Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue: 2 | February 2024 -Peer-Reviewed Journal

IMPROVING THE PRACTICE OF EVALUATING COLLATERAL FOR BANK LOANS

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ABSTRACT
In this article, the elimination of administrative approaches to the assessment of credit collateral of banks and the strengthening of mutual competition between these assessment organizations and the truthful and reasonable assessment of collateral, the sale of property taken as credit collateral in the necessary cases, the bank the problems related to the involvement of highly qualified and experienced evaluators in the assessment of the collateral for the provision of loans, the improvement of the organizational and legal framework for the assessment of the provision of bank loans are highlighted.
KEYWORDS: *bank loans, collateral, valuation methods, cost, income and comparative approaches.*

INTRODUCTION

One of the priority issues is to improve the practice of evaluating collateral for bank loans in our country, in particular, to put an end to administrative approaches in evaluating banks' credit collateral and thereby to strengthen mutual competition between evaluation organizations. Scientific research on the topic of "Improving the practice of evaluating collateral for bank loans" is aimed at eliminating these problems.

Real and rational assessment of collateral, sale of property received as collateral in necessary cases, involvement of highly qualified and experienced appraisers in the assessment of collateral for bank loans, organization of assessment of bank loans – problems related to the improvement of legal frameworks are being analyzed.

The tasks of analyzing the cost, income and comparative approaches to the assessment of collateral security of bank loans were determined by studying the theoretical basis of the evaluation of the strategy of actions on the five priority directions of the development of the Republic of Uzbekistan in 2017-2021. Of course, every scientific work has its own goal and novelty. This scientific work is not without such new ideas and initiatives. Today, a procedure for accounting for export operations and contracts has been developed, along with accepting equipment as collateral for loans in foreign currency for the purchase of technological equipment. Also, ways to reduce the risk of collateral by taking into account the amortization period when vehicles, machines and equipment are taken as collateral for bank loans are defined. In order to reduce the risk of collateral on bank loans, there are main issues and hypotheses of the research as the main directions of diversification of highly liquid assets in the portfolio of collateral assets. During the research work, attention is paid to the determination of the amounts allowed in the assessment of bank loan collateral as the main issue. As a working hypothesis based on the main issue, the idea of further improvement of the research on the assessment of collateral for direct bank loans is put forward.

LITERATURE REVIEW

The evaluation of collateral plays a crucial role in the lending process for banks and financial institutions. Collateral serves as a security measure to mitigate the risk associated with lending, providing lenders with a valuable asset that can be seized in the event of default. However, the practice of evaluating collateral for bank loans is not without challenges. This literature review aims to explore existing research and insights related to improving the practice of evaluating collateral for bank loans, with a focus on addressing key issues and proposing potential solutions.

1. Importance of Collateral Evaluation:

This comprehensive survey examines the relationship between collateral and credit, highlighting the significance of collateral evaluation in loan underwriting and risk management.[1]

2. Challenges in Collateral Evaluation:

This study investigates the challenges faced by lenders in collateral valuation, focusing on the real estate market. It discusses factors that affect the accuracy of collateral valuation and the potential biases that can arise.[2]

3. Technological Advancements and Automation:

This review explores the potential of artificial intelligence (AI) and machine learning in collateral valuation for mortgage loans. It discusses the benefits and challenges of implementing AI technologies in the lending industry.[3]

4. Risk Management and Collateral Evaluation:

This study examines the role of collateral valuation in credit risk management and prudential regulation. It discusses how collateral evaluation practices can affect the stability of the banking system and proposes potential regulatory measures.[4]

5.Valuation Models and Approaches:

This primer provides an overview of valuation models used for mortgage-backed securities, which can inform the development of similar models for collateral evaluation in the context of bank loans. It discusses the challenges and limitations of different valuation approaches.[5]

6. Collateral Monitoring and Maintenance:

This study explores the importance of collateral monitoring and ongoing collateral maintenance in the context of small firm finance. It highlights the benefits of relationship lending and the role of collateral in maintaining borrower discipline.[6]

