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## Ways to Improve the Mechanism of Lending to Customers by Commercial Banks

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**Abstract:** The article analyzes the practice of lending to individuals by commercial banks. Practical proposals and recommendations are given for the elimination of problems in the practice of lending by commercial banks.

**Key words:** lending practice, commercial bank, individual, liquidity, central bank, loan portfolio management, risk, profitability, liquidity.

### Introduction

In the conditions of further deepening of economic reforms and liberalization of the banking system, credit operations occupy an important place. Due to the fact that the credit operations of commercial banks are activities that shape the bank's income, ensuring the stability of the quality level of the loan portfolio is one of the main tasks of banks today.

Lending is a type of activity of primary importance for commercial banks, because a decrease in the quality of the loan portfolio of commercial banks negatively affects their financial stability, that is, an increase in the weight of overdue loans in the volume of loan deposits leads to a sharp decrease in the bank's liquidity.

Therefore, effective management of the loan portfolio of commercial banks allows to meet the credit needs of economic entities.

In this regard, in the President's address to the Oliy Majlis, "The worst thing is that serious mistakes have been made in the definition and implementation of prospective large projects, and foreign loans have been spent on ineffective activities, which hinders the development of the economy.

First of all, we need to create an effective system for bringing in foreign loans and investments, and learn to use each loan accurately. In this matter, the time has come to measure seven times and cut once, and to think carefully about the consequences.

The increase in the volume of bank loans directed to the development of the economy in our republic, the increase in the number of different ownership and business entities that use them, the rational placement of loans given by banks, increasing their efficiency, the tasks of ensuring timely recovery of the interest calculated on the given loans are urgent tasks of constant monitoring of the banks' loan portfolio. Justifies that it is an issue.

### **Literature review**

Issues of improving the efficiency of credit portfolio management in commercial banks have been studied in the scientific researches of a number of foreign scientists, and the concept of credit portfolio has been expressed in the definitions given to its essence. For example, American economists Chris J. Barlton, Diana Mac Naughton defines the loan portfolio as the grouping of loans.

Also, N. Sokolinskaya defines that "loan portfolio consists of the sum of short-term and long-term loans." In this definition, the main focus is on the duration of the loan, which does not fully reveal the essence of the loan portfolio. Because the determination of the term of loans granted by the bank and compliance with it can only be an important factor in determining the quality of the loan portfolio.

The famous Russian economist O.I. Lavrushin defines that "the concept of loan portfolio in banking is usually understood as the sum of loans of one or another bank". At the same time, he believes that the formation of a loan portfolio in the bank and its analysis will allow to clearly develop the strategy and tactics of a commercial bank, and will increase the possibility of lending to customers.

Abalkin L.I, Panova G.S. and another group of economists believe that the loan portfolio of commercial banks is a classification of loans by quality and composition. In this definition, in our opinion, a positive approach is taken to reveal the nature of the loan portfolio. On the positive side, they emphasize the need to categorize loans based on their quality, taking into account certain factors.

Another group of foreign economists, K.J.Braltron and D.Mak Noton, believe that the loan portfolio of commercial banks is the classification of loans according to certain characteristics. In this definition, the loan portfolio is based on the classification of loans based on specific forms and characteristics.

Uzbek economists have also conducted a number of researches in this regard, in particular, according to Sh.Z.Abdullaeva, the credit portfolio of banks is the sum of the bank's demands on the scale of loans categorized according to certain criteria based on various credit risks. In his definition, the economist focused on the classification of loans based on certain criteria, as well as credit risks.

Analyzing the specific aspects of the definitions discussed above, we believe that the loan portfolio can be defined as follows: the bank's loan portfolio is the necessary basis for the implementation of the bank's credit operations and represents the total amount of loans issued by the bank.

Also, since credit operations occupy the main place in the activity of banks, the correct organization of their loan portfolio is one of the main factors that create an opportunity for efficient and stable operation of banks. Deficiencies in credit operations can lead to a decrease in the income of banks, and in some cases, their bankruptcy. Therefore, monitoring the credit portfolio of banks and its quality is a guarantee of the effective operation of commercial banks.

Based on the cases studied above, we believe that it is always relevant to conduct research on ways to improve the efficiency of credit portfolio management in commercial banks of our republic.

## **Research methodology**

As a theoretical and methodological basis of this article, general economic literature and scientific articles, researches of economists on the issues of effective management of credit portfolios in commercial banks, interviews with scientists and representatives of the field, analysis of their written and oral opinions, expert evaluation, observation of processes, economic events and a systematic approach to the processes, a comparative analysis with the author's experiences, conclusions, suggestions and recommendations are given in the relevant directions. In the process of studying the topic, in addition to general economic methods, special approaches to data structuring, such as comparison, compilation of theoretical and practical materials, and systematic analysis, were used.

