

MANAGING PROBLEM LOANS TO BANKS: NEW APPROACHES AND PROGRAMS OF THE UKRAINIAN BANKS

Statement of the problem. The process of working with problem loans requires from commercial banks in Ukraine at present the use of new areas of qualifications and special training for employees who are responsible for problem debt management policy, analysis and risk assessment of borrowers, monitoring and working with problem loans, evaluating the financial condition of borrowers, analysis and support of investment projects for which loans are given. In today's environment of economic reality, the problem is only compounded because the risk of default on debt loan and increases the number of bad loans of banks in the case of poor and frivolous assess the solvency of borrowers. Therefore, the search for new and improvement of existing methods and programs for troubled loans remains one of the most important in the Ukrainian banking business.

Analysis of recent research and publications. Study on bad loans of banks and their methods of returning devoted to the works of Aleksiychuk, V. Andriychuka, P. Laika, I. Kirilenko, A. Moroz, A. Vasyurenka, V. Mishchenko. In particular, the works of Aleksiychuk, A. Moroz and V. Mishchenko devoted to the nature of problem loans as an economic category in the system of finance and finding their causes. In turn, Vasyurenko A., P. Laika did in his writings focus on causal events of NPLs of the banking system of Ukraine in the financial system of our country. Ivan Kirilenko focused its attention on the international banking market, analysis of the global financial crisis, paying the greatest attention to NPLs of the banking sector. However, despite significant scientific results obtained by the above and other scientists, the nature and problems of managing problem loans remain scarcely explored. This is what led to the selection of research theme and is the evidence of its relevance.

Problem. The purpose of this paper is to consider and analyze the current trends of Ukrainian banks against bad loans in their loan portfolios. In addition, attention is paid to managing problem loans as the main indicators of the state of liquidity and solvency of the population, their vulnerability to the worsening economic situation in the country.

The main material of the study. According to the 2012 total assets of Ukrainian banks increased by 72.91 billion and exceeded the mark of 1.1 trln.hrn., reaching 1127.2 billion. as of 01.01.2013.

The size of the loan portfolio without deduction of provisions for 2012 decreased by 1.21% (9.99 billion). [7]. The share of long-term loans in the loan portfolio decreased during 2012 from 51.7% to 48.4%.

The growth of individual components loan portfolio of banks continued during 2012. In particular, if we take into account such indicators as loans and clients' debts, there occurred an increase of 4.25% in comparison to last year, in monetary terms amounted to 5.76 billion.

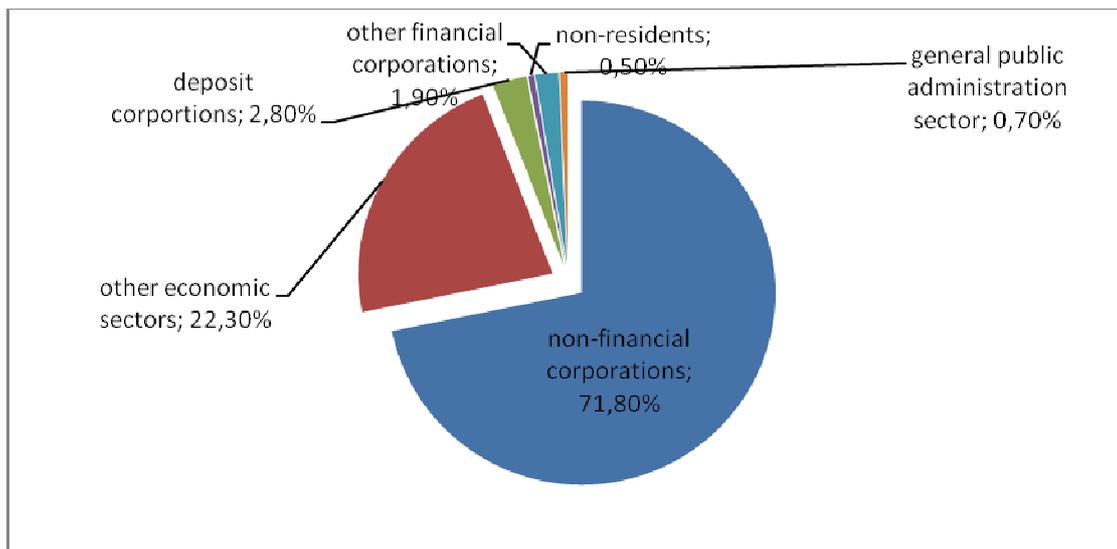
In the banking system of Ukraine clearly apparent pattern - a scale of increasing the share of investment in fixed assets is reduced [2].

