CREDIT POLICY OF COMMERCIAL BANKS AND ITS EFFECT ON BANKING

ANDROS SVITLANA

University of Banking of the National Bank of Ukraine, Kiev, Ukraine

Abstract: *The existing approaches to the formation of credit and investment strategy of the bank. The factors that affect the balance of the credit policy of banks. Defined stages of credit policies of banks in terms of macroeconomic instability. Investigated by local experience evaluation factor which affects the credit risk. A method for determining the creditworthiness of borrowers and the formation of collateral for loans. The models address the problem of nonpayment by the mutual agreement of interests of banks and enterprises.*

Keywords: *borrower, tools, credit strategy, risk assessment, loan, factors, and factors*

Credit and Investment Strategy is a package of measures to improve the profitability of the bank credit organizations and credit risk reduction. In the formation of bank lending strategy takes into account the following factors: macroeconomic (state of the economy, monetary policy of the National Bank of Ukraine (NBU), the financial policy of the government) sector and regional (economics in regions / areas served by the bank of the customer and their need to credit, availability of bank competition) intra-(value of own funds, the structure of liabilities, staff qualifications).

Internal factors are determined by the quality of bank management, the level of financial management, internal control and personnel qualifications. One measure of determining the scope of credit operations, is the value of the bank's capital, to which are attached the required economic standards. A number of legislative regulations establish limits on the amount of loans issued depending on the bank's equity capital. Liabilities structure and stability of deposits the construction of their involvement in terms of impact on the lending facilities. Relationship between assets and liabilities of the bank is regulated norm N4 (immediate liquidity), N 5 (current ratio), N 6 (short-term liquidity), as contained in the relevant instructions [1].

In determining the liabilities of the bank lending strategy must match the amounts and timing (to maintain liquidity). Within the regulatory restrictions bank determines future borrowers, loan types, forms the loan portfolio and sets interest rates. In forming the bank's loan portfolio follows the general principles for investors: a combination of high-and fairly risky investments with less profitable but less risky, and areas of lending. An important component of credit and investment strategy of the bank is the interest strategy.

The value of interest rates depends on many factors. One such factor is the level of inflation in Ukraine (for example, for loans in UAH). Next NBU refinancing rate, which acts as the official "price of money" in the credit market, the average interest rate on interbank loans, average interest rate on bank deposits. No less insignificant factor is the structure of bank

credit, because the higher the proportion of 'expensive' resource in bank liabilities, the more costly loan. Demand for credit is related to the ability of investors to invest in the real economy, with a level of profitability of other ways of investment (eg, investments in foreign currency, securities), the purpose and conditions of the loan, the degree of risk.
If a positive decision on granting a loan agreement is signed (Figure 1). Pre-agreed amount of credit can be further adjusted by the parties. In case of early repayment or partial use of his bank by the borrower loses a part of interest income. Credit portfolio is under constant control of the bank. NBU also monitors the data monthly and quarterly reporting by commercial banks, according to the Resolution [2]. Payments of interest the bank loses income, with non-return of principal bank writes off bad loans at cost and has a loss on the loan agreement. To determine the amount of credit risk the probability of its occurrence based on statistical data are calculated possible outcome of the credit transaction. Given the known distribution of the results of the credit agreement, determined by the expected return and standard deviation of the mean income and projected its sum.
Ways to minimize credit risk is to diversify the loan portfolio, a preliminary analysis of the creditworthiness and solvency of the borrower, the application of methods to ensure repayment of the loan (for example, collateral, guarantees) the formation of reserves to cover possible losses on loans. Credit risk mitigation is one of the tasks of the bank credit portfolio management. Methods of assessing credit risk are determined by the relevant standards [3].
Credit risk can be predicted on the basis of the method "liquidation period", according to which the loan or lending model driven by a specific time interval and coincides with the maturity of the debt obligation, or with the time needed for final payment on it. Otherwise, you may be elected to a single time horizon for all asset classes (one / five years). In credit risk modeling using different approaches (eg, default paradigm and the paradigm of market revaluation). According to the paradigm of default and credit losses occur when the borrower fails to fulfill obligations during the plan time horizon.