## **Analysis and discussion of results**

Credit occupies the main place in the bank's asset operations, and a significant part of the bank's income is obtained through these operations. Therefore, the formation of the bank's loan portfolio has a direct impact on the bank's activity.

In order for the bank to effectively manage its loan portfolio, first of all, it is necessary to properly organize the lending process of banks.

In the current legislation, it is indicated that the bank's loan portfolio should be regularly analyzed and audited, in which, in addition to determining the quality of the loan, it should also assess the quality of the management of the lending process, including the approved credit policy and procedures for issuing loan documents, the issuance and evaluation of collateral, the distribution of powers related to lending, legislation attention should be paid to ensure compliance with standards.

In order to develop the banking system of our republic, to increase the quality and types of banking services provided, in connection with the implementation of the program of measures approved by the President of the Republic of Uzbekistan "On measures to further develop and increase the stability of the banking system of the Republic" PQ-3270, the Association of Banks of Uzbekistan commercial together with banks, the tariffs set for the current banking services were revised.

In addition, in order to further improve the mechanisms for ensuring the protection of the rights of consumers of banking services in our republic and to increase the level of financial openness taking into account the trends of innovative development, as well as to implement the tasks defined in the Strategy of Actions on the five priority directions of the development of the Republic of Uzbekistan in 2017-2021, to increase the popularity of banking services and ensuring the protection of the rights of consumers of banking services is one of the main tasks of the Central Bank of the Republic of Uzbekistan.

In this decision, measures are clearly defined to prevent cases where the excessive centralization of powers in making decisions on the allocation of loans in commercial banks hinders the clear delimitation of liability between the main banks and their branches. At the same time, in the decision, the complicated mechanisms of review of credit orders prevent cases of limiting the possibility of quick loans to customers, increase the possibility of microloans by commercial banks, further develop the market of retail banking services and put into practice modern approaches of establishing bank-client cooperation relations, loans (microloans) ) measures have been developed to eliminate situations in which the collection of service fees and other fees for consideration and separation leads to an increase in the real value of the debt.

Relevant amendments have been made to the current regulations on the creation of contingent reserves for assets in the banking system of the Republic of Uzbekistan. In particular, on June 13, 2015, the decision of the Central Bank Board No. 14/5 "On the classification of asset quality, changes and additions to the procedure for the formation and use of reserves to cover potential losses by commercial banks" was adopted.

In accordance with this decision, the above regulation is amended as follows (Table 1).

**Table 1 Classification of asset quality of commercial banks**

Classification categories	Term days gone by	Must be created stock that is	Calculation of interest
Standard	0	1%	in balance
Substandard	0	10%	in balance
not satisfied	1-89	25%	“Not intended cases” account
Doubtful	90-179	50%	
Hopeless	180 and more	100%	

There are no problems with the return of assets classified as "standard". In this case, no part of the principal amount and interest must have expired or the terms have not been revised. The quality of assets that are overdue and renegotiated beyond the principal amount or interest cannot be classified as "standard".

A commercial bank must create a reserve for standard assets in the amount of one percent of the amount of their unpaid principal debt (residual) for assets classified as "standard" as part of the reserve capital.

A commercial bank must create a special reserve in the amount of ten percent of the outstanding amount of principal debt (residual) for assets classified as "substandard".

There is an overdue principal and interest arrears that are less than 90 days past due and are classified as unsatisfactory.

A commercial bank must create a special reserve in the amount of twenty-five percent of the outstanding amount of principal debt (remaining) for assets classified as "unsatisfactory".

Asset quality is classified as "doubtful" if at least one of the following factors is present:

- if there is at least one indicator of "unsatisfactory" assets, as well as some other negative characteristics (the absence of readily marketable collateral or the presence of unsecured assets, or the borrower has been declared bankrupt);
- if there is a possibility of partial repayment of the asset in the near future;

If there are arrears of principal and interest for more than 90 days, but not more than 180 days, then this asset is classified as doubtful and a special reserve for assets in the amount of fifty percent of their unpaid principal (residual) amount should be formed.

If there are arrears of principal and interest for more than 180 days, these assets are classified as "bad".

A commercial bank must create a special reserve in the amount of 100% of the outstanding amount of principal debt (remaining) for assets classified as "bad".

If the commercial bank has several assets given to one debtor, all the assets returned by the debtor to the commercial bank should be classified as the quality of the assets classified in the lowest category.

A mandatory reserve deposit is established in the Central Bank to cover possible losses on the assets of commercial banks, and there is a requirement to transfer funds from representative accounts to this mandatory reserve deposit equal to the amount of special reserves formed by commercial banks against possible losses on their assets.

