

Improvement of Bank Credits through the Point System "Model of Loaning Process"

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Abstract: The article describes a new model of compliance with the terms of credit by commercial banks and its evaluation. In this regard, the advantages of the "system of transformation of lending practices" scoring system, developed by combining national and foreign experience, are highlighted..

Keywords: Lending practice, evaluation criteria, coefficient method, credit risk, credit risk reduction, prospective analysis, financial indicators, non-financial indicators, transformation model, scoring system.

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Introduction

The reforms being carried out in our country are the basis for the development of our national economy. Especially in recent years, the implementation of broad reforms in various sectors of the economy has laid the foundation for further sustainable development. The adoption of laws, decisions and decrees to further improve the banking system, which is the "locomotive" of our economy, ensures the harmonious development of this industry with the times.

In particular, in paragraph 6 (c) of paragraph 6 of the Resolution of the President of the Republic of Uzbekistan dated March 23, 2018 "On additional measures to increase the popularity of banking services commercial banks to create their own models ... " and to implement them in practice.

International experience shows that the various models of lending practices used in the activities of banks is one of the modern methods that provide accurate and comprehensive assessment of customer lending practices and provide them with convenient opportunities. This will allow customers to develop their business and significantly reduce credit risks. This means that losses related to non-repayment of the loan are avoided. Accurate, complete and prompt assessment of credit conditions and their creditworthiness is important not only to reduce credit risk for commercial banks, but also to reduce the risk of non-repayment of loans for businesses. It should be noted that the use of the scoring system "model of transformation of lending practices" in the practice of banks provides the expected effect for both the bank and the business entity. Therefore, in banking practice in developed countries, various models and scoring systems serve as an important tool in determining the interests of customers and bank income in lending practice.

Literature Review

As for the analysis of the literature on the subject. Analysis of lending practices of business entities and assessment of credit performance (Endovitsky and Bocharova, 2005), Analysis of creditworthiness of companies and organizations (Endovitsky et al., 2016), Assessment of borrowers' creditworthiness (Naumchenkova, 2016), Finance of business entities analysis (Liferenko, 2005), Banking (Abdullaeva, 2017), Banking (Azizov et al., 2016), Analysis of the financial condition of economic entities (Rakhimov, 2015), Improving the practice of assessing the creditworthiness of customers in commercial banks of the Republic of Uzbekistan (Mamatov et al., 2016), although the relevance of the topic, theoretical aspects, foreign experience, the current procedure is described in detail, but does not provide a practical solution. Improving the practice of assessing the creditworthiness of enterprises (Alimardanov, 2017) in a scientific article recommended the method of coefficients for assessing the creditworthiness, ie 8 coefficients. The coefficient method mainly assesses the financial aspects of the enterprise. In this case, the coefficients assess the creditworthiness of customers based on the indicators of the completed period, but the loan is allocated for the next period. Aspects to be considered in the scientific article:

- The creditworthiness of the enterprise is assessed on the basis of financial indicators, ie 8 coefficients do not allow a complete financial analysis of the enterprise;
- non-financial indicators were not considered in the assessment of creditworthiness;
- no prospective analysis has been performed in assessing creditworthiness;
- an improved program has not been developed that allows the normative level and rapid

calculation of the coefficient method;

- During the lending practice of the enterprise, their activities, financial performance have not been fully analyzed, and practical work on customer convenience or early repayment of the loan has not been sufficiently studied.

Methodology

Our research was conducted in order to analyze the period of lending practices of business entities and improve the criteria for its evaluation, and specific tasks were identified. In the course of the research, comparisons of practical materials, analysis using statistics and tables were carried out, based on the results of which clear conclusions and practical recommendations were made.

Data Analysis

Since the emergence of the market economy, credit relations have been constantly improving and developing, and this process is expected to continue on a larger scale in the future. This is because credit relations are an important financial factor for many businesses in the economy to start, operate and expand.

What are the criteria and procedures for attracting bank loans and credits? In this regard, the main issue in establishing debt relations between business entities and commercial banks is the analysis of their creditworthiness and the improvement of their valuation models during the lending practice. Each commercial bank pursues an independent policy on credit relations with its customers. However, all of them should focus on one important aspect, namely, the ability of businesses to repay loans and accurately assess their income to the bank and their activities.

Table 1: Criteria for assessing the solvency of loans provided to commercial entities by commercial banks

Indicators	I class	II class	III class
1. Coating coefficient. (C_c)	$C_c > 2$	$2 > C_c > 1$	$1 > C_c$
2. Liquidity ratio. (L_r)	$L_r > 1,5$	$1,5 > L_r > 1$	$1 > L_r$
3. Autonomy coefficient. (A_c)	$A_c > 60\%$	$60\% > A_c > 30\%$	$30\% > A_c$

Today, commercial banks of the country use various methods to assess the analysis of lending practices of business entities. It should be noted that in the practice of banks in the analysis and assessment of creditworthiness of business entities are used three types of coefficients: coverage, liquidity and autonomy. Based on these coefficients, the creditworthiness of business entities is assessed on the basis of three classes.

