



UDK: 336.77

## LEGAL AND REGULATORY FRAMEWORK FOR THE RECOVERY OF PROBLEM LOANS IN BANKS

**Kalandarov Abdulla Baxtiyorovich**  
**Yashnabad branch of Joint-stock**  
**Commercial Mortgage Bank**  
**“Ipoteka-Bank”,**  
**Researcher (PhD) Banking and**  
**Finance Academy**  
**of the Republic of Uzbekistan**  
**E-mail: [mfua-msk@mail.ru](mailto:mfua-msk@mail.ru)**

**Аннотация.** Ушбу мақолада тижорат банкларидаги муаммоли кредитларни ундириш билан боғлиқ бўлган, мамлакатимиздаги мавжуд ҳуқуқий – меъёрий ҳужжатлар кўриб чиқилган. Муаммоли кредитларни камайтириш ва ундиришдаги энг самарали механизмлар ёритилган ва қонунлар билан тартибга солинган воситалар очиқ берилган.

**Таянч сўз ва иборалар:** Банк, банк фаолияти, кредит, кредитлаш, қарз олувчи, муддати ўтган қарз, муаммоли кредит, кредит мониторинги, кредит қайтмаслик хавфи.

**Аннотация.** В данной статье рассматриваются существующие в нашей стране нормативно – правовые документы, связанные с взысканием проблемных кредитов в коммерческих банках. Выделены наиболее эффективные меры по сокращению и взысканию проблемных кредитов, выявлены инструменты, регулируемые законодательством.

**Ключевые слова:** банк, банковская деятельность, кредит, кредитование, заемщик, просроченная задолженность, проблемный кредит, кредитный мониторинг, риск невозврата кредита.

**Abstract.** This article examines the existing legal documents in our country related to the recovery of problem loans in commercial banks. The most effective measures to reduce and recover problem loans are identified, and the tools regulated by the legislation are identified.

**Key words:** bank, banking, credit, lending, borrower, overdue debt, problem loan, credit monitoring, Non-performing loan.

**Introduction.** In the Decree of the President of the Republic of Uzbekistan dated September 12, 2017 No. PP 3270 "On measures to further develop and increase the stability of the banking system of the republic" It was noted that strict adherence to deadlines and approved schedules, to prevent the formation of overdue loans, taking measures, setting deadlines and interest rates interest rates on loans based on the bank's solvency and the termination of the practice of lending to unprofitable organizations is one of the priority directions of the country's banking development. [1].

For effective management of problem loans by commercial banks, a developed legal framework is needed to regulate the organization of the bank's work with problem loans.

One of the most urgent tasks of commercial banks today is to reduce the share of existing problem loans in the loan portfolio of commercial banks, eliminate the factors of their occurrence and the need for legal regulation to improve NPL, as well as strengthen the legal protection of financial market participants.

**Literature review.** With the formation of market relations in the economy, it becomes necessary to conduct research in the field of problem loans in commercial banks. The study of the analysis of problem loans in the banking system by various methods is associated with the names of foreign researchers as Y.S.Lavrushin, O.A.Nurzhat, N.M.Lykova, A.A. Kovanyev, M.V.Yashin, A.V.Slavyansky, S. V. Kuznitsov.

A number of foreign studies in the field of problem loans management are devoted to the choice of the optimal strategy for problem loans management, these studies are reflected in the works of Western researchers such as R.Dj. Herring, Dj.M. Greppet, G.V. Karele, T.Dj Riddou, S.B.Wyatt, R Greaves.

The credit risk in commercial banks and the problems associated with managing problem loans and minimizing their number were analyzed by domestic scientists such as T.M. Karaliev, Yu.A. Tukhtabaev, K.A. Mukhamedzhanov and others.

In the study of the researcher S.V. Kuznitsov (2008) states: - A problem loan is a loan for which the borrower cannot fully fulfill its obligations under the agreements and arrangements with the bank, therefore, late payments on the borrower's loan obligations mean that the bank is at risk of partial or complete loss [2].

Yu.Yu.Platonov and S.E. Zaychenko (2011) noted that an increase in the number of problem loans can lead to a deterioration in the quality of the bank's loan portfolio, additional costs, low profit or loss, as well as the need to organize the management of problem assets using the most effective tools [3].

