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Ways to Reduce Problem Loans in Commercial Banks

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Further development and liberalization of the economy is one of the priorities for further increasing the effectiveness of reforms, creating conditions for the comprehensive and rapid development of the state and society, modernization of our country and liberalization of all spheres of life. Particular attention is paid to deepening and ensuring the stability of the banking system, increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability, further expansion of promising investment projects and lending to small businesses and private entrepreneurs.

The main goal of reforming the banking system is to direct the activities of banks to economic growth, financial stability, and in recent years, commercial banks have become a financial institution that directs financial resources in the field of financial intermediation.

One of the most important and urgent tasks facing banks today is to use their assets in a way that benefits the customers they entrust to the bank. It should also be a structure that actively attracts customers for credit who are willing to use their funds effectively. It is precisely this task that makes banks the main intermediaries capable of stimulating the growth of production in the economy, implementing economic structural changes, increasing their efficiency and level of competition.

The head of our state said, “... we must create an effective system for attracting foreign loans and investments, learn to use each loan accurately. The time has come to address this issue in seven dimensions, once and for all, and to think carefully about the consequences”. In the current context of globalization, the financial stability of the banking system and commercial banks, efficient use of financial resources, various reserves created to prevent losses, in particular, special reserves to cover problem loans, their organization is the key to sustainable banking. It is especially important for banks to classify loans and create reserves for them. Proper reserve organization and its wise management will prevent the lack of financial resources in commercial banks, and the efficient use of financial resources can be an additional source of income for the bank if it is directed directly to the bank's profitable operations. This, firstly, serves to reduce the costs of banks, and secondly, expands the scope of additional income and activities for banks. In addition, it will serve the employment, increase incomes and welfare of the population. The formation of reserves in excess of the established norm may have a negative impact on the financial stability of the bank, ie the reserve established in excess of the norm may not cover the losses from problem loans. This also has a direct impact on the transparency of the bank. Therefore, one of the urgent tasks today is to develop the activities of banks, to identify and eliminate problems in a timely manner.

From this point of view, asset quality and its provision is one of the most important issues in commercial banks today. The existence of problems related to the quality of bank assets and their provision in the Republic of Uzbekistan and the need to develop scientific proposals and practical recommendations to address them determine the relevance of this chosen topic.

Proper classification of bank assets, its constant monitoring, adaptation to changes in the banking system, the development of classification criteria are the key to the effective operation of banks. When classifying bank assets, measures are taken to prevent and reduce problem assets. One such method is to set up reserves for possible losses on loans (assets).

Credit Scoring is derived from the English word "score", which means an assessment of a borrower's ability to obtain credit. Credit scoring (English "score" score) - a system of assessing the creditworthiness (credit risk) of the borrower on the basis of digital statistical methods, widely used by banks, microfinance institutions. In this case, the basis for the decision to allocate or reject the loan on the basis of the points accumulated by the borrower on the basis of scoring models through the scoring system.

Scoring is essentially a method of grouping borrowers. If a credit institution does not study the characteristics that distinguish groups, this will lead to an increase in credit risk. The idea of grouping in statistics was developed in 1936 by R. Fisher on the example of plants. In 1941, Durand first used this method to classify loans as "bad" and "good." The first scoring and consulting company Fair Issak (FICO) was established in the early 1950s. A number of sources are used by banks in creating Scoring models. These include the borrower's credit history, the borrower's survey, the borrower's financial statements, and more.

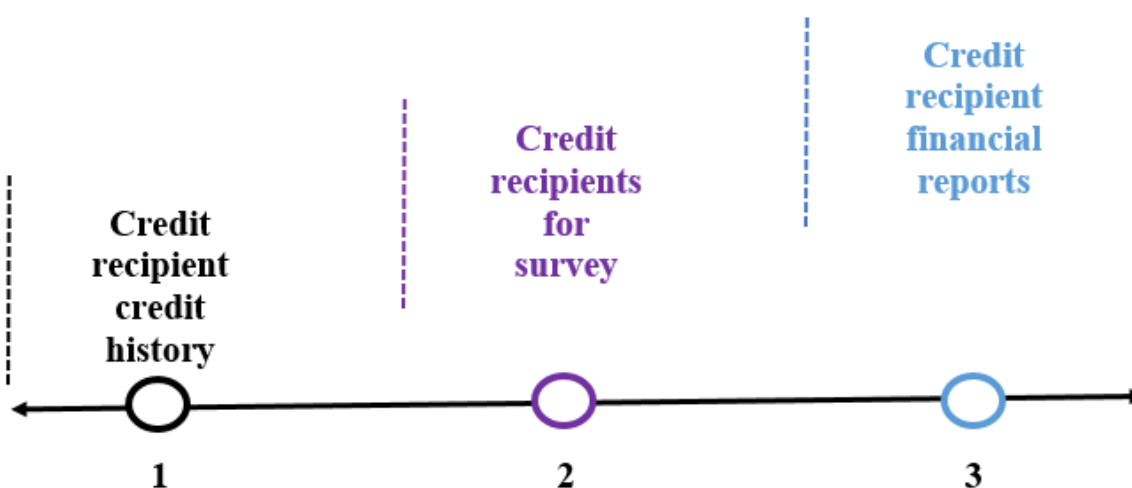


Figure 1. Resources for creating a scoring model ¹

The most important step in the scoring analysis process is to develop a model for scoring analysis. In particular, scoring analysis models may be different for each bank, each state, or each region. That is, credit institutions develop scoring analysis models based on their own characteristics based on their credit policy. Today, commercial banks in the country are also working hard to introduce scoring systems as a necessary tool for the development of retail lending. International experience shows that the widespread development of the scoring analysis system and its use in the country will have a positive impact on improving the quality of assets of commercial banks, including reducing credit errors.

In short, the special attention paid to improving the quality of assets in commercial banks will lead to the effective operation of banks in the future, which in turn will increase the profitability of the bank and provide quality customer service. Improving the quality of assets in banks directly leads to a reduction in problem loans. Therefore, we can say that in order to reduce problem loans

¹ Author's development.

in banks, it is necessary to create a department or department. Employees of this department are directly responsible for the timely repayment of loans to bank customers.

In addition, the interest rates on loans issued mainly in commercial banks of the Republic are fixed. This has a negative effect on the development of the scoring system in a sense. According to foreign experience, the customer's scoring score (price) also directly affects the interest rate of the loan. In particular, a high scoring score not only reduces credit risk, but also lowers the loan interest rate. This will make the borrower more interested in repaying the loan on time, thereby further improving their scoring score. In turn, such action of the borrower directly serves to improve the quality of bank assets.

In order to increase the popularity of banking services, expand the range of banking services for individuals and businesses, simplify and accelerate lending processes, banks are developing financial services based on the findings of the groups "Online Microcredit", "Modular Credit", "Underwriting". The widespread introduction and practical application of the "credit scoring" analysis system will increase its relevance. This will help banks to develop their own "credit scoring" system and widely introduce an automated analysis system, taking into account the bank's credit policy, world experience and national characteristics, which will have a significant impact on the quality of banking services and loan repayment.

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