RESEARCH PARKS

INTERNATIONAL JOURNAL ON ORANGE TECHNOLOGY

https://journals.researchparks.org/index.php/IJOT e-ISSN: 2615-8140 | p-ISSN: 2615-7071

Volume: 04 Issue: 3 | Mar 2022

Improvement of Credit Processing Model of Commercial Banks on the Scale Scale System

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Annotation: The article describes a new model of compliance with the terms of credit of business entities 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.

Key words: Lending practice, business entities, evaluation criteria, coefficient method, financial indicators, non-financial indicators, transformation model, scoring system.

Introduction

The ongoing reforms in the Republic of Uzbekistan 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 a clear 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 taken into account. 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 credit 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 the banking practice of developed countries, various models and scoring systems serve as an important tool in determining the interests of customers and banking income in lending practice.

Analysis of the relevant literature

There are different approaches of economists and specialists in the analysis and assessment of customer creditworthiness, which can be summarized and divided into two groups. While one group of scholars and experts interpret the creditworthiness of business entities based on the interests of commercial banks and credit policies, another group of scholars recommends analyzing creditworthiness based on financial condition, efficiency, and business scale. The general idea of both approaches is that the financial condition of the business entity is an important object in assessing the creditworthiness. However, when analyzing from the point of view of a commercial bank, along with the analysis of the financial situation, special attention is paid to the non-financial indicators of the borrowing business entity.

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Professor Mavlanov (2018) studied the creditworthiness of bank customers from both perspectives, classified financial and non-financial indicators from the bank's point of view on the basis of certain criteria and proposed to assess creditworthiness using a scoring model. Proposed and demonstrated the effectiveness of a comprehensive analysis approach based on the indicators of liquidity, balance sheet liquidity, stability and efficiency in improving the analysis of creditworthiness based on the financial condition of the business entity (Mavlanov, 2019).

Alimardonov (2017) concluded that in lending to small businesses, the method of assessing their creditworthiness and assessing total cash flows is preferred over the method of financial ratios. The textbook "Banking", published by a group of scholars, describes the essence of the concept of creditworthiness, its importance in the lending process, methods and procedures for assessing the creditworthiness of individuals and legal entities (Azizov et al., 2016).

In their research, Russian scientists have advanced the concept of business continuity in assessing the creditworthiness of an economic entity, proving that failure to ensure creditworthiness can lead to the termination of its activities, ie bankruptcy and a serious risk of business continuity (Babicheva, Lyubishin, Kondratev, 2018).

From the above, it is clear that the analysis and assessment of the creditworthiness of business entities is one of the most important economic relations. Although many aspects of this process have been disclosed by scholars, the theoretical and organizational-methodological aspects of creditworthiness analysis and practical work on customer convenience or early loan repayment have not been sufficiently studied.

Research methodology

Our study 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.

Analysis and results

Since the emergence of the market economy, credit relations have been continuously 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 in the launch, continuous implementation and expansion of many business entities in the economy.

Table 1. Evaluation of the lending process of business entities through financial indicators [1]

Name of indicators	Point distribution	Classification by lending practice									
		The norm	ball	The norm	ball	The norm	ball	The norm	ball	The norm	ball
		1st grade		2st grade		3st grade		4st grade		5st grade	
Analysis of the turnover of the business entity:	70		70		56		42		28		0
Indicators of current assets turnover of the business entity	5	Jak>2xKr	5	2xKr >Jak>Kr	4	Kr>Jak>Kr/2	3	Kr/2>Jak>Kr/3	2	Kr/3>Jak>0	0
Indicators of receivables of a business entity	5	Dak>2xKr	5	2xKr >Dak>Kr	4	Kr>Dak>Kr/2	3	Kr/2>Dak>Kr/3	2	Kr/3>Dak>0	0
Indicators of accounts payable of a business entity	5	Kak>2xKr	5	2xKr >Kak>Kr	4	Kr>Kak>Kr/2	3	Kr/2>Kak>Kr/3	2	Kr/3>Kak>0	0
Turnover of	5	TMZak>2xKr	5	2xKr	4	Kr>TMZak>Kr/2	3	Kr/2>TMZak>Kr/3	2	Kr/3>TMZak>0	0

[1] Source: Created by the author.

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inventories				>TMZak>Kr							
Estimation of the balance of resources in the account of the business entity in relation to the loan	30	Krq/Kr>1	30	Krq /Kr=1> 0,75	23	Krq /Kr<1> 0,5	17	Krq /Kr<0,5>0,1	8	Krq /Kr <0,1	0
Overall score	100		100		79		59		36		0

What are the criteria and procedures for attracting bank loans and borrowings? In this regard, the main issue in the establishment of 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.

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 credit relations of the Republic in accordance with the requirements of the time. The purpose of this is to conduct a complete, accurate and rapid 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.