Also, according to the newly introduced amendments, the Central Bank, analyzing the credit portfolio of commercial banks, may send mandatory instructions to commercial banks regarding the formation of reserves against possible losses on assets.

In addition, according to the new amendments and additions, it was established that payments for all loans granted by the bank will be paid in installments over the entire term of the loan agreement.

This provision serves as a warning sign to prevent the appearance of problem loans in banks.

At the same time, according to the amendments, a number of innovations were introduced in the classification of the quality of commercial banks' assets.

For example, according to the old rules, loans with a payment term of up to 30 days were classified as "standard", loans with a payment term of up to 90 days were classified as "substandard", and loans with a payment delay of more than 180 days were classified as "bad", according to the new rules, those that were not paid within the contract period and the main ones according to the schedule All loans that are more than 180 days past due on debt and interest payments are classified as "bad".

Today, in our republic, commercial banks' credit facilities are sufficiently diversified, and the risks associated with the activity of economic sectors in the republic's banking system are formed at a moderate level.

In particular, as of January 1, 2018, 40.9% of commercial banks' credit deposits were in industry, 14.7% in transport and communication, 12.3% in individuals, 4.7% in trade and general services, and 4.3% in agriculture. sector and 3.1 percent is accounted for by the construction sector (Table 2).

**Table 2 Credit investments of commercial banks by sectors Distribution**

Indicators	2019		2021	
	sum, billion soum	share, in percent	sum, billion soum	share, in percent
Industrial sector	18 347	34,9	45 223	40,9
Transport and communication	7 149	16	205	14,7
Sales and general service	4 072	7,75	246	4,7
Agriculture	3 033	5,84	742	4,3
Construction industry	2 218	4,23	3 424	3,1
Material and technical support development	652	1,2	472	0,4
Housing and communal service	456	0,9	996	0,9
Individuals	9 379	600	12,3	12,3
Other areas	7 304	13,9	20 665	18,7
Total credits	52 611	100	110 572	100

As of January 1, 2020, the balance of non-performing loans in the credit portfolio of commercial banks is 2.2 trillion. Amounting to soums, and its share in total credit investments was 2 percent.

Also, during December 2019, the Central Bank, together with commercial banks, conducted a complete inventory of their loan portfolios, and as a result, assets were reclassified for problem loans identified (Table 3).

The table shows that 90.7 percent of the loans allocated by commercial banks as of the reporting date were accounted for by assets classified as "standard", 8.2 percent as "substandard", and the balance of loans classified as "unsatisfactory", "doubtful" and "hopeless" quality 1 We can see that it was 2 percent.

At the same time, the total amount of reserves created on allocated loans is 2.4 trillion. soums or 2.2% of the banks' total loan portfolio, 3.6 times more reserves were formed compared to the beginning of last year.

**Table 3 Classification of credit portfolio of commercial banks and status of created reserves**

Credits classification	2020				2021			
	total loans, billion soum	share, in percent	created reserve, billion soum	share, in percent	total loans, billion soum	share, in percent	created reserve, billion soum	share, in percent
Standard	47 094	89,5	15,3	100	235	90,7	290	12,1
Substandard	5 126	9,7	369	55,3	9 013	8,2	1 390	58,1
not satisfied	168	0,3	45	6,7	739	0,7	207	8,6
Doubtful	119	0,2	61	9,1	254	0,2	131	5,5
Hopeless	105	0,2	91	13,6	332	0,3	377	15,8
Total	52 611	100,0	667	100,0	110 572	100,0	2 395	100,0

43.6% of commercial banks' loans are secured by government guarantees, 28.8% by real estate, 3.8% by vehicles, and the remaining 23.8% by third-party guarantees and other collateral.

### Conclusions and suggestions

- In general, the ultimate goal of managing the credit portfolio of commercial banks is to achieve the optimal level of risk, profitability and liquidity indicators of this portfolio.
- In our opinion, it is necessary to take into account the following factors in the effective management of the loan portfolio in commercial banks:
  - to carry out constant, effective monitoring of the quality of bank assets, to strengthen the mechanism for identifying and eliminating problematic situations related to bank assets at the initial stages;
  - development of measures aimed at effective risk management by diversifying assets in banks, improving credit portfolio, and making necessary changes to them based on the economic situation;
  - assessment, study, analysis of the risks that may arise in the lending process based on the decisions made regarding the banking system and the organization of the execution of regulatory documents regulating credit relations, monitoring the performance of business plan indicators;
  - formation of new methods of problem loans management;
  - control of ensuring the quality of assets, in which the share of good loans in the loan portfolio should not be less than 90 percent, minimization of the amount of overdue loans, control of issues such as compliance of the composition of the loan portfolio with the approved credit policy (by sectors, regions and maturity);
  - Monitoring compliance with the terms of the bank's credit policy and lending principles.

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