

BASIC PROBLEMS OF LOANS IN MODERN CONDITIONS

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In unstable economic situation problems of loan portfolio of banks affect all agents on the market and position the state as a whole, because the redistribution of financial resources occurs through credit relations to develop production and sales, provided continuity of these processes.

According to the NBU in 2009 the share of problem loans in the portfolios of banks has increased in 3.7 times [1, p. 39]. In 2010, asset qualities continued to decrease – according to the information of NBU 14% of all loans were problematic by June, 2010. In this regard, analysis of optimizing the structure of loan portfolio is of particular significance that leads to urgency and expediency of the chosen topic of research for the development of this issue.

The aim of research is to reveal current practices of the credit portfolio, analyze current trends in the credit market and find ways to optimize the structure of credit portfolio of banks.

Research the credit market and the main indicators of Ukrainian banks have shown that lack of liquidity, and fluctuations in the currency market years 2008-2009 caused decrease in amount of bank lending.

Lending to the Ukrainian economy grew by 7480 million since the beginning of 2010 (from 709 053 million in January to 716 533 million in August 2010) (Fig. 1) [3].

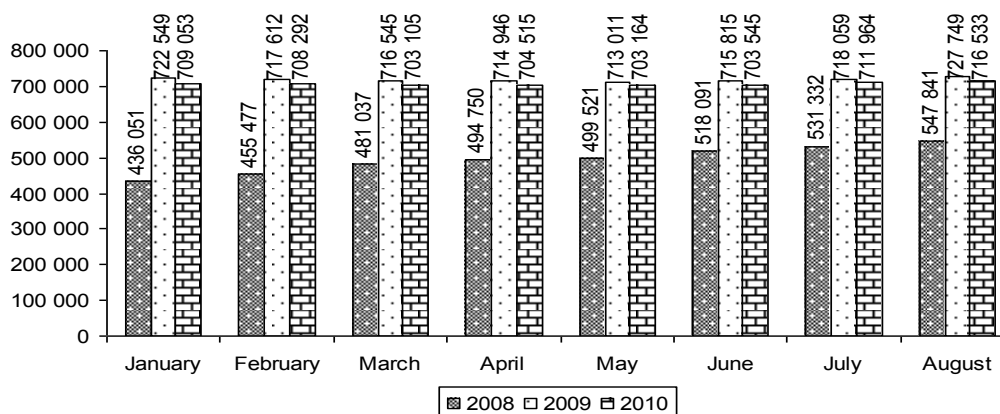


Fig. 1 – The volume of outstanding loans, mln. (2008-2010 years)

The volume of outstanding loans for the nine months of 2010 amounted to 716 533 million. That is 1.54% less than the same period last year. However in 2010 the situation in the banking market was becoming stabilizing nature. There was a significant influx of resources to the banking system during January and September 2010. The level of capitalization of many banks has reached pre-crisis value, which caused increase in the credits of banks.

Statistics of the National Bank of Ukraine show some acceleration in lending development in Ukraine. Loan portfolios in September, 2010 was so (compared to same period in 2009) [3]:

- Loans to legal entities - 66.53% (57.09%) - accounted for 476 693 mln. UAH;
- Loans to individuals - 30.56% (37.31%) - 218 987 mln. UAH;
- Loans to other banks - 2.91% (5.60%) - 20 854 mln. UAH.

So it is evident trend toward a growing share of loans to entities in the portfolios of banks by reducing the volume of loans to other banks and lending slowing population.

The most active loan portfolio was enlarged by banks with the Ukrainian capital, members of the financial and industrial groups. The absolute leader in the loan portfolio growth was the Private bank. Funds provided by this bank to entities increased during 6 months of 2010 to 11.2 million or 21.1%. Loan portfolios of banks with foreign capital continued to decrease. Leaders are OTP Bank (reduction of 2.4 million or 18.7%), UkrSibbank (2.1 million UAH or 12.7%) and Bank Forum (1.3 million UAH or 12%). Such statistics show the views of foreign shareholders. Ukrainian "affiliated companies" have brought significant losses, and owners have changed the risk assessment [4].

Analyzing the structure of loans by term, we can see that medium-term loans of 1-5 years prevailed in the total, it reflects the inability of Ukrainian banks to lend for the long term (Fig. 2.) [3].

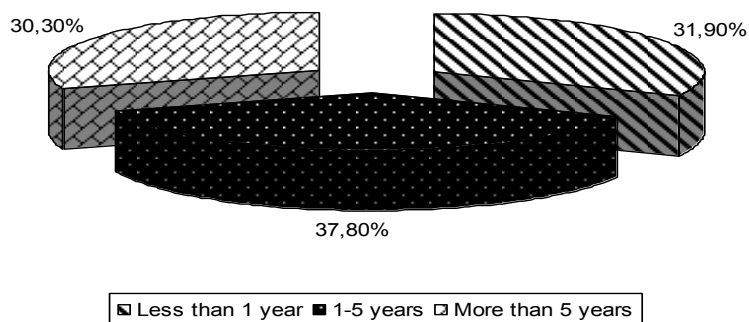


Fig. 2 – The structure of loans by maturity in August 2010

Mid-term loans amounted to 37.80%, and long-term loans are 30.30% of the total. The reason is the presence of high risk of loan defaults by low creditworthiness of borrowers and the lack of capitalization of some banks.

Looking at the structure of long-term loans granted by banks to business entities by sectors of national economy, we can see the fastest grew banks lending to food processing, energy, transportation and agriculture. Housing and light industry are among outsiders [4].

Analyzing the dynamics of credit granted by currency attribute, we can see the systematic increase of UAH loans 27 962 mln. and permanent reduction of foreign currency loans -20 482 mln. during January and August 2010 [4]. These trends are caused by the instability of foreign exchange, which reduces demand for bank borrowers in this product, including the restrictions of the National Bank on foreign exchange loans in the banking market.

Credit risk is one of the most important banking risks; in addition, it becomes a cause of non-performing loans and losses related to the insolvency of the borrower.

To risk-management tool has become effective, any bank should have effective credit risk management system, which should solve the following tasks:

- 1) forming characteristics of the borrower (issuer rating and the probability of default);
- 2) the share of problem loans through restructuring or selling debt problem;
- 3) the validity of the terms of agreements and decisions on lending;
- 4) increase competitive advantage by improving the quality of loan portfolio;
- 5) possibility of permanent control over the portfolio;
- 6) increase discipline and reduce time expenses due to standardization and automation;
- 7) opportunities for ongoing monitoring and fast reaction at client's problems [2, p.15].

Modern trends in the management of credit portfolio risks require special techniques for data processing in order to create an analytical basis for management decisions. One of the solutions to the problem of maximizing profit from lending with a minimum level of risk is the application of linear programming.

The structure of credit portfolio of banks of Ukraine is characterized by several negative factors: growth is very small, which is a sign of decreasing domestic demand, loan portfolio for entities increases the minimum degree, interest rates on funds of individuals are at a maximum of ten years, a high degree of dollarization of credit portfolios, a large proportion of bad loans in the portfolio.

This makes the urgency of measures to optimize the banks' loans structure, which provide the development of effective risk management and use mathematical programming in their activities.

Literature

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