Table 2. Evaluation of the lending process of business entities through non-financial indicators [2]

Indicators		Ball
General credit history of the business entity:		**20**
For more than 3 years, banks, including business entities, have repaid loans in a timely manner and in full.	**1 class**	**20**
Within 3 years, banks, including business entities, repaid loans in a timely manner and in full	**2 class**	**15**
In the last three years, banks, including business entities, have repaid the loan amount (principal and interest) from the bank late or in part.	**3 class**	**12**
In the last three years, the amount of loans (principal and interest) received from banks, including business entities, has been repaid late or in part.	**4 class**	**9**
Banks, including when the client has not paid in full the loan amount (principal and interest) received from the bank.	**5 class**	**0**
Credit security of a business entity:		**20**
The supply is modern, highly liquid, adequate, the ownership belongs to the enterprise. The financial condition of the guarantor is absolutely stable.	**1 class**	**20**
The supply is new, liquid, sufficient, the ownership belongs to the enterprise. The financial	**2 class**	**15**

[2] Source: Created by the author.

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condition of the guarantor is stable.		
The supply is more than 50% obsolete, liquid, insufficient, the ownership belongs to the enterprise.	**3 class**	**12**
The supply is old, illiquid, insufficient, the ownership belongs to another enterprise.	**4 class**	**9**
The collateral is invalid, illiquid, insufficient, the right of ownership belongs to another enterprise. The guarantor's financial condition is bankrupt.	**5 class**	**0**
The reality of the business entity project:		**20**
Meets the requirements of the Bank's credit policy and has reasonable sources of information.	**1 class**	**20**
There is an opportunity to implement the project: a positive financial result of the business entity and the amount of cash flow is sufficient to repay the loan amount (principal and interest).	**2 class**	**15**
The positive financial result of the business entity and the amount of cash flow are sufficient to repay the loan amount (principal and interest).	**3 class**	**12**
The positive financial result of the business entity and the fact that the amount of cash flow is sufficient to repay the loan amount (principal and interest) depends on the risk.	**4 class**	**9**
There is a high risk in the implementation of the business entity.	**5 class**	**0**
The level of competitiveness of the goods of the business entity.		**20**
Diversity of goods, high quality, high added value and optimal price, optimal cost, good sales service, high demand.	**1 class**	**20**
Diversity of goods, high quality, good sales service, optimal price, differentiated cost, demand	**2 class**	**15**
Lack of type of goods, average quality, average price, average cost, sales service	**3 class**	**12**
Lack of type of goods, low quality, average price, high cost, sales service is not at the level of demand	**4 class**	**9**
Lack of type of goods, low quality, average price, high cost, no sales service, very low demand.	**5 class**	**0**
Reputation of the business entity		**20**
The position of the business entity in the industry and the industry is high, the reputation in the market is high, the brand is well-known	**1 class**	**20**
The role of the business entity in the industry and the industry is average, has a reputation in the market, the brand is familiar to buyers	**2 class**	**15**
The role of the business entity in the industry and the network is not significant, the brand is not familiar to buyers.	**3 class**	**12**
The role of the business entity in the industry and the network does not matter, the brand is not familiar to buyers.	**4 class**	**9**

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The role of the business entity in the industry and the industry does not matter, does not have its own reputation in the market, does not have a brand	**5 class**	**0**
Overall score		**100**

Conclusions and suggestions

We offer an electronic program that improves the terms of loans provided by commercial banks to businesses through the points system "Transformation model of lending practices". The model of transformation of lending practices assesses the creditworthiness of business entities by dividing them into 5 classes on the basis of two important aspects:

1. Evaluation on the basis of financial indicators (liquidity indicators, balance sheet liquidity, turnover indicators, efficiency indicators, stability indicators) (Table 1);

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) (Table 2).

Table 3. Procedure for fulfilling credit terms by grades [3]

Class	Brief explanation	Ball
1st grade	This category of businesses has a high ability to repay loans. These businesses can be given high benefits in the general order of credit.	**156-200**
2st grade	This category of business entities has the ability to repay the loan. These business entities can be granted preferences in the general order of the allocated loan.	**120-155**
3st grade	This category of business entities can repay the loan. It is not possible to provide concessions in the general order of credit allocated to these business entities.	**82-119**
4st grade	The financial condition of this category of business entities is not stable. The risk of repayment of loans to these businesses is high.	**81 гача**
5st grade	The financial situation of this category of business entities is very bad. The risk of loan repayment to these businesses is very high. It is necessary to take measures to repay these loans ahead of schedule.	**0**

Compliance of business entities with credit conditions and 100 points on the basis of financial indicators and 100 points on the basis of non-financial indicators are evaluated with a total of 200 points (Table 3).
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 points system "Transformation model of lending practices." Table 4 provides detailed details on the classes (Table 4).

Table 4. Transformation model of lending practice scoring system scale

Class	Quality	Privilege on interest rate	Privilege on interest term
1st grade	The highest	- 20 percent	+ 4 months
2st grade	Good	- 10 percent	+ 2 months
3st grade	Medium	Without modification	
4st grade	Below average	Warning	
5st grade	Unsatisfactory	Take precautionary measures	

[3] Compiled by the author.

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

- This model is capable of a clear, complete, comprehensive assessment of the business entity's compliance with the terms of the loan and its ability to repay it.
- 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 based on compliance with the terms of the loan and the status of the loan repayment.
- The methods of calculating the criteria for assessing the possibility of loan repayment have been improved, ie the level of accuracy has been increased.
- It was formed taking into account international experience.

This model allows to sharply reduce the risk of the loan portfolio through a comprehensive assessment of creditworthiness of business entities on the basis of financial and non-financial indicators.

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