According to the researcher in the field of problem loans A.V. Slavyansky (2009), a "problem loan" is a loan for which the borrower does not fulfill the conditions of the loan agreement for the timely and full repayment of the loan, and the bank has sufficient grounds to assert that that the borrower does not comply with the terms of the contract [4].

O.A. Yusupova (2016) argued that arrears arise not only due to difficult financial or unforeseen circumstances, but also due to distraction of the client's attention, as a result of which he forgets to make payments on time, while having the means and opportunities [5]. As a rule, in such cases, the overdue debt is repaid within a maximum of five to seven working days by sending an SMS notification to the borrower by the credit officer or by phone.

V.V. Mazurin (2016) notes in a scientific article that an overdue loan does not allow the borrower to fully and on time repay the debt under the current contract. However, he noted that the concept of problem loans is mainly associated with a high level of financial losses for the bank due to the borrower's wrong approach to lending, and this situation is often associated with a deterioration in the financial condition of the borrower [6].

According to the Basel Committee, a problem loan is a loan with a significant breach of the borrower's obligations to the bank, a significant deterioration in the

borrower's financial condition and a significant decrease or even loss of the quality of collateral [7].

**Research Methodology.** The article examines the regulatory documents on the registration of existing problem loans in commercial banks, and also identifies the factors that affect the stability of the bank's loan portfolio. The analysis used the methods of scientific abstraction, expert assessment, induction and deduction, comparison, systematic analysis.

**Analysis and results.** Currently, the main legislative acts governing credit relations are:

- Constitution of the Republic of Uzbekistan;
- Civil Code of the Republic of Uzbekistan;
- Law of the Republic of Uzbekistan on amendments and additions to the Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan" dated November 11, 2019 No. URQ-582;
- Law of the Republic of Uzbekistan "On Amendments and Additions to the Law of the Republic of Uzbekistan" On Banks and Banking Activities "No. URQ-580 dated November 5, 2019;
- Law of the Republic of Uzbekistan No. URQ-572 dated October 22, 2019 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with Strengthening the Legal Protection of Creditors and Improving the Mechanisms for Financing Entrepreneurial Activities";
- Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated July 2, 2018 No. 3030 "On approval of the Regulation on minimum requirements for the activities of commercial banks when interacting with consumers of banking services";
- Regulation No. 905 of March 2, 2000 "On requirements for the credit policy of commercial banks", approved by the Board of the Central Bank of the Republic of Uzbekistan;
- Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated February 23, 2011 No. 2201 "On approval of the Regulation on the procedure for granting refinancing loans by the Central Bank of the Republic of Uzbekistan to commercial banks";
- Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated July 14, 2015 No. 2696 "On approval of the Regulation on the classification of the quality of assets of commercial banks and the procedure for the formation and use of reserves to cover possible losses on assets" and others.

Also, the collection of problem loans in commercial banks is based on the following regulatory documents.

*Table 1*

### **Legal and regulatory documents**

<b>Document's name</b>	<b>Content</b>
<i>Article 63 of the Law of the Republic of Uzbekistan dated 05.11.2019 URQ -580 "On Amendments and Additions to the Law of the</i>	<i>"Banks provide loans against collateral, guarantees, sureties, obligations and other methods of ensuring the fulfillment of obligations stipulated by law. In case of violation by the borrower of contractual obligations, banks have the right to collect loans and</i>

<i>Republic of Uzbekistan" On Banks and Banking Activities ".</i>	<i>interest accrued on them in the manner prescribed by the contract, as well as to send foreclosure on the pledged property in the manner prescribed by law "[8].</i>
<i>Civil Code of the Republic of Uzbekistan, part one, article 259 - "Satisfaction of creditors' claims at the expense of property transferred to secure the performance of the debtor's obligations."</i>	<i>If the debtor fails to fulfill its obligations, the creditor's claims for the obligations secured by property are satisfied on a preferential basis from the value of the property to other creditors of the person who owns the property. The creditor's preemptive right also applies to income, products and other income from the use or sale of property transferred by the debtor to secure the performance of obligations, unless otherwise provided by the contract [9].</i>
<i>Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated June 13, 2015 No. 14/5 "On approval of the Regulation on the classification of the quality of assets of commercial banks and the procedure for the formation and use of reserves to cover possible losses on assets."</i>	<i>The commercial bank has the right to collect the loan from the supply account without restriction and freely. All documents submitted for delivery must be drawn up in the manner prescribed by law [11].</i>

Organization of work with problem loans is one of the most important aspects of a commercial bank's activities. Effective handling of problem loans depends not only on the successful resolution of a specific conflict situation, but also on the stability and reputation of the bank.