The size of loans granted by banks to residents during 2012 increased by 1.7% (19.5 billion), totaling 815.1 billion. at the beginning of 2013.

Distribution of credits among other activities conditioned due to the way that one fifth of the rest of this sector is redistributed to processing industry, slightly smaller share of occupied real estate, rent and services to entrepreneurs[1]. Accordingly, the construction and agriculture accounted for the smallest number of credits within a given sector.

Deserves the attention of bank lending by sectors. The size of loans to non-financial corporations at the end of 2012 stood at 605.4 billion., up 5.2% over the previous year. Size of loans to households (included in the group of "other sectors") decreased by 13.6 billion. The structure of loans by sector can be represented by Figure 1 [8].The distribution of loans by economic activity during 2012 has not undergone significant structural changes. The largest share of loans to non-financial corporations continued to occur in the trade, repair of motor vehicles, household appliances and personal use.

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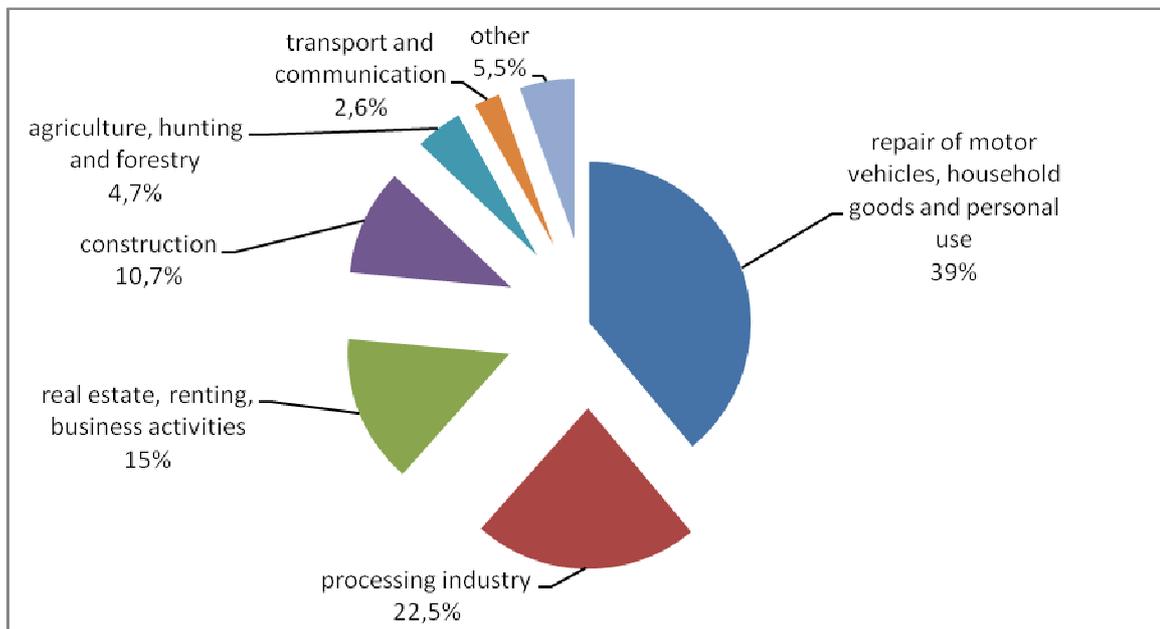


Source: compiled by the author based on [7]
Figure. 1. Structure of loans in sectors as of 01.01.2013

In 2012 the largest increase of overdue loans was held for loans issued by such economic activities as trade, repair of motor vehicles, household goods and personal consumption was equivalent in percentage 39% (Fig. 2) [6].

For loans issued under the real estate, lease, engineering, business activities, and loans granted to manufacturing industry, transport and communication and construction was held decrease of the overdue debt in comparison to the previous year and amounted respectively 15% , 22.5%, 2.6% and 10.7%.

In general, the structure of non-performing loans similar to the structure of total loans, indicating a lack of significant financial problems related to the implementation of certain economic activity. If we analyze loans by currency, then it is safe to say that the leadership and the vast majority take loans issued in the Ukrainian national currency (63.25% of total loans) [4].



