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EMERGENCE AND INCREASE OF PROBLEM LOANS IN BANKS

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Abstract

This scientific article examines the responsibility, established and other management mechanisms for the emergence and growth of problem loans in banks. Problem loans are loans granted to the property of banks, which are difficult for borrowers to fulfill the terms and conditions set by the bank. This dissertation discusses the main causes of problem loans, their correction, methods and strategies of banks in their management. The increase in the weight of problem loans threatens the state-owned enterprise sector, negatively affects the activities of banks and completely hinders the development of production. Therefore, it is necessary for banks and regulators to develop more effective management strategies for problem loans..

Keywords: Problematic loans, banking, risk, creditors, educational funds, bank characteristics, management, provision, liquidity, default, legal loans.

Introduction

Today, one of the most important elements in the banking system is taken. However, the emergence of problem loans in banks and the increase in the weight of production are one of the main factors affecting their next, calendar direction. Problem loans are non-performing loans that seriously threaten the liquidity, capital and overall financial condition of banks. There are many sources of problem loans. Among them are production downturns, high inflation, systemic maturity in the credit control system, problems in the functioning of the bank's risk management systems, and personal problems of borrowers.

Problematic loans are loans that banks have lent out and are not safe to take back. These types of loans go through various stages of recovery. They are divided into:

1.The debtor's inability to make payments on time (problems with paying interest or principal);

2.Lack of economic stability of the debtor (inflation, unemployment and other factors);

3.Lack of collateral (decrease in the value of the loan security or collateral)

Problem loans, also known as non-performing loans, are a critical issue in the banking industry. They represent loans that are unlikely to be repaid in full, posing significant risks to bank profitability and stability.

Defining Problem Loans

1.Delinquent Payments**:** Loans where borrowers have missed scheduled payments for a specified period.
2.Impaired Borrower Capacity: Borrowers demonstrate a lack of ability to meet repayment obligations.
3.Doubtful Recovery**:**Banks anticipate significant losses on the loan principal or interest.
Factors Contributing to Problem Loans**.** Recessions, job losses, and decreased consumer spending can lead to loan defaults. Insufficient due diligence, lax creditworthiness assessments, and inadequate risk management. Factors like oil price fluctuations, natural disasters, or technological disruptions can impact borrowers.
Strategies for Mitigating Problem Loans:Pre-Loan Due Diligence:Thorough creditworthiness assessments, including income verification and debt-to-income ratios. Early Intervention and Restructuring:Working with borrowers experiencing financial difficulties to modify loan terms.

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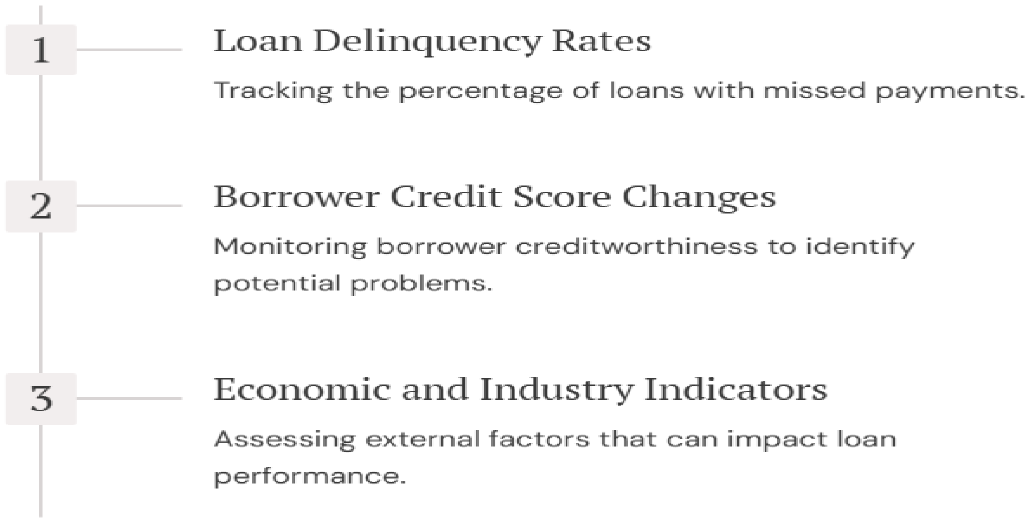