The criteria for assessing the creditworthiness of this procedure have the following shortcomings and general aspects that need to be improved:

- shortcomings in the method of calculating coefficients;
- the impossibility of a full assessment of the financial condition of business entities on the basis of these coefficients;
- international experience is not taken into account.

These shortcomings are analytically as follows.

1. In banking practice, the coverage ratio is calculated by dividing current assets (line 390) by

current liabilities (line 600). In this case, a number of current assets can not be used to repay the loan. Including the part of "finished goods (goods)" in the finished product (goods), future expenses (line 190), overdue expenses (line 200), overdue receivables (line 211), payments to employees (250 lines), Payments to the budget on taxes and other obligatory payments (270 lines), Payments on target state funds and insurance (280 lines), Current assets, such as the debt of the founders on shares in the authorized capital (line 290), are current assets that do not have the funds to repay the loan. These and similar serious shortcomings are present in all of the above coefficients.

2. It is impossible to fully assess the financial condition of business entities with three coefficients. This requires the use of a number of indicators that reveal the financial condition of business entities.

Such circumstances do not allow businesses to fully comply with the terms of the loan and fully assess their ability to repay the loan and their financial condition.

It is important to eliminate the above-mentioned shortcomings in order to improve the assessment of the financial condition and creditworthiness of business entities in the banking sector of the country on the basis of the requirements of the period. The purpose of this is to conduct a complete, accurate and prompt study of the assessment of the financial condition and creditworthiness of business entities that have received and used loans. This will provide an opportunity to provide benefits to the most eligible businesses that are eligible for credit, thereby improving the quality of the loan portfolio. As a result, credit risk is significantly reduced.

In order to effectively implement the work in this area, an electronic program has been created to improve the terms of loans to businesses through the scoring system "Model of the transformation of lending practices."

The improved electronic program "Transformation Model of Lending Practices" assesses the creditworthiness of business entities on the basis of two important aspects divided into 5 classes:

1. Evaluation based on financial indicators (liquidity indicators, balance sheet liquidity, turnover indicators, efficiency indicators, stability indicators and Altman model);
2. Evaluation on the basis of non-financial indicators (total credit history, credit supply, project realism, the level of competitiveness of the product, business reputation).

The company's performance on credit terms and financial performance is rated at 100 points and non-financial indicators at 100 points with a total of 200 points.

Table 2 : Procedure for fulfilling credit terms by grades

Class	Brief explanation	Total
1'st grade	<i>This category of business entities has a high ability to repay loans. These businesses can be given high benefits in the general order of credit.</i>	156-200
2'st grade	<i>This category of business entities has the ability to repay the loan. These business entities can be granted benefits in the general order of the allocated loan.</i>	120-155
3'st grade	<i>This category of business entities can repay the loan. It is not possible to provide benefits in the general order of the loan allocated to these business entities.</i>	82-119

4'st grade	<i>The financial condition of this category of business entities is not stable. The risk of repayment of loans to these businesses is high.</i>	81 until
5'st grade	<i>The financial situation of this category of business entities is very bad. The risk of repayment of loans to these businesses is very high. It is necessary to take measures to repay these loans ahead of schedule.</i>	0

Terms of loans to businesses are studied in 5 classes in the range of 0 to 200 points, the total number of points accumulated under the program of the scoring system "Model of transformation of lending practices." Table 2 provides full details by grades.

Discussions

Advantages of the points system "Transformation model of lending practices" of the terms of loans to business entities:

1. This model has the ability to accurately, fully, comprehensively assess the business entity's compliance with the terms of the loan and its ability to repay it.
2. In contrast to the current assessment, the condition of compliance with the terms of the loan and its repayment is based on 5 classes. This will increase the ability of banks to select business entities in terms of compliance with the terms of the loan and the creditworthiness.

Table 3: "Model of transformation of lending practices" scoring system scale

Class	Quality	Interest rate	Interest on maturity
1'st grade	The highest	- 20 percent	Up to 4 months
2'st grade	Good	- 10 percent	Up to 2 months
3'st grade	Medium	Without modification	
4'st grade	Below average	Warning	
5'st grade	Unsatisfactory	Take precautionary measures	

3. The methods of calculating the criteria for assessing the ability to repay the loan have been improved, ie the level of accuracy has been increased.

4. It was created taking into account international experience.

Conclusion

In the practice of the banks of the Republic, the coefficient method is used to assess the creditworthiness of business entities. The main focus is on financial performance. In the ratios method, it is not possible to fully disclose financial performance with these three ratios. In addition, the shortcomings of the method of calculating these coefficients further indicate that the uncertainty of this method is high. Another disadvantage of this coefficient method is that the loan is allocated to the next period, based on the data of the completed period. In this case, the analysis of future activities is one of the important tasks. Another aspect that is not paid attention to by commercial banks, but is important to pay attention to, is non-financial indicators. Non-financial indicators are one of the important factors for the sustainable development of future activities of enterprises. Taking into account the above shortcomings and combining foreign experience, we have developed an electronic program "Model of transformation of lending practices". This program will dramatically reduce credit risk and increase bank income through a

comprehensive assessment of lending conditions and creditworthiness on the basis of financial and non-financial indicators of the business entity.

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