Source: compiled by the author based on [8]
Figure. 2. The structure of non-performing loans by type of activity as of 01.01.2013

Adjusting to the economic realities of the credit market behavior, especially when dealing with problem loans, Ukrainian banks has produced a steady practice of organizing and working in this sector.

Management and control of credit risk carrying out by setting limits on the amount of risk which the bank is ready to take over for individual counterparties and for geographical and industry concentrations, and by monitoring risks.

The procedure for checking the credit quality of bank loans is to provide early identification of possible changes in the creditworthiness of counterparties, including regular review of size. Forming and

maintaining banking institutions allowances for anticipated loan losses is in the amount not less than the estimated quantities of such damages. [3] In addition, there is maintaining equity (regulatory) capital at a level that is not less than the estimated level of unexpected losses from credit operations and continuous monitoring of actual key credit risk at the level of individual loans and total loan portfolio.

The process of working with problem debt banking institutions coordinate the work of returning non-performing loans, and banks used their own measures aimed at their return. The main methods include the return of non-performing loans to foreclose on the mortgaged property, the recovery of funds from the debtor or guarantor and the initiation of bankruptcy proceedings against the debtor. The amount and type of collateral by banks in providing loans depends on the assessment of the credit risk of the counterparty. The banks continually analyzes to determine the admissibility of certain types of collateral and options valuation and analysis of the market value of the resulting collateral.

In order to optimize the functioning of credit portfolio banks work actively in the restructuring of credit debt clients. Basic conditions of almost all the banks in this area are:

- availability of existing insurance contract;
- the deadline of the loan agreement not expired;
- confirmation of the borrower loan repayment sources;
- availability of sureties;
- no claim-related work to the borrower.

The main programs that banks offer their customers are as follows [5]:

1. extension of the credit agreement;
2. of deferred payment on the loan;
3. reduce the monthly payment;
4. reduction of interest rates, which enables reduction of the monthly payment;
5. replacement of the borrower;
6. cancellation of debts for fines and penalties (at the time of restructuring) subject to the above

restructuring programs and the conditions of partial repayment of outstanding debt.

To reduce exposure to borrowers constantly developing proposals to establish individual loan repayment schedules.

Conclusions and further research. Based on the study revealed:

1. after the bitter experience of the financial crisis that began in 2008, banks have become more cautious and more restrained in decision-making in relation to clients who are given loans.
2. findings indicate that the credit level of Ukrainian economy depends primarily on public confidence in the banking institutions.
3. almost all banks and interested to cooperate with our clients to provide maximum return on issued loans of funds, which in turn manifests itself in the development of various programs and policies of banking institutions in the restructuring of non-performing loans.
4. date of issue requires more research developments, as has problems and improving and improving work with problem loans Ukrainian banks in the financial system of the Ukrainian state.

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Purpose. Due to the need to analyze the banking system of Ukraine regarding the Bank's credit policy as well as the causes and consequences of the emergence of the loan portfolio of the banking system NPLs and their impact on the liquidity of the financial of Ukraine.

Methodology of research. A set of general scientific methods of collection, processing and analysis of materials on the status and improving management ensures successful implementation of the goals and objectives of the study. The methodological basis of research conducted in the article are modern foreign and domestic scientific approaches and trends of the development problems of management, statistics, economics, psychology, sociology, allied with them and other sciences. In the process of writing were used research methods such as comparative (in different years of analysis and their comparison), statistical (in the graphic structure of the loan portfolio), the system (the analysis of the entire banking system of Ukraine), synergistic (in influence the level of bad loans on the stability of the banking and financial system of Ukraine as a whole).

Findings. It's determined that after the bitter experience of the financial crisis that began in 2008, banks have become more cautious and more restrained in decision-making in relation to clients who are given loans. Results of the research found that the level of credit Ukrainian economy depends primarily on public confidence in the banking institutions, which are the measure savings in bank accounts - deposits on the appropriate shelf. In addition, virtually all banks and interested to cooperate with our clients to maximize the return on loans granted funds, which in turn manifests itself in the development of various programs and policies of banking institutions in the restructuring of non-performing loans.

Originality. It has been substantiated the dependence of the level of NPLs in the banking system of Ukraine on the level of solvency of the population and the impact of bad loans on the stability of the entire domestic banking system.

Practical value. These findings allow to develop more pragmatic and rational approach to the process of banks lending referring only to the actual creditworthiness of borrowers.

Key words: economy, management, problem loans, banks, Ukraine.