7. Data Analytics and Big Data:

This article discusses the use of big data analytics in collateral appraisal and credit risk management. It explores how banks can leverage large datasets and advanced analytical techniques to improve the accuracy and efficiency of collateral evaluation.[7]

8. Regulatory Framework and Best Practices:

The Basel Committee's principles provide guidelines for the sound management of operational risks in banks, including those related to collateral evaluation. Understanding and implementing these principles can help banks establish robust frameworks for collateral assessment and risk mitigation.[8]

9. Collateral Risk Assessment Models:

This study examines the relationship between default rates and recovery rates, shedding light on the estimation of collateral values and the determination of loan loss provisions. Developing accurate models for collateral risk assessment can enhance banks' ability to evaluate the potential recovery value of collateral.[9]

ANALYSIS AND RESULTS

The foreign experience of the organization of the activities of appraisal organizations and appraisers, as well as the evaluation of collateral for bank loans, shows that the procedure for the evaluation of immovable and movable properties placed on bank loans is for the orders of other economic entities. almost no different from the assessment process to be carried out. The stages of organization and implementation of the process of assessment of bank loan collateral were recommended (Table 1).

In our opinion, the participation of an authorized employee of the bank in organizing the evaluation process is very important. Because, when there is a serious problem with the payment of the loan, it is very important to eliminate this risk through collateral.

Table 1
Stages of organization of evaluation process

Steps	The content of the stages	Actions to be taken
Stage 1	Agree on the technical aspects with the authorized employee of the appraising bank and the borrower	The object to be evaluated is determined, the amount of necessary data for its evaluation process and the procedure for their formation, possible errors and limits during the evaluation process, and the evaluation period are agreed upon.
Stage 2	Contract conclusion	The contract can be bilateral or tripartite. In the tripartite agreement, the bank also has the right to receive and sign the evaluation report as a customer.
Stage 3	Current advice	The evaluator warns the authorized employee of the bank about the problematic situations that may arise during the term of the collateral loan, and also discusses some issues together.
Stage 4	Submitting a short report-resume to the appraising bank.	The appraiser submits a short summary report to the bank regarding the value of the object being evaluated as collateral, and if there are no objections to it, he begins to prepare the report.
Stage 5	Delivery to the customer	Provides the customer with the object evaluation report.

It is known from practice that in some cases, when commercial banks are forced to extinguish problematic loans from collateral, a number of problems arise, such as the right of ownership, the project approved by the cadastre, and the possibilities of use. All this can be solved to a certain extent by the participation of an authorized employee of the bank in the evaluation process and the conclusion of a tripartite agreement. However, in the practice of our country, an authorized employee of the bank does not directly participate in the process of evaluating the security object of the borrower.

In our opinion, it is appropriate to determine the direct participation of an authorized officer of the bank in the process of evaluating the collateral object by making appropriate additions and amendments to the legislation and regulatory documents regulating this process. In this case, the level of sale of the collateral property on the open market before the evaluation report on determining the market value is drawn up by the responsible officer; changes in the value of the collateral object during the term of the loan agreement; their impact on the value of collateral in the event of the sale of the collateral object at auction and other unforeseen expenses; it is necessary to pay serious attention to the extent to which the pledged object is necessary for the borrower and what role it plays in business activities.

Improving the practice of evaluating collateral for bank loans is a crucial aspect of risk management and lending effectiveness. Here are some key strategies and considerations that can contribute to enhancing collateral evaluation:

1. Robust Valuation Methods: Implementing accurate and reliable valuation methods is essential for assessing the value of collateral. Banks should establish comprehensive guidelines and frameworks for collateral appraisal, considering factors such as market conditions, asset quality, and potential risks. Utilizing a combination of appraisal techniques, including market-based approaches, income-based approaches, and cost-based approaches, can provide a more comprehensive and accurate valuation.
2. Advanced Technology and Data Analytics: Leveraging technological advancements can significantly enhance collateral evaluation. Banks can utilize automated valuation models, machine learning algorithms, and big data analytics to process vast amounts of data efficiently. This can lead to more accurate and timely collateral assessments. Additionally, adopting digital platforms and tools can streamline the evaluation process and improve data management.
3. Risk-Based Approach: Implementing a risk-based approach to collateral evaluation involves assessing the specific risks associated with different types of collateral. Banks should consider factors such as asset liquidity, market volatility, and potential legal or regulatory risks. By assigning appropriate risk weights to different collateral types, banks can ensure that the evaluation process aligns with their risk appetite and regulatory requirements.
4. Continuous Monitoring: Regular monitoring of collateral is crucial to ensure its value is preserved throughout the loan term. Banks should establish mechanisms to monitor changes in collateral value, market conditions, and borrower behavior. This includes periodic reassessments of collateral value based on updated information. Early identification of potential risks or deterioration in collateral value allows banks to take proactive measures to mitigate those risks.
5. Qualified Appraisers and Training: Employing qualified appraisers with expertise in specific collateral types is essential. Banks should invest in training and professional development programs for appraisers to enhance their knowledge and skills. This ensures that collateral evaluations are conducted by individuals who possess the necessary expertise and adhere to best practices and industry standards.
6. Collaboration and Information Sharing: Collaboration with industry peers, regulatory bodies, and credit bureaus can provide valuable insights and data for collateral evaluation. Sharing information on collateral performance, market trends, and best practices can help banks improve their evaluation methodologies and make more informed lending decisions. Collaboration also facilitates the establishment of industry standards and guidelines.
7. Regulatory Compliance: Banks should stay updated with relevant regulatory requirements concerning collateral evaluation. Compliance with regulations ensures adherence to industry standards and promotes sound risk management practices. Collaborating with regulatory authorities and participating in industry forums can help banks stay informed about regulatory changes and adapt their collateral evaluation practices accordingly.

By implementing these strategies, banks can enhance their collateral evaluation practices, leading to more accurate risk assessments, improved decision-making, and a more resilient lending portfolio. It is important for banks to continuously review and refine their evaluation processes to align with evolving market dynamics, technological advancements, and regulatory requirements.

The results of the analyzes and studies show that in our country, the participation of the bank in the process of realizing and evaluating the collateral in extinguishing problem loans at the expense of the collateral for the object pledged as collateral for a bank loan the conflicting situation is clearly visible. In this case, it is necessary to pay attention to the demand and supply factor that affects the process of evaluating the collateral of bank loans.

It is known that there are cost, income and comparative approaches to evaluation, and this practice is also used in the evaluation of collateral for bank loans.

CONCLUSION

The following conclusions and proposals were developed as a result of the research carried out within the framework of the methods and problems of the assessment of collateral for bank loans:

He has accumulated many years of theoretical and practical experience in evaluating foreign collateral, including bank loan collateral, and the impact of factors affecting them. It is of great practical importance to study the best practices and legislation of these countries and apply them to the banking practices of our country.

Evaluation of bank loan collateral is an activity aimed at determining the real value of the property provided by the borrower for the purpose of obtaining a loan from the bank based on the evaluation approaches of the evaluation organization.

The market value of the property is considered important when the bank loan is accepted as collateral, and this process creates the need to evaluate the collateral provided for the bank's loan. The bank (banks do not participate in the evaluation practice of our country), the borrower (the movable and immovable property pledged by him) and an independent evaluation organization take part in the evaluation of collateral for a bank loan.

It is appropriate to include a separate article on the need to evaluate movable or immovable property pledged as collateral for a bank loan to the Law "On Collateral". This, in turn, allows for effective regulation of bank loans and collateral relations.

The author's scientific definition of the concept of "bank loan collateral evaluation" was formed as "the activities of the evaluation organization aimed at determining the real value (market value) of the property provided by the borrowers for the purpose of obtaining a loan from the bank based on the evaluation approaches."

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