Each bank independently determines the criteria for identifying problem loans, ways to reduce and monitor them, as well as ways to work with borrowers to collect debt.

An increase in the number of problem loans can lead to a deterioration in the quality of the bank's loan portfolio, additional costs, low profit or loss, and can also lead to bankruptcy. Therefore, it is necessary to organize the management of problem loans using the most effective instruments.

The main objectives of the bank's problem debt management system are:

- ✓ Determining the likelihood of problem loans in the directions of lending;
- ✓ Quantification of the "problem" level of the loan portfolio, analysis and monitoring of its impact on the financial stability and performance of the bank;
- ✓ Selection of sources of repayment of problem loans and assessment of their adequacy;
- ✓ development, implementation and evaluation of methods for reducing the level of problem loans;
- ✓ Monitoring and control of the share of problem loans in the credit portfolio.

Depending on the information obtained during the monitoring and the problem loans management policy, one of the following methods of dealing with problem loans will be selected.



**Figure 1. Tools for working with problem loans**

Based on the content and essence of the article, we can conclude that the more perfect the regulatory and legal legislation in the banking sector, the lower the share of overdue, problem loans in the loan portfolio of banks.

Based on international experience, problem loans in commercial banks of the country can be collected and transferred to specially created financial structures or collection agencies to improve their quality (the activities of collection agencies in our country are not regulated by law).

Collection agencies are legal entities operating in the United States, Russia and Europe, and acting as intermediaries between commercial banks and the borrower, that is, to pay off debt for a fee.

The concepts of collection activity, collection agency are absent in the current legislation of our country. Debt collection is carried out by the Executive Bureau only if there is a court decision or other executive document of a state body after the claim of the plaintiff.

In our country, it is possible to create collection agencies, first of all, as a special structure for commercial banks, and to ensure that this structure works only with problem loans belonging to the parent bank.

### **References:**

- [1]. Resolution of the President of the Republic of Uzbekistan dated September 12, 2017 No. PP-3270 "On measures to further develop and increase the stability of the banking system of the republic" // National database of legislation, 09/25/2017, 07/17 / 3270/0004, 07/23/2019, 19.07 / 4400/3468.
- [2]. S.V. Kuznetsov (2008) "Loan problem of credit institutions: problems and tools for its settlement / Author. diss .... cand. econom. the science. M., S.14.
- [3]. Platonova Yu.Yu., Zaichenko S.E. (2011). Problem loans portfolio management tools in modern conditions. Finance and credit, (4 (436)), 29.
- [4]. Slavyansky A.V. (2009) "Bank Problem Management". Audit and financial analysis. No. 1. S. 303-308.
- [5]. Yusupova O.A. (2016). Organization of administration of problem debts in the loan portfolio of a commercial bank. Financial Analysis: Problems and Solutions, (10 (292)), 54-66.
- [6]. Mazurin Vladimir Viktorovich (2016). Mechanism for dealing with an overdue problematic task in the retail loan portfolio of Russian banks. University Bulletin, (6), 120.



- [7]. Basel Committee Recommendations on Banking Supervision. - Basel, 2001.
- [8]. The Law of the Republic of Uzbekistan "On Amendments and Additions to the Law of the Republic of Uzbekistan" On Banks and Banking Activity "No.URQ-580, 05.11.2019.
- [9]. Article 259 of the Civil Code of the Republic of Uzbekistan.
- [10]. Article 744 of the Civil Code of the Republic of Uzbekistan.
- [11]. Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated June 13, 2015 No. 14/5 "On approval of the Regulation on the classification of the quality of assets of commercial banks and the procedure for the formation and use of reserves to cover possible losses." by assets "// National database, 30.04.2018, 18.10 / 2696-2 / 1120.
- [12]. Kalandarov, A. (2020) "Mechanisms and methods of minimization of problem loans in banks", International Finance and Accounting: Vol. 2020: Issue. 4, article 13.