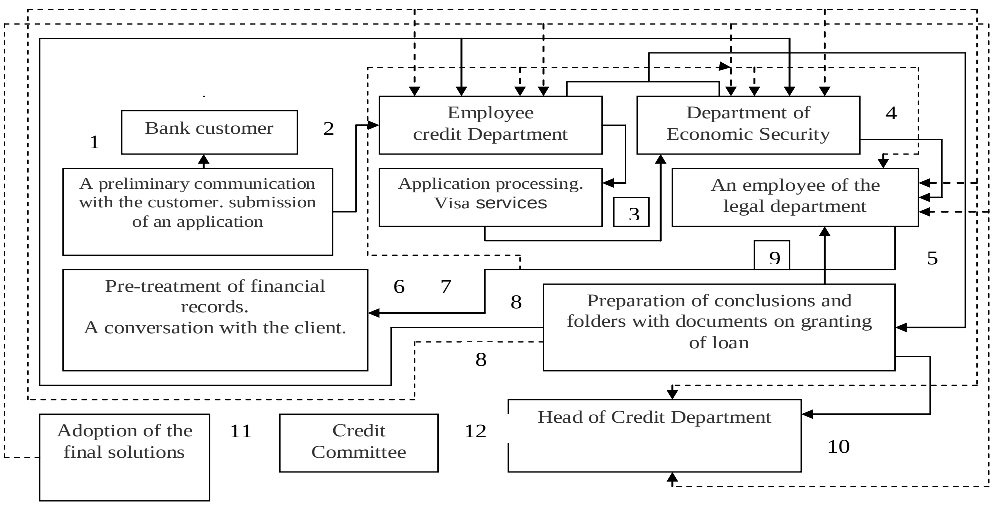

Fig.1. The information block is the standard process flow chart of loan at the bank

In the event the borrower defaults credit losses are the difference between the potential losses in default on a loan (the amount owed at the time of default) and the present value of future net consideration (payment the borrower minus the cost of providing compensation).
Methodology of credit and investment bank's strategy includes definitions of basic principles. The first principle is determined by the need of effective governance of banks in the context of globalization, high financial risks and uncertainty. The second principle is the need to adapt international experience to the domestic banking system, the specificity of which is to "chronic" crisis of the financial system, the formation of the banking sector in a fragile state of the industry and the drop in production.
Credit and lending operations are directly related and necessary to analyze the factors that determine the impact of the credit strategy of the bank. The basic principles of lending are the repayment, maturity, payment, security, targeted. It does not matter if the bank or the client acts as a lender. Credit transactions are active, then there are lending and investment operations (such as a bank is the lender) and passive (for example, a bank is the borrower). Sometimes (such as savings banks), credit and investment activity is almost impossible to separate from the overall lending strategy, that is, it is considered taking into account passive operations.
Credit components of the strategy are: the general rules for granting loans, loan classification, specific areas of credit strategy, quality control, credit committees. Banking power is measured by total funds available to the credit institution (eg, intangible assets). This can be: skilled personnel loan officers; best forms and methods of credit, lending and investing experience, information technology in the field of lending. Bank lending volumes are funds that the bank plans to invest in lending operations.
In the development of credit and investment strategies of banks is the main task of understanding the global trends of social development and their role in this development. Mission - this is what the bank called and can carry over the entire period of its existence on the chosen path of activity; is what ultimately determines the bank's activities and distinguishes it from other financial institutions.
Based on the stated mission of developing the concept of the development bank.In developing the concept of Dana take into account the traditions of the bank, which with time-specific stream to help find the best options for solving certain problems, the economic state of the industry, which can be both beneficial and adverse to the bank, marketing of banking services, allowing to concentrate on promising areas of development bank, state strategy, which resulted in the support can be provided (eg, financial assistance through the state's participation in the share capital or the granting of privileges credits immaterial - in the form of goodwill). This increases the reliability of the bank, because the state is the guarantor of return on investment of the population; addressed the goals and tasks of development in the future by the choice of strategies banking as way to implement the goals and targets for the future (Fig. 2).
The basis of banking strategy is to predict the best alternatives for its development. Please note that the bank - a company whose activities involve risks, because it functions under conditions of uncertainty and seeks to improve profitability. Thus, the main factors of influence on the development strategy are uncertain, and profitability.

