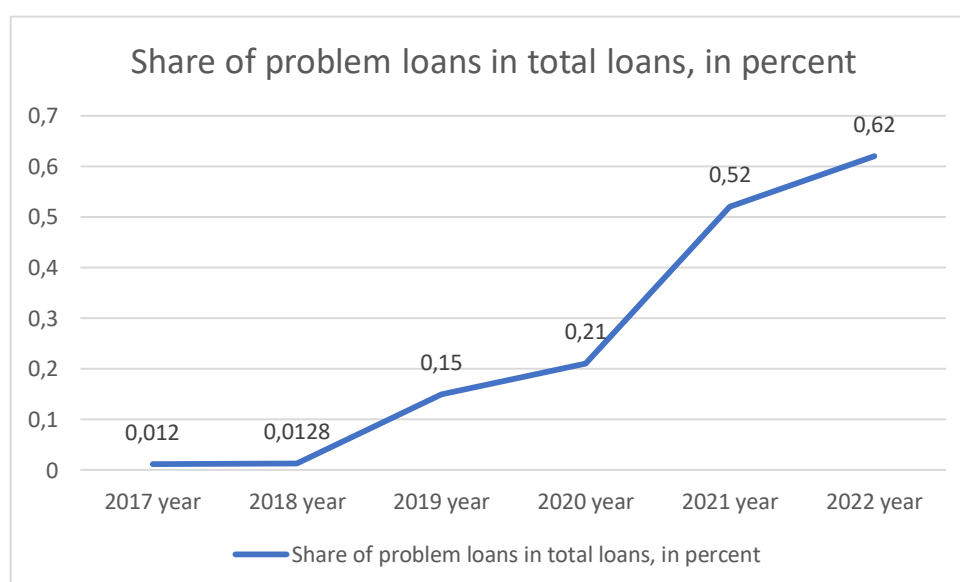
In international operations, 25% is taken as a standard criterion for diversification of the credit portfolio of commercial banks according to the nature of the network of clients. That is, more than 25 percent of commercial bank loans cannot be accumulated in one branch. In some large banks of the republic, the level of this indicator is higher than 50%.

The main source of lending is formed not by the banks' own funds, but by attracting temporarily free funds of economic entities, the population and the state, which must be returned with a certain interest payment for use over a certain period of time. In order to return these funds to depositors in full and within the specified time period, commercial banks themselves must first of all ensure that the given loans are returned on time. It is this problem that is one of the most pressing issues facing the banking system of the republic today.

Unsatisfactory, doubtful and hopeless loans in banks can be called problem assets or loans.

Diagram 3.

**Total outstanding loans are in loans
dynamic share, in percent ***



* Website of the Central Bank of the Republic of Uzbekistan www.cbu.uz

The share of non-performing loans in total loans had a tendency to increase regularly in the period from 2017 to 2021. In 2017, the lowest rate was 1.2%. Also, this indicator increased by 1.5% by 2019 (1.28% in 2018, 1.5% in 2019). In 2020, the share of non-performing loans in total loans increased significantly by 2.1%. In 2021-2022, this indicator increased sharply and reached the level of 6.2%, which is considered a negative situation for the banking system.

The following forms of lending are used in the activities of commercial banks:

Form of one-time crediting of the client from a separate loan account. In this form of lending, after the decision to grant a loan to the customer, a loan account is opened and the loan is given to the supplier or service provider in the form of a one-time payment.

Form of lending to the client by opening a credit line. In this form of lending, a credit limit is allocated to the client and the period of use of this limit is determined. Also, the interest rate of the loan and the one-time commission payment rate collected from the client are determined. The additional commission charged to the client is determined by the presence of liquidity risk for the commercial bank when lending by opening a credit line. Because the bank must issue a loan at any time requested by the client.

Another form of lending is an overdraft, which is well developed in German-speaking countries (Germany, Austria, Switzerland). In this form of crediting, the client's current account is closed and a current account is opened instead. All income from the activity of the client receiving a loan is reflected in the credit of the current account number, and all payments for his obligations are reflected in the debit of the current account number. In the form of crediting factoring, in addition to the interest of the loan, an additional commission is charged from the client for the factoring service. According to the international convention "On International Factoring" (UNIDRUA), there are 4 requirements for an operation to be recognized as a factoring operation, and if at least 2 of these requirements are met, the operation is recognized as a factoring operation. They are as follows:

1. Availability of credit in the form of prepayment of debt obligations.
2. Keeping the supplier's accounting account.
3. Collection of the supplier's receivables.
4. Availability of credit risk protection for the supplier.