Problematic loans pose significant risks to the financial health of banks and the broader economy. This presentation examines the key factors contributing to the rise of problematic loans, explores their potential consequences, and offers insights into mitigation strategies.
Recessions and economic instability often lead to job losses and reduced income, making it difficult for borrowers to repay loans. Banks may relax lending criteria during periods of economic growth, increasing the likelihood of lending to borrowers with poor credit history. Intense competition among banks can incentivize them to offer more attractive loan terms, even if it increases risk. Loan applications may contain false information or be based on fraudulent schemes, leading to non-performing

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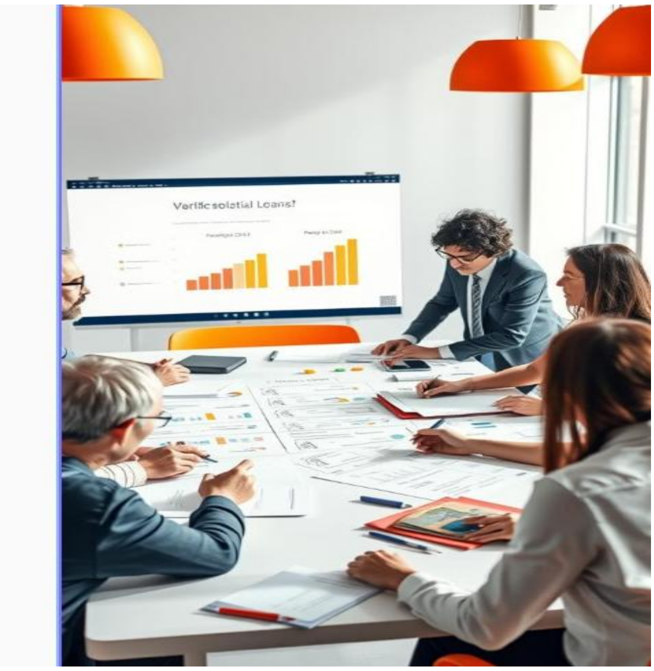
loans.Strategies for Mitigating Problematic Loan Issues: Enhanced Credit Risk Management*:* Implement robust credit scoring models, conduct thorough due diligence, and develop effective risk management frameworks. Diversification of Loan PortfolioSpread lending across different sectors and industries to reduce concentration risk. Early Intervention and Recovery Strategies:Develop proactive strategies for identifying and addressing potential loan problems at an early stage.



Open Communication and Transparency:Promote open communication with borrowers, foster transparency in loan processes, and encourage early resolution of disputes.

An increase in problem loans could lead to increased uncertainty, conflict and risk in the banking sector. The accumulation of problem loans in a few banks creates a "systemic risk" in the national financial system. This could lead to a crisis. Banks need to define and professionally adjust their credit programs and assessment systems. Use of time-based documents to assess loans and identify risks. Rubleva noted that “problem loans arise due to excessive lending in commercial loans, lending to unreliable clients, and taking illiquid property as collateral. According to the author, in order to reduce problem debts, it is necessary to collect information as soon as they arise and provide it to the collection agency. Lawyers with high practical experience work in the collection agency. They meet with the client and provide a complete understanding of the debt repayment and what measures will be taken under the law in case of non-repayment. Therefore, customers listen to them in relation to bank employees and justify their actions to repay the debt as much as possible, acting on their words. According to Miller, “The absence of problem assets in banks and the provision of liquidity are determined by how the bank manages the composition of assets and liabilities. Therefore, he emphasizes that commercial banks should be studied from the point of view of timely and cost-effective fulfillment of their obligations to customers, the proportionality of the volume and terms of their assets and liabilities.”

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Managing problem loans is a complex issue. Implementing measures to reduce problem loans is essential for economic growth, financial stability, and maintaining confidence in the banking system.

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