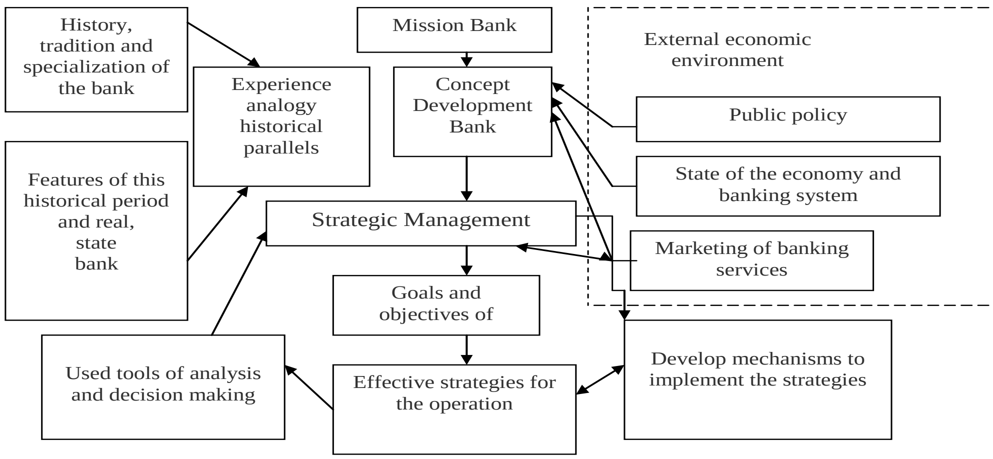

Fig.2. The model development strategy of the bank and the factors that cause this process

Another factor in the credit and investment bank's strategy is to manage the interest rate mechanism. At the level of interest rates operedelenii plays an important role that the different risks (eg non-payment interest loan). We must especially pay attention to inflation risk, which is divided on expected inflation risk and the risk of unexpected inflation (ie, interest rate risk). It is therefore proposed to review the structure of interest rates using a linear model that takes into account the different types of risks through appropriate indices (Fig. 3).

It is well known that an inaccurate estimation of risk parameters leads to a loss of income (loss to the alternative) that may arise from a lender and credited. In this case one party gains additional revenue equal to the sum of foregone profit partner of the credit transaction. Since the bank is always in a situation of a creditor (credit market) and credited (in the deposit market), the correct assignment rate of interest is a prerequisite for loss-free activity. According to the model (Fig. 3), the credit market - with an underestimation of the value - the bank gets an alternate damage. Bank deposit market is the subject of credit. The situation shows a mirror: the underestimation of a factor in the deposit rate the bank receives income, revaluation - a loss.

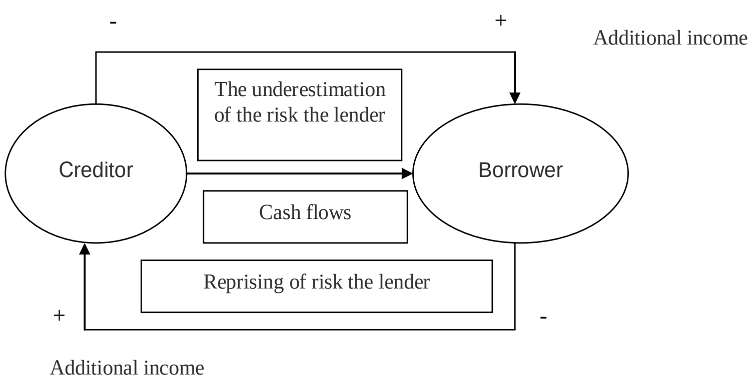

Fig.3. Model the influence of an incorrect assessment of risk in the interest rate on income redistribution

The revaluation process is complicated by the credit risk of loan default, which reduces the profitability of the bank. Bank deposit market is the subject of credit. The situation shows a mirror: the underestimation of a factor in the deposit rate the bank receives income and the revaluation - a loss. Based on assessment of the factors lending, we can conclude that the underestimation of the value of inflation in the credit interest rate, like the re-evaluation of its deposit rate to negatively affect the bank's activities.

CONCLUSIONS

Thus, determination of optimal lending strategy is a complex multi-faceted task, whose solution lies in the use of modern concepts of analysis of banking and the use of effective tools. In determining a fee for the loan, the bank should consider the following factors: the market of credit resources, especially the credit agreement, the degree of risk, loan term, a way of providing a loan to ensure its return.

REFERENCES

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