In the process of analyzing some indicators of the activity of commercial banks of the Republic, it became clear that there are some unsolved problems in the improvement of lending operations in commercial banks, which include the following:

1. The problem is that many commercial banks of the Republic do not comply with the requirement to diversify the credit portfolio.

2. The commercial banks of the Republic have not improved the operation of crediting individuals. It is also necessary to highlight the following problems related to the provision of credit services to individuals by the commercial banks of our country:

- low payment capacity of some population groups and insufficient income;
- misuse of the received loans in many cases;
- lack of an improved system for assessing the creditworthiness of individuals in commercial banks;

- that banks do not have sufficient resource base;
- artificial increase in the price of goods and services selected as an object of consumer credit.

3. Lack of full use of credit forms in lending operations of commercial banks. Optimum use of credit forms is important in their activities. Because the right choice of the form of lending increases the effectiveness of lending, ensures that the client and the bank benefit from loans to a certain extent.

4. Lack of improvement of the system of evaluating the creditworthiness of clients in banks. In the crediting operation of commercial banks of the Republic, the presence of shortcomings in assessing the creditworthiness of clients has a negative effect on the effectiveness of lending.

Improving the ways of increasing the lending potential of commercial banks in eliminating the problems related to the crediting practices listed above will lead to positive results and will lead to the activation of their participation in the processes of financial support of the real sector and modernization of the economy by commercial banks.

Conclusions and suggestions

Improvement of lending practice of commercial banks and rational use of modern methods of financial support of small enterprises and business entities is necessary for the development of the economy, first of all, social and political renewal of society, as well as increasing the well-being and employment of the population, filling the domestic consumer market with national products, developing it is the main pillar of increasing the quality of output and increasing the export potential. Based on the analysis and observations, the following recommendations were developed to improve the lending operations of commercial banks:

1. Increasing the lending capacity of commercial banks by forming a long-term resource base. Commercial banks should pay attention to non-deposit sources when attracting long-term resources. In particular, it is necessary to form a stable resource base by increasing the volume of securities issuance by commercial banks.

2. It is necessary to widely use modern forms of crediting in the crediting operations of the commercial banks of our republic. The use of modern methods of crediting in the lending operations of commercial banks provides the following positive aspects for banks and clients:

- banks are involved and use their funds effectively;
- commercial bank clients' funds can be directed to repay the loan at the request of the bank;
- processing loan documents is fast and the chances of getting a loan are high;
- the multi-purpose nature of these forms of credit accelerates the turnover of working capital of production enterprises and ensures the continuity of production;
- clients pay interest payments according to the amount and term of the credit used;
- ensures and manages the bank's liquidity, along with the efficient use of resources in the lending process;
- commercial banks ensure credit risk reduction due to the provision of credit resources on a certain continuity basis in the lending activity..

By using modern forms and methods of lending by commercial banks, the lending efficiency of the banks of our republic will increase. In particular, the volume of credit operations of banks will increase and stable growth of interest income from loans will be ensured.

3. Improvement of the system of evaluation of indicators of creditworthiness of clients in banks. The presence of problems in assessing the creditworthiness of clients in the operation of commercial banks of our republic has a negative effect on the quality of the credit portfolio and its stable growth. Correct assessment of the client's ability to repay the loan ensures full repayment of loans on time.

4. It is necessary to carefully organize and carry out the formation of a quality credit portfolio and credit monitoring. Along with the volume of lending operations, their risk level should not increase and their quality should be high. If a significant part of bank loans is concentrated in one sector, negative changes in this sector will lead to non-return of loans, which, in turn, will lead to a decrease in bank profits. In order to form a quality loan portfolio, commercial banks must first of all conduct the lending process correctly and qualitatively. Increasing the responsibility of credit committees and responsible employees of banks in making decisions on granting loans, unifying mechanisms for monitoring the use and repayment of loans, timely identification, qualitative assessment and elimination of risks, as well as on loans We think that it is possible to effectively organize lending operations of commercial banks by taking measures to prevent the emergence of problematic debts and improve them by implementing all the above recommendations as much as possible.

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