# SOME PROBLEMS IN DETERMINING CREDITWORTHINESS INDIVIDUALS AND WAYS TO SOLVE THEM

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## Abstract

The article comparatively studies the theoretical views of local and foreign economists on determining the creditworthiness of individuals in banks, as well as identifies practical problems associated with lending to individuals and identifies their solutions. In particular, the high share of mortgage loans in the structure of loans to individuals, the instability of the solvency of individuals applying for loans, problems with the application of the scoring model in lending to individuals in remote areas of the country. A number of recommendations have been formulated to address these issues, including the formation of an adequate database to determine the creditworthiness of individuals, the diversification of consumer loans. In addition, the article examines the widely used experience in determining the creditworthiness of individuals in international practice and develops some scientific conclusions.

**Keywords.** individuals, creditworthiness, banking, solvency, credit, credit scoring.

## Introduction

Commercial banks are one of the important components of the market infrastructure in ensuring sustainable development of the national economy and further improving the living conditions of the country's population. At the same time, commercial banks, like all other legal entities, intend to place free funds on the basis of minimal risk and have the opportunity to receive high returns. The practice of lending, which is one of the traditional and main sources of the bank's income, as well as the system for assessing the creditworthiness of customers, is one of the areas of work of modern banks. Indeed, although commercial banks are accountable to their shareholders, on the one hand, they are accountable to customers who have entrusted their funds and used banking services, on the other. The share of non-performing loans in the loan portfolio of commercial banks in Uzbekistan has recently increased significantly, the need to improve the system for assessing the solvency of bank customers, including individuals, issues related to the COVID-19

pandemic in 2020 and in Uzbekistan. causing a number of problems in determining its suitability.

**Literature Review**

There are various definitions of the importance of creditworthiness in the economic literature. Creditworthiness is defined by many authors as the ability of enterprises to meet their debt obligations in a timely manner and in full. Creditworthiness is a comprehensive assessment of the client's financial performance, which reflects the borrower's ability to timely repay the requested loan (principal and funds thereon) and repay other debt obligations [1].

One of the important indicators of reducing the risk of a bank and increasing its profitability is the study of the creditworthiness of the borrower and regular credit monitoring after the disbursement of a loan. In a market economy, credit and one of its important elements, the role and place of assessing creditworthiness are important [2]. Since banks are also independent subjects of market relations, they are economically responsible for the results of their activities.

Commercial banks' profitability is effected by the market power measured by the ratio outstanding loans to the country's credit, the size of the bank in terms of capital structure, the nature of business as it is exposed to risks and the set limit for capital adequacy [3]. In order to achieve the goals, set in the activities of commercial banks and to ensure effective repayment of loans to the bank, it is necessary to study the financial condition of the client and his ability to repay the loan on time.

The lending process is associated with many risk factors, and creditworthiness includes timely loan repayment [4]. Therefore, the bank considers it necessary to study the borrower's creditworthiness, that is, to assess the financial condition of the borrower and his ability to repay the loan on time.

The purpose of the credit analysis is to determine the ability of the borrower to repay the obligation on time and in full. Consequently, the level of risk that a bank is willing to take depends on the amount of the loan it provides and the degree to which the terms of the loan are met. The bank must not only assess the client's solvency on certain days, but also predict his financial stability in the future [5]. A bank that wants a loan to be repaid on time must first carefully study the client's loan application and his or her credit history.

This process is the first step in preventing banking risk [6]. One of the next steps to reduce the risk of the bank and increase its profitability is to study the

creditworthiness of the borrower and conduct regular credit monitoring after the grant of a loan [7].

At the same time, according to Jin, Yin and Salwa, banks find it risky to lend to those who agree to take high interest rates in accordance with market principles, because even if the borrower agrees to take out a loan at a high interest rate, it increases the risk of loan repayment. [eight]. In fact, this idea finds its practical confirmation in the real sector, since the process of repaying loans issued by banks is very laborious and leads to additional costs.

Specialists of the credit department, who received the materials studied by the bank and direct information provided by the client, refer to their bank archives. If the client has already received a loan before, the archive will contain information about the delay in payment of his debt and other shortcomings. In addition, the bank may contact other credit institutions to obtain information about this debtor. When evaluating a loan application, employees of the credit department must not only take into account the specifics of the borrower, but also take into account the economic situation in the region in which he works, the industry [9].

**Research Methodology**

The study used a systematic approach, grouping, comparative statistical observation, synthesis and coefficient methods.

**Analysis and Results**

The share of loans to individuals in the loan portfolio of commercial banks in 2015–2019 averaged 16.8% [10]. Mutual interest from banks will be focused. In particular, this, firstly, will allow consumers to meet the demand for goods and services and strengthen their solvency, and secondly, it will allow banks to receive stable income and minimize credit risks.

As can be seen from Figure 1, the main volume and share of consumer loans issued by the banking system fell on the share of mortgage loans, while this indicator tended to grow.

Therefore, when determining the creditworthiness of commercial banks when lending to individuals, the main emphasis should be on mortgage loans. Because one of the important elements of the credit mechanism is creditworthiness. Lending taking into account the solvency of clients is an important condition for the timely repayment of the loan.

In addition, determining the creditworthiness helps to reduce the risk of timely loan repayment, and most importantly - the bank's risk. Therefore, the bank considers it necessary to study the creditworthiness of the borrower, that is, to assess the financial condition of the borrower and his ability to repay the loan on time.

Today, in world practice, the determination of the client's solvency is carried out by various methods. One such method is the credit rating method. If we look at the history of the scoring system, scoring was first used in 1936 by Hans Fischer (1881-1945) to classify them into groups by comparing them in the plant world. In the 1940s, the American economist David Durand used this method to classify loans as "good" and "bad," a method known as credit scoring. Although Fair Issac, the first scoring consultancy firm, was founded in San Francisco in the early 1950s, customer performance scoring has evolved since the introduction of credit cards to become a method for assessing not only a customer's financial condition, but also creditworthiness. risk.

If the scoring method for assessing a client's creditworthiness was used first in the United States and then in the practice of European banks, today many Russian banks and microfinance organizations from the CIS countries are introducing this method. Due to the fact that the assessment of clients' performance by the scoring method is more useful for banks in the distribution of consumer loans, scoring was first used to assess the financial condition of individuals, and then to assess the performance of legal entities [11].

There are several types of scoring that can not only assess the creditworthiness of a client, but also provide information about the status of the loan repayment depending on the financial condition of the client after receiving the loan. As a result, banks may more often use one or another type of scoring in their practice. Scoring is a useful system for both the bank and the client, as subjects of credit relations. If the bank avoids losses associated with lending, the client will be able to get, use and repay a quick loan without any problems. In our opinion, the use of credit-scoring systems by commercial banks of the republic in the allocation of certain types of loans to individuals can give positive results. It would be advisable to introduce this system for the provision of certain types of loans to individuals, for example, consumer loans, to create a regulatory framework for the use of credit scoring in this area. At the same time, of course, special attention should be paid to the process of credit scoring when lending to individuals.

The results of the study show that the scoring model is widely used in a number of commercial banks to determine the creditworthiness of individuals, but if we analyze it by region, we see that there are some problems with its widespread use in remote areas of the country. Of course, these problems are mainly explained by the financial literacy of individuals, their ability to pay, as well as the lack of qualified staff in the implementation of these programs by banks in remote areas. In our opinion, the reforms being implemented by the government and the Central Bank in the banking system will help solve the problems in this area, improve lending processes and increase the full use of bank-client software products.

**Conclusions and Proposals**

The results of the analysis show that in lending to individuals by the country's commercial banks, a number of problems persist, such as a low volume of long-term financial resources, untimely repayment of principal and interest payments. We believe that the implementation of positive solutions to these problems will allow in the future to increase the volume and quality of lending to individuals by commercial banks. Therefore, in our opinion, the introduction of credit scoring models into the country's credit system should be based on the following recommendations:

1. A credit score is considered good when sufficient information is available. Because they are based on real loan portfolio observations. In this case, the collection-scoring system is the most optimal tool. That is, scoring with overdue debts - opens up opportunities for those who have not repaid the loan to determine when and what measures should be taken. At the same time, it is necessary to expand the capabilities of this system, described above. First, as a result of the system integration process, this system must work not only on the basis of the data of one bank, but also on the data of several banks in which the company operates. Second, it is possible to develop several areas of sollection-scoring in the future.

2. Introduction of new means of influence on the debtor through the renewal of mathematical and statistical equipment and increasing the efficiency of the system - the wider use of information technology, mechanisms to expand the ability to influence through interactive means. necessary.

4. It is necessary to expand the range of types and services of consumer loans through the application of innovative scoring models in remote areas of the country in determining the creditworthiness of individuals.

Thus, we believe that the scoring models described above will increase the chances of efficient and low-cost management of consumer and mortgage lending in the credit system through the introduction of